E-commerce Business Models and Concepts

Definition

A business model is a set of planned activities (aka business processes) designed to result in making a profit. ~ Lauden and Traver

How you plan to make money. ~ Michael Lewis

8 Key Elements of a Business Model

1. Value Proposition

- "Why should the customer buy from you?" How does your product or service bring them value?
- Successful e-commerce value propositions:
  - o Personalization/customization of offerings
  - o Reduction of product search, price discovery costs
  - o Facilitation of transactions by managing product delivery
  - o E.g. e-commerce allows the customer to shop from home without having to go to the shop to find the product, work out whether it's available etc.

2. Revenue Model

- "How will the firm earn revenue, generate profits, and produce a superior return on invested capital?"
- Major types:
  - o Advertising revenue model. Fees from advertisers in exchange for displaying ads. e.g. Google
  - o Subscription revenue model. Fees from subscribers in exchange for content. e.g. Spotify Premium
  - o Transaction fee revenue model. Commission for enabling a transaction. e.g. TradeMe
  - o Sales revenue model. Selling goods and services. e.g. Mighty Ape
  - o Affiliate revenue model. Fees for referring business to another company. E.g. Amazon Associates

3. Market Opportunity

- "What marketspace do you intend to serve and what is its size?"
  - o Marketspace: Area of actual or potential commercial value in which company intends to operate
  - o Realistic market opportunity: Defined by revenue potential in each market niche in which company hopes to compete
  - o Market opportunity typically divided into smaller niches

4. Competitive Environment

- • "Who else occupies your intended marketspace?"
  - o Other companies selling similar products in the same marketspace
  - o Includes both direct and indirect competitors. Direct = selling very similar products into the same market segment. E.g. Qantas v Air New Zealand. Indirect = different industries but the products can substitute for one another. E.g. Air New Zealand v Interislander Ferry.
- • Influenced by:
  - o Number and size of active competitors
  - o Each competitor's market share
  - o Competitors' profitability
  - o Competitors' pricing

5. Competitive Advantage

- • "What special advantages does your firm bring to the marketspace?"
  - o Is your product superior to or cheaper to produce than your competitors'?
- • Important concepts:
  - o Asymmetries – one participant in the market has more resources than others.
  - o First-mover advantage – getting into the market first
  - o complementary resources – resources such as marketing, management, reputation needed to sustain first mover advantage. In tech, followers often succeed due to their resources. E.g. Apple with iPod.
  - o Unfair competitive advantage – advantage based on something that competitors cannot purchase. E.g. Brand E.g. Microsoft IE
  - o Leverage – using competitive advantage to gain advantage in surrounding markets. E.g. Virgin leveraging brand to move from Music to Airlines (and much more)
  - o Perfect markets – a market with no asymmetries or competitive advantage. No such thing in the real world.

6. Market Strategy

- • "How do you plan to promote your products or services to attract your target audience?"
  - o Details how a company intends to enter market and attract customers
  - o Best business concepts will fail if not properly marketed to potential customers

7. Organizational Development

- • "What types of organizational structures within the firm are necessary to carry out the business plan?"
- • Describes how firm will organize work
  - o Typically, divided into functional departments – such as production, logistics, sales and marketing, finance, customer support.

- As company grows, hiring moves from generalists to specialists. E.g. as a site grows generalist positions might be spilt into web designers, front end developers, back end developers, business analyst, DBA, network engineers, help desk etc.

8. Management Team

- "What kind of backgrounds should the company's leaders have?"
- A strong management team:
  - Can make the business model work
  - Can give credibility to outside investors
  - Has market-specific knowledge
  - Has experience in implementing business plans
- The skill of the management team can be a source of competitive advantage or disadvantage.

Some typical business models

CAN'T THINK OF A NEW BUSINESS MODEL?
Try adapting one of these basic forms.

ANALOGY	HOW IT WORKS	EXAMPLE
Affinity club	Pay royalties to some large organization for the right to sell your product exclusively to their customers.	• MBNA
Brokerage	Bring together buyers and sellers, charging a fee per transaction to one or another party.	• Century 21 • Orbitz
Bundling	Package related goods and services together.	• Fast-food value meals • iPod/iTunes
Cell phone	Charge different rates for discrete levels of a service.	• Sprint • Better Place
Crowdsourcing	Get a large group of people to contribute content for free in exchange for access to other people's content.	• Wikipedia • YouTube
Disintermediation	Sell direct, sidestepping traditional middlemen.	• Dell • WebMD
Fractionalization	Sell partial use of something.	• NetJets • Time-shares
Freemium	Offer basic services for free, charge for premium service.	• LinkedIn
Leasing	Rent, rather than sell, high-margin, high-priced products.	• Cars • MachineryLink

Low-touch	Lower prices by decreasing service.	• Walmart • IKEA
Negative operating cycle	Lower prices by receiving payment before delivering the offering.	• Amazon
Pay as you go	Charge for actual, metered usage.	• Electric companies
Razor/ blades	Offer the high-margin razor below cost to increase volume sales of the low-margin razor blades.	• Printers and ink
Reverse razor/ blades	Offer the low-margin item below cost to encourage sales of the high-margin companion product.	• Kindle • iPod/iTunes
Reverse auction	Set a ceiling price and have participants bid as the price drops.	• Elance.com
Product to service	Rather than sell a product, sell the service the product performs.	• Zipcar
Standardization	Standardize a previously personalized service to lower costs.	• MinuteClinic
Subscription	Charge a subscription fee to gain access to a service.	• Netflix
User communities	Grant members access to a network, charging both membership fees and advertising.	• Angie's List

**SOURCE** *SEIZING THE WHITE SPACE* BY MARK JOHNSON   HBR.ORG

Business Strategy

- Plan for achieving superior long-term returns on the capital invested in a business. A business strategy is usually a long-term plan of 3-5 years or even longer. The best strategy to follow will depend on the product, the industry and the marketplace.
- Four generic strategies
  - Differentiation – making products and services unique to distinguish them from the competition. Products can be differentiated by creating expectations of the experience, e.g. luxury hotels; by adding unique features; by helping solve customers' problems. Opposite of differentiation is commoditization, where there is no difference between products and price is the only factor in choice.
  - Cost – if a firm can find a more efficient set of business processes than the competition they can produce their products at a lower cost. They can then offer their product at a lower price while still making a profit. This can be a short term strategy as competitors can often also find ways to reduce costs.
  - Scope – competing in all markets around the world, rather than just locally. The internet provides companies with an opportunity to do this.
  - Focus – competing in a narrow market or product segment. Picking a niche and doing it very well to become the leader in that niche.

       o   Customer intimacy – develop strong ties with the customers. Raises switching costs thereby making it harder for the customer to switch to a competitor.

Porter's five forces model

- Model used to describe the interaction of external threats and opportunities that affect an organisation's strategy and ability to compete.
- Takes five market forces that affect any business or industry into consideration.
- Can help a firm analyse its strengths and weaknesses.
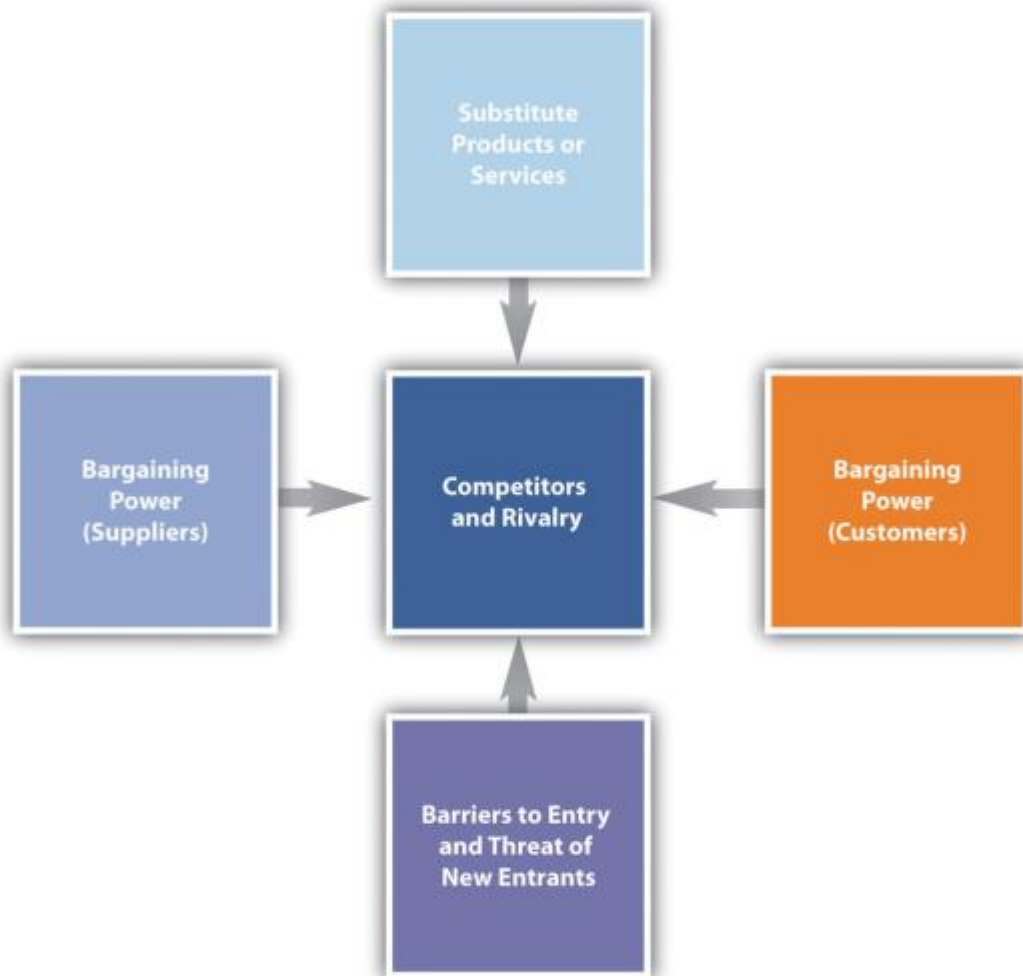
Intra-industry rivalry- nature and degree of competition

- Industry size
- Industry growth
- Industry structure
- Product differences
- Market and financial performance

- Dominant companies
- Typical competitive strategies

Bargaining power of suppliers

- Determinants of Supplier Power
  - o Differentiation of inputs
  - o Switching costs of suppliers and firms in the industry
  - o Presence of substitute inputs
  - o Supplier concentration
  - o Importance of volume to supplier
  - o Impact of inputs on cost or differentiation

Bargaining power of buyers

- Buyer concentration and structure
- Buyer volume
- Buyer information
- Substitute products
- Price sensitivity
- Buyer profits
- Brand identity

Threats - New entrants

- Barriers to entry
- Switching costs
- Barriers to exit

Threats - Substitute products and services

- Substitute options
- Buyer profit
- Brand identity
- Incentives

SWOT Analysis: Evaluating Business Unit Opportunities

- Most electronic commerce initiatives add value by either reducing transaction costs, creating some type of network economics effect, or a combination of both.
- In SWOT analysis, you list the strengths and weaknesses of the business unit and then identify opportunities presented by the markets of the business unit.

SWOT analysis

Strengths (S)
Best resourses

Strength in market

Strategic direction

Points of excellence

Culture

Weaknesses (W)
Worst liabilities

What could be improved

What the company does poorly

Opportunities (O)
New markets

Upward trends

Customers with potential

Technology capabilities

Threats (T)
Competitors

Obstacles

Changing environment

New laws and regulations

	Strengths (S)	Weaknesses (W)
Internal Factors		
	Opportunities (O)	Threats (T)
External Factors		

Web site development

Goals
- To create an easy to use web site that meets the user needs and delivers up to date content of high quality
- To create an easy to use system that allows content to be created, published, managed and maintained on site.

Types of users
- End users of the site
- End users of the content management system

Web site development process

- Analysis- business, user, system and content requirements
- Design- website and content management system
- Delivery- implementation and content management system roll-out
- Maintenance

Analysis

- Business requirements- provides the scope, directions and priorities of the solution to meet business targets
- User requirements-target audience for the website and for the content management system
- Content requirements- types and attributes of information, relationships, classification of keywords
- System requirements-website and CMS

Business analysis- Information

- Define the business goals and objectives
- Define the business model
    - o Commerce: marketing and sale of products and services through an online channel
    - o Advertising: selling of advertising space, adding sponsorship information, renting keywords to return links
    - o Subscription: regular revenue from registered users for services provided by a web site
    - o Promotional: marketing and promotion of products
    - o Cost saving: B2B web-based transactions reduce costs
- Define the value proposition
- Define the brand for the web
- Target audience
- Competition evaluation
- Funding and business commitment
- Success factors and targets- e.g. revenue and cost
- Cross marketing – relationships between content to content; individual user and content; user types and content; content and a business priority; content and time
- Business partnerships
- Marketing and communication

Business requirements

- Support the site objectives- apply to site design and content design
- Support the business model
- Deliver ongoing site measurements- revenue, costs, asset usage, customer behaviour
- Information architecture

User Analysis

- What is User Analysis?
    - Defines the characteristics of the users that affect their behaviour and responses
- The purpose of user analysis is to find out
    - What users would like to be able to do at the site
    - How they would like to do it

User Research

Designing for the user

- Understand who your users are
    - Target audience – demographics, experience, expectations and motivations
    - The user goals for the product you design
- Create tasks that address those goals
- Get the right people
- Watch them try to perform the task

Understanding your users

- Who are your users?
    - Target audience
- List attributes of the users
    - Demographic – age, gender, income and purchasing power, location, cultural, occupation
    - Technological- computer, connection, experience, browser
    - Environment- use location, use time, tool/product context, competition
    - Lifestyle/Psychographic-values and attitudes, media, activities
- Roles – responsibilities, training, power, relationships, interactions
- Goals – short and long term goals, outcomes, motivation, pain
- Needs
    - Functional – what do they need to do?
    - Emotional – how do they need to feel?
    - Reasons – why do they need these things?
- Desires – what people think they need
    - Stated desires
    - Unstated desires
- Knowledge – domain, product knowledge, competitive awareness
- Usage trends – frequency, considerations, loyalty
- Tasks- reason, duration, order, criticality, method, model

User profiles and personas

- Profiles

- o distinct natural clusters of attributes (3 to 6).
- o General – summarises the range of users
- o E.g. "our users are typically female Fijians between the ages of 45 and 55 with an interest in ornithology.
- Personas
  - o Specific – describes particular users in depth.
  - o fictional description of a user based on a real user profile derived from extensive quality research.
  - o Who is Agnes?
  - o Written up as a short story with a background, goals, activities, etc.
  - o What would Agnes say?
- Scenarios
  - o Feature the personas as the main character of a story. Intended to see the world through the user's eyes. Use creative writing and role playing.

Observing a user journey

- Designers can observe the user when they
  - o envisage a journey to shape the early version of the design
  - o make the journey through a prototype
  - o Go through actual journeys
- Example
  - o Create a scenario
  - o Ask the user to envisage the journey
  - o Visualize the journey through sketches/mock-ups/prototypes
  - o Observe the users making the journey- keep focused on the scenario
- How to respond to questions such as "How do I do this?" or "where should I go now?"

User research

- Contextual inquiry – observing and studying a few carefully selected individuals
- Affinity analysis of the collected data – look for relationships between the data to emerge.
- Task analysis – order, tools, flexibility, information required
- Focus groups – help to understand desires, motivations, values, priorities and first-hand experiences
- Usability tests

Usability testing – the process

- Welcome – explain the process, testing the site not the participant, think aloud
- Answer any questions – warm up
- The tasks
  - o Have they completed the task?
  - o Is the participant miserable, puzzled, frustrated, blames himself?
  - o Let users talk through an idea

- o Keep watch on the time
- Probing - ask questions about the participant's thoughts and actions
- Wrapping up – thank the participant