

Revenue model:

A revenue model is a strategic framework outlining how a business generates income from its products or services, detailing revenue streams, pricing, and value proposition to customers. This model is crucial for financial sustainability, planning, and overall business success, impacting cash flow, investor perception, and long-term growth.

Uses and Applications:

- **Income Generation:**

The primary use of a revenue model is to define how a company will make money and cover its operational costs.

- **Strategic Planning & Financial Forecasting:**

It helps businesses focus their strategies, predict future earnings, and ensure long-term profitability.

- **Business Model Blueprint:**

A revenue model is a core component of a business model, influencing how value is delivered and captured.

- **Investor & Lender Confidence:**

A well-defined revenue model can positively impact how lenders and investors perceive a company's worth.

- **Scalability & Growth:**

Understanding revenue models helps businesses choose approaches that support growth and adapt to market changes.

- **Product/Service Development:**

Revenue models inform the design of products and services, ensuring they align with customer needs and willingness to pay.

- **Market Differentiation:**

Businesses can use various revenue models, including subscription-based, advertising, pay-per-use, and more, to stand out in the market.

- **Customer Understanding:**

Choosing a revenue model often involves analyzing customer segments and their potential preferences (e.g., single vs. corporate customers).

- **Competitive Analysis:**

Examining competitor revenue models can inform strategic decisions and identify opportunities for innovation.

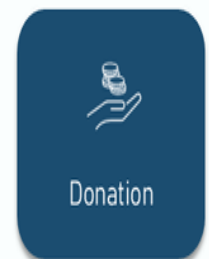
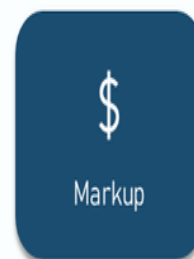
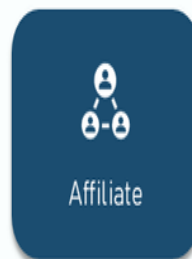
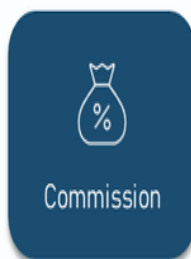
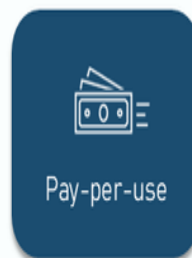
Types of Revenue Model:

Revenue model types

Any start-up, tech company, or digital business may combine different revenue models. The revenue model will look different depending on the industry and the product/service type.

Here we will pay more attention to the most common revenue models used in the software industry and online business.

REVENUE MODEL TYPES



Transaction-based revenue model

A **transaction-based revenue model** is a classic and one of the most straightforward methods of generating income, where businesses earn revenue each time a customer completes a transaction. The customer can be another company (B2B) or a consumer (B2C).

This model is commonly used by companies that sell software licenses, one-time services, or digital products. Revenue is directly tied to the volume of transactions, meaning that businesses that use this model must continuously attract and retain customers to sustain their income.

Nearly any company that produces and sells its products uses this type of revenue model. Examples include Samsung, Rolls Royce, Nike, Microsoft, Apple, Boeing, and McDonald's.

The pros. You have full control over the pricing strategy.

The cons. The cons will depend on the industry/product type and pricing tactics, as the model itself imposes a constant generation of sales with the help of advertising and marketing strategies. The only con we might mention here is the financial burden connected with sales you will carry on your own.

Subscription revenue model

A **subscription revenue model** involves charging customers a recurring fee — usually monthly or annually — for ongoing access to a product or service. This model is popular among [SaaS](#) companies, streaming services, and digital content providers. The steady revenue stream allows companies to plan for long-term growth and continuously invest in product development.

Subscription models provide predictable, recurring revenue streams. Businesses that adopt this model usually offer different tiers of service to cater to various customer needs and budgets.

Software companies, ranging from streaming services like YouTube and Netflix and cloud storage platforms to healthcare solutions and digital newspapers, use this model.

The pros. This model provides businesses with a predictable and stable revenue stream. It also encourages long-term customer relationships and makes it easy to forecast future revenue.

The cons. This model is plagued by high customer acquisition and retention costs.

Pay-per-use revenue model

A **pay-per-use model** charges customers based on their usage of a product or service. This model is particularly effective for cloud computing services, where users are billed for the resources they consume, such as data storage or processing power. It aligns costs with usage, making it attractive to customers who prefer to pay only for what they use.

Cloud computing providers like [Amazon Web Services](#) and Google Cloud Platform deploy this model. Twilio also adopts usage-based pricing for its services.

The pros. This model appeals to cost-conscious customers by aligning costs directly with usage. There's also the potential for higher [revenues](#) from power users.

The cons. Revenue can be inconsistent and difficult to predict and it requires robust tracking and billing systems. Also, high usage can lead to unexpectedly high costs for customers.

Freemium/hybrid revenue model

Have you ever downloaded a mobile app riddled with ads and seen popups asking you to buy the premium version to eliminate them? Or maybe your favorite mobile game wants you to pay for more hearts. These are classic examples of the freemium revenue model in action.

A **freemium revenue model** is a type of app monetization in which users can access the main product for free but are charged for additional functions, services, bonuses, plugins, or extensions.

Freemium models are hybrid in nature, as they are always combined with other revenue models. For example, Dropbox starts as a free product. However, once users exceed the free 2GB storage, they are promoted to subscribe to one of Dropbox's plans. LinkedIn, Duolingo, video games, and other widely known businesses have also adopted the freemium/hybrid revenue model.

The pros. This model provides a low barrier to entry since the free version attracts users and allows them to experience the product in hopes of upselling or converting them into paying customers.

The cons. A major downside of this revenue model is the cost of supporting free users. Take Duolingo, for example. It has around 34 million active users, but only a tiny percentage — [8.6 percent](#) — are paying customers. Overall, the freemium/hybrid model requires tenacity and patience, as conversion rates are low, and users who do convert take time to do so.

Advertisement-based revenue model

The **advertisement-based revenue model** is a plan with which businesses make money by selling ad spaces. It is one of the most standard methods of producing top-line growth, and it's valid both for online and offline businesses. It's often used by websites/applications/marketplaces or any other web resource that attracts huge amounts of traffic.

YouTube, Instagram, Facebook, and Google are just a few prominent examples. All these platforms generate revenue by displaying advertisements to users and charging businesses for exposure. In addition to promotion, these platforms may also generate revenue through other sources, such as premium subscriptions or licensing agreements.

The pros. Having a high-traffic resource allows you to monetize the ad space nearly instantly. Often, there is a strong demand for advertising space, especially with organic traffic and platforms with the target audience.

The cons. Running advertising campaigns to gain web visibility on various platforms like social networks is a standard marketing activity with targeting instruments more precise than ever. However, advertisements are everywhere, so you might think twice about whether you want to distract a user by placing an ad in your app – even if it is a secondary revenue stream.

Commission-based revenue models

A **commission-based revenue model** is one of the most common ways businesses make money today. A commission is a sum of money a retailer adds to the total cost of a product or service.

A commission may be charged per marketplace or transaction and can be assigned as a

- flat rate, a fixed sum of money for any type of transaction, e.g., a \$450/300/1500 transaction is charged with a \$20 commission;
- percent of transaction size, e.g., a \$100 transaction is charged with a 10 percent commission – \$10; or
- tiered commission, a percent or flat rate that grows based on the transaction volume, e.g., 50,000 transactions are charged a 4 percent commission, 150,000 transactions a 7 percent commission.

Marketplaces and eCommerce platforms, in particular, utilize commissions the most. Another large category includes businesses that connect service providers/renters with consumers. Think of any ride-hailing company, food delivery, [online travel agency \(OTA\)](#), or [alternative accommodation](#) services.

Airbnb is a platform that allows individuals to list and rent their homes or apartments as [short-term rentals](#). It generates revenue by charging a commission on each booking made through its platform. The commission is typically a percentage of the total booking cost and is paid by the host (property owner). Other examples are Booking.com, Uber, Lyft, Ticketmaster, Priceline, and Upwork.

The pros. Revenue is easily predictable because of the sheer fee.

The cons. There are many problems bound to the concept of a commission, but the major one goes to the scalability of a business that's attached to a transaction size or volume. In general, dependency on the product supplier's sales makes generating revenue require upfront investments and competitive superiority.

Markup revenue model

Markup is the type of revenue model with which you buy a product at a certain cost and then sell it for a higher price: The difference between the two is your profit margin. This model is often used by wholesale, retail, and service-based businesses.

For example, a wholesaler may be a **bed bank** — a B2B company that purchases rooms from accommodation providers in bulk at a discounted, static price for specific dates, and sells them to **OTAs**, travel agents, destination management companies, airlines, or tour operators.

In addition to bed banks, **airline consolidators** leverage a markup model to earn revenue: They are brokers that book flight seats in bulk at discount rates and then resell them to travel agencies. Examples are Mondee, Picasso Travel, and Centrav.

Pros. Markup revenue models are straightforward, allowing businesses to easily calculate their profit margins on each sale. With this approach, businesses can be flexible with their pricing by adjusting the markup to reflect changes in the cost of goods or changes in market conditions.

Cons. While markups provide a great deal of flexibility, some organizations may not have enough resources to **manage revenue** and apply changes to their markup strategy based on the market state. So, they set a uniform markup for all of their products or services. This may lead to prices being too low or too high and businesses may not be able to fully capitalize on the value of certain products.

Affiliate revenue model

The **affiliate model** is similar to the commission-based model. The main difference is that, with the **affiliate** model, you do not sell the product or service on your own platform, but rather redirect the customer to the original provider's platform to make the purchase and earn a commission on any resulting sales. An affiliate model is a contract between a supplier of a product/service and a promoter. A promoter can be another business/media resource/blogger who recommends a supplier's product. The earnings will come as a percentage of sales or fees for the number of registrations done via referral links.

Businesses utilizing the affiliate model include **metasearch engines** as a

unique example. Metasearch tools can be found almost everywhere. Their main difference with retailers is that they don't sell products directly but offer comparison and search as a value. Advertising and affiliate programs are the main revenue models used to get earnings in this case.

Blogging and [event](#)-promoting platforms like Broadway.com or TheaterMania generate revenue using this model. Among other examples are Amazon affiliate websites, e.g., Cloud Living and ThisIsWhyImBroke.

The pros. Just like the advertisement-based revenue model, once you have a huge traffic resource, you might apply for an affiliate program to earn money. This will bring you income without any investments because you will basically generate traffic and leads for the affiliate program provider.

The cons. Unfortunately, the percentage of affiliate programs promised to the promoter is quite low. Sometimes, it fluctuates between 1-2 percent and requires a high volume of sales generated through your links.

Interest revenue model

An **interest or investment revenue model** relates to any type of business that generates revenue in the form of interest on their loans or deposit payments. These are most often banking or electronic wallet companies that work with financial operations.

The revenue is generated by making a loan to a customer or by a customer depositing or investing money (or other resources) into the business. At the end of a return period, a percentage of the loan sum will return as revenue. Debit/credit money provided with the bank accounts also relates to this model. That's just one of the ways financial companies can make money, combining it with [transaction fees](#) for using their e-wallet/bank account. Many banks, credit card companies, and other financial institutions use the interest revenue model. For example, peer-to-peer lending platforms, such as LendingClub and Prosper, generate revenue by charging interest on loans funded by investors.

The pros. The interest rate provides a clear view of what revenue a business will generate, as the percentage stays unchanged until the return period is over.

The cons. The regulations of an interest rate impact both the customer and the business. Sometimes, it depends on the economic environment. Think of currency rate changes that influence potential and existing borrowers.

Donation-based or pay-what-you-want revenue models

This is a revenue model based on investments made by businesses or customers on a voluntary basis. The product or service itself is free to use by default, so that's the primary value a company brings to the customer. The revenue is generated in the form of donations, or sometimes in the form of *"pay-what-you-want."*

It's important to mention that there is a difference between a donation-based business and a charity organization. A donation-based company is still required to pay taxes.

For example, AdBlock generates revenue through donations from users who support the development and maintenance of the software. At the same time, AdBlock offers a premium version of the software for a fee, which includes additional features and support. Among other examples is Wikipedia which relies on donations as a significant source of revenue. Additionally, the platform makes money through grants and partnerships.

The pros. Because of the free access to the product, some companies manage to get increasingly popular, resulting in donations becoming a major part of their revenue.

The cons. The model is never used on its own and the revenue generated by it remains a secondary source because of its random/unstable nature.

Arbitrage model

An **arbitrage revenue model** involves buying products or assets at a low price in one market and selling them in another market at a higher price, capitalizing on price differences. This model is common in finance, trading, and some eCommerce businesses. Its success relies on the ability to identify and exploit price discrepancies quickly.

An example is [Airbnb](#) arbitrage, where individuals rent properties long-term and then sublet them as short-term rentals on platforms like Airbnb.

Someone might rent an apartment for \$1,500 monthly and list it on Airbnb for \$100 per night. If they can keep it occupied for 20 nights a month, they'd earn \$2,000 and make a \$500 profit. This practice is not how Airbnb itself makes money but a method users deploy to generate income through the platform.

The pros. If done correctly, you can generate high profits with minimal risk using this model. Also, significant capital investment is not required to deploy this model.

The cons. Arbitrage requires expertise and constant market monitoring. It may involve using sophisticated algorithms and fast processing capabilities to identify opportunities.

What is Business-to-Business (B2B)?

Business-to-business (B2B) happens when one company sells stuff to another company, not to regular people. It is like a business team-up, where companies work together to get what they need. In simpler terms, if a company needs materials or services, they check out other companies that provide those things. This involves steps like checking out potential sellers, talking about prices and details, making orders, and finally, the selling company delivering the goods or services. B2B is like the backbone of how businesses get things done, as they rely on each other to keep running smoothly. B2B transactions include different types, like manufacturers creating products, distributors moving them around, wholesalers selling in bulk to retailers, and service providers offering various business-related services. This system works well because each business can focus on what they're good at, promoting expertise.

How Does B2B Work?

- 1. Identification of Business Needs:** It all starts when one business figures out it needs something, maybe raw materials, services, or special products. They identify a gap in what they have, and another business can help fill that gap.
- 2. Vendor Selection:** Once they know what they need, the next step is finding the right business to provide it. The buyer business looks at different options, considering things like price, quality, reliability, and their specific requirements. They want a business that not only meets their needs but also aligns with their overall goals.
- 3. Negotiation and Agreement:** After picking a potential provider, both businesses talk things out. They negotiate on terms, pricing, and other details. The goal is to find a deal that works well for both sides. Once they agree on everything, they put it in writing – usually, there's a formal contract that spells out all the terms.
- 4. Order Placement:** With the agreement settled, the buyer places an order with the chosen business. This order lays out what they want, how much, and what kind of products or services. This step makes the commitment official, and the provider gets to work on fulfilling the order.
- 5. Delivery and Payment:** The provider gets the order and does what they need to do, whether that is making and delivering products or providing services. Once it is all done, the buyer pays up according to the terms of their agreement. Payment terms can vary, like saying it needs to happen within 30 or 60 days.

Importance of B2B

- 1. Economic Engine:** B2B transactions are like the engine of the economy. Businesses rely on each other to get the materials, services, and products they need to operate and grow. This creates a network of interdependence that fuels economic activity.

- 2. Efficiency Boost:** B2B is about efficiency. Businesses can specialize in one company making materials, another putting them together, and so on. This specialisation makes things smoother and more cost-effective.
- 3. Job Creation:** The whole B2B dance creates jobs. When businesses thrive and grow, they hire more people. It is a cycle that contributes to employment and economic well-being.
- 4. Specialisation:** B2B allows businesses to be experts in what they do. Instead of trying to do everything, they can focus on their specific strengths. This specialisation leads to higher quality and more innovative products and services.
- 5. Relationships Matter:** B2B is all about relationships. Long-term partnerships and trust between businesses are crucial. When companies find reliable partners, they can count on each other, leading to stability and growth.

Types of B2B Companies

- 1. Manufacturers:** Manufacturers are the builders of the business world. They are responsible for creating goods on a large scale. This can include raw materials, components, or finished products ready for use. The manufacturing process involves turning raw materials into the final products that businesses and consumers use daily. Manufacturers are crucial in the supply chain, creating the foundation for various industries. Once the goods are ready, manufacturers often sell them to distributors, wholesalers, or other businesses involved in getting products to end-users.
- 2. Distributors:** Distributors act as the go-between in the journey from manufacturers to retailers or other businesses. Their main job is to buy goods from manufacturers in bulk and then sell them in smaller quantities to retailers. This step helps bridge the gap between the large-scale production of manufacturers and the more localised or specialised needs of retailers. Distributors usually have a network of connections with manufacturers and retailers, ensuring a smooth flow of goods through the supply chain. This distribution process is crucial for making sure products reach different markets efficiently.
- 3. Wholesalers:** Wholesalers operate in large quantities. They act as intermediaries who buy goods from manufacturers, distributors, or other sources in substantial amounts. These goods are then sold to retailers or other businesses in smaller batches. Wholesalers simplify the purchasing process for retailers by offering a one-stop shop for a variety of products. This helps retailers manage their inventory and ensures a steady supply of goods. The role of wholesalers is particularly vital for businesses that do not want to or cannot buy directly from manufacturers in large quantities.
- 4. Service Providers:** While tangible goods are significant, services are equally essential. Service providers offer a range of services that cater to the needs of other businesses. This can include consulting services, marketing expertise, legal assistance, IT support, and more. Service providers bring specialised knowledge and skills to the table, helping

businesses enhance their operations, solve problems, and navigate challenges. The relationship between service providers and businesses is often based on trust and the desire to achieve specific goals collaboratively.

Benefits of B2B

- 1. Cost Savings with Bulk Deals:** B2B deals often involve buying or selling in large quantities. This cuts costs for both parties due to the advantages of doing things on a bigger scale.
- 2. Specialisation Boost:** Businesses can stick to what they are good at. In a B2B setup, each business can focus on its main strengths. For example, a company making products can do just that, while another handling distribution takes care of the logistics. This specialization makes everything more efficient.
- 3. Efficient Processes:** B2B is all about making things run smoothly. The processes involved, from ordering to delivering goods or services, are designed to be effective and straightforward.
- 4. Building Strong Relationships:** Relationships matter in B2B. Long-term partnerships and trust between businesses are key. When companies find reliable partners, it sets the stage for stable, lasting relationships that benefit both sides.
- 5. Sharing Risks:** B2B allows businesses to share risks. When challenges come up, companies can work together to navigate uncertainties, spreading the risks associated with production, distribution, and market changes.

Challenges for B2B

- 1. Complicated Sales Process:** B2B deals often take a long time to close. The whole process, from identifying needs to finalising agreements, can be complex, testing the patience of the businesses involved.
- 2. Customisation Issues:** Meeting specific needs in B2B transactions can be tricky. Businesses might have unique requirements, and creating customised solutions can be a challenge for suppliers.
- 3. Market Changes:** Economic shifts can impact B2B transactions. Changes in the market, shifts in demand, or economic downturns can affect businesses and their transactions.
- 4. Communication Problems:** Effective communication is crucial in B2B, but it is not always easy. Misunderstandings or unclear communication can lead to problems in negotiations or during the fulfillment of orders.
- 5. Challenges in Negotiations:** Negotiating terms and agreements can be tough. Both parties need to find common ground, and this process can sometimes be prolonged and involve compromises.

Effective B2B Strategies

Developing effective strategies for Business-to-Business (B2B) interactions is crucial for businesses to navigate the world of working with other businesses successfully. Here are some important strategies,

- 1. Building Strong Relationships:** The backbone of B2B success lies in establishing and maintaining strong relationships with other businesses. Trust and reliability are the cornerstones of long-term partnerships.

Regular communication, understanding the needs of partners, and keeping promises contribute to the creation of solid, lasting relationships.

2. Customising Solutions: A powerful B2B strategy involves tailoring products or services to meet the specific needs of business partners. Understanding the unique challenges and requirements of each business allows for the creation of personalised solutions. This not only adds value but also demonstrates a commitment to addressing the individual concerns of each partner.

3. Effective Digital Presence: In today's digital era, having a robust online presence is essential for successful B2B strategies. Utilizing digital platforms for marketing, networking, and communication is crucial. Creating a user-friendly website, engaging in social media, and leveraging online marketplaces can enhance visibility, attract potential partners, and streamline communication processes.

4. Transparent Communication: Clear and open communication is fundamental in B2B interactions. Transparency builds trust and minimizes misunderstandings. Businesses should ensure that communication channels remain open, and information related to terms, pricing, and expectations is conveyed clearly. This includes providing timely responses to inquiries, addressing concerns promptly, and providing regular updates on transaction status.

5. Focus on Value Proposition: Demonstrating the value of products or services is crucial in B2B strategies. Businesses should articulate how their offerings address specific business challenges, enhance efficiency, or contribute to cost savings. Emphasizing unique selling points and showcasing real-world applications helps differentiate products or services and underscores their relevance to potential partners.

EDI (Electronic Data Interchange) is the automated exchange of business documents, like purchase orders and invoices, between companies using a standardized electronic format. This replaces traditional paper-based processes, enabling faster, more accurate, and cost-effective transactions.

Here's a more detailed explanation:

What is EDI?

EDI involves the electronic exchange of business documents between two or more companies, often referred to as trading partners. Instead of manually creating and sending documents like purchase orders, invoices, or shipping notices, EDI automates this process by using a standardized electronic format. This allows different computer systems to communicate with each other directly, eliminating manual data entry and associated errors.

How EDI Works in E-commerce:

1. 1. Document Creation:

A company (e.g., a retailer) creates a business document (e.g., a purchase order) within their internal system.

2. 2. EDI Translation:

The EDI software translates the document into a standardized format (like ANSI X12).

3. 3. Transmission:

The translated document is transmitted electronically to the trading partner (e.g., a supplier).

4. 4. Document Processing:

The trading partner's EDI software receives and translates the document into their internal system, allowing for automated processing.

Benefits of EDI in E-commerce:

- **Increased Speed and Efficiency:**

EDI significantly speeds up transaction processing times, reducing the time it takes to complete a purchase order or invoice from days or weeks to minutes.

- **Reduced Errors:**

By automating the process, EDI minimizes human intervention, reducing errors associated with manual data entry, illegible handwriting, or lost paperwork.

- **Cost Savings:**

EDI eliminates the costs associated with paper, printing, postage, and manual data entry, leading to significant cost savings.

- **Improved Data Accuracy:**

EDI ensures that data is consistently formatted and transmitted according to standardized protocols, improving data accuracy and reducing costly mistakes.

- **Enhanced Visibility and Control:**

EDI provides real-time visibility into transactions and inventory, allowing businesses to better manage their supply chains and improve overall efficiency.

- **Stronger Business Relationships:**

By streamlining communication and improving efficiency, EDI helps to build stronger relationships between trading partners.

Introduction :

Electronic Data Interchange (EDI) is a computer-to-computer exchange of business documents in a standard electronic format between two or more

trading partners. It enables companies to exchange information electronically in a structured format, eliminating the need for manual data entry and reducing the cost and time associated with paper-based transactions.

EDI was first introduced in the 1960s as a way for companies to exchange business documents electronically. Over time, the standardization of EDI formats and protocols has enabled businesses to integrate their internal systems with those of their trading partners, improving efficiency and reducing errors.

EDI transactions can include purchase orders, invoices, shipping notices, and other business documents. The EDI standard defines the format and content of these documents, ensuring that they are easily interpreted by both the sender and the receiver.

EDI has become an important part of many businesses, particularly those in the supply chain and logistics industries. It allows for faster and more accurate processing of transactions, leading to improved customer satisfaction and increased profits.

It is the world of the Internet, knowingly or unknowingly, everyone is attached to the internet and is dependent on the internet. Today, almost all the work is done through the Internet. Digital India is one example of how everything is going to be done through the internet in the upcoming years, not only in the upcoming years, even right now, most of the exchange of communication is done with the help of the internet, whether it is chatting on Whatsapp with friends or sending important information through the mail, all the work and communication is mostly done through the net.

What is E-Commerce?

E-Commerce stands for Electronic commerce, which means buying or selling goods through the Internet. The biggest advantage of E-Commerce in this era is Time Savings, not only that as a customer, one major advantage is that the customer receives a lot of discounts on the products they want to buy.

In terms of business, a businessman not only can expand the market all over the country but also all around the world. Businesses also do not need to put too much effort into Branding.

One major thing that comes to play its role in E-Commerce is communicating professionally. Let's learn about this in further detail,

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Imagine writing a letter to your friend while communicating every time, Can not imagine right? Since today humans live in an era where they can very easily communicate through the internet. Now, imagine the same case with businesses, where communication and exchange of very important documents are constantly required, doing this the old way, it will take forever for the messages to reach the other party, but also the documents will pile up as there is a lot of information that is needed to be stored and kept. It is a tedious and cumbersome process indeed, this is where EDI plays its role.

Electronic Data Exchange is the direct exchange of data and important business documents through the Internet and in a very professional manner. Two different companies sitting at the extreme corners of the world can very easily interchange information or documents (like sales orders, shipping notices, invoices, etc) with the help of EDI.

EDI Documents:

The most common documents exchanged via EDI are:

- Invoices
- Purchase Orders
- Financial Information letters
- Transaction Bills
- Shipping requests and notifications
- Acknowledgment and feedback
- Transcripts
- Claims
- Business Correspondence letters

EDI Users:

- Central and state government agencies
- Industry

- Banking
- Retailing
- Manufacturing
- Insurance
- Healthcare
- Automotive
- Electronics
- Grocery
- Transportation

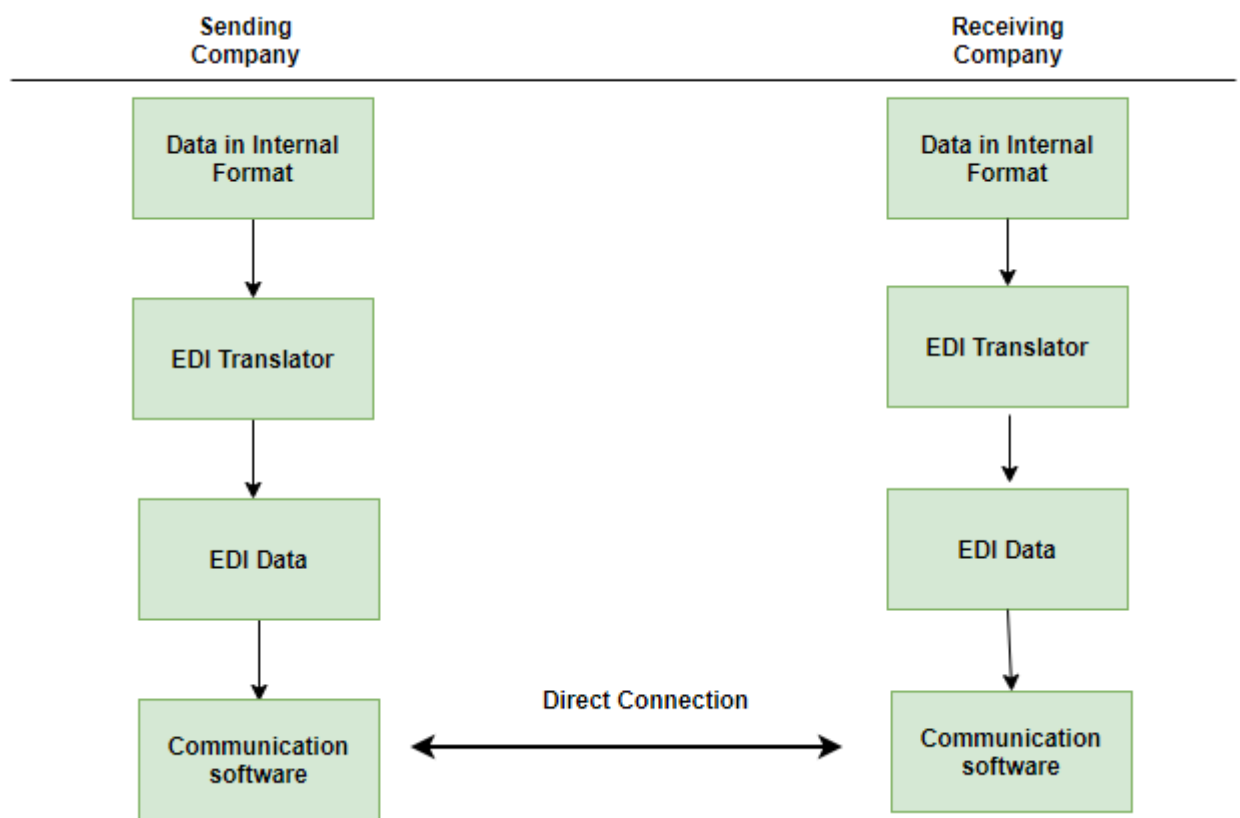
History of EDI

Edward Guilbert is known to be the father of electronic data exchange, introduced EDI back in the 1960s in the supply chains. The US Transportation industry implemented EDI for better communication among different companies. In 1985, the UN created EDIFACT EDI for better reach of Global technology. Approximately 12000 companies started using EDI in the US. The US grocery and automobile industry very swiftly accepted EDI due to the easy process and standard form of data exchange. In today's time, with following EDI's compliance, the big and major companies are using EDI for their communication among businesses.

Examples of EDI include Purchase orders, invoices, shipping statuses, payment information, and so on.

How EDI works?

The data or the information that one company sends the other first gets prepared to be sent, then the information/document is translated into EDI format. The document is then connected and transmitted to the other business, the connection is direct and point to point.



Uses of EDI :

EDI is widely used in various industries for exchanging business documents electronically. Some of the common uses of EDI are:

- **Order Processing:** EDI allows companies to exchange purchase orders and sales orders electronically, eliminating the need for manual data entry and reducing errors.
- **Invoicing:** EDI can be used to exchange invoices electronically, reducing the time and cost associated with paper-based invoicing.
- **Shipping and Receiving:** EDI can be used to exchange shipping notices and receiving documents, enabling companies to track the movement of goods in real-time.
- **Inventory Management:** EDI can be used to exchange inventory information, enabling companies to manage their inventory levels more effectively.
- **Supply Chain Management:** EDI is used extensively in the supply chain management process, enabling companies to exchange information with their suppliers, distributors, and customers.
- **Healthcare:** EDI is used in the healthcare industry to exchange patient data, claims, and other healthcare-related information between healthcare providers, insurance companies, and government agencies.
- **Financial Transactions:** EDI can be used to exchange financial transactions such as payment advice and remittance advice, reducing the time and cost associated with manual payment processing.

Advantages of EDI:

There are several advantages to Electronic Data Interchange:

- **The paper usage reduced:** The expense of storing, printing, recycling, reduces up to the maximum amount due to the EDI.

- **Improved quality of Data:** The data entry errors are reduced due to EDI.
- **Speed Increases:** The best advantage is the increase in the speed of the data interchange. With everything going online, the speed of the information transfer increases exponentially.
- **Security:** By following the Protocols and the standard rules, the security of all the important documents is always secure and safe.
- **Information accuracy:** Since the information exchanged is based on standards agreed by the sender and receiver both, the correct information is always transferred regardless of where they belong to.
- **Less Cost:** With very less errors, fast response time, every thing becoming automated, and no use of paper, the cost automatically reduces.

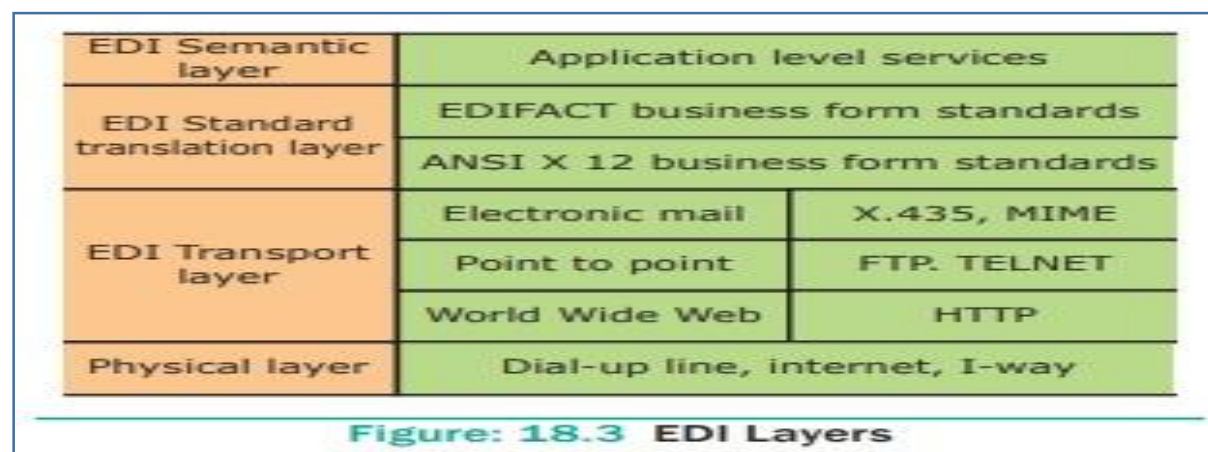
Disadvantages of EDI:

- The initial setup of the EDI is very Time-consuming.
- EDI standards keep on changing after some amount of time.
- A very systematic and proper back up is required as the entire data relies on EDI.
- The setup and maintenance of the EDI is very Expensive.

EDI ARCHITECTURE LAYERED:

EDI (Electronic Data Interchange) layered architecture in e-commerce organizes the Electronic Data Interchange process into distinct layers to manage and scale the exchange of business documents electronically between trading partners, improving efficiency and simplifying updates.

FIGURE:



The Four Layers of EDI in E-commerce:

1. **1. Semantic (Application) Layer:**

This layer deals with the actual business data and applications, defining what information is visible to users and how it's used within a company's internal systems. Examples include purchase orders, price quotes, and invoices.

2. **2. Standards Translation Layer:**

This layer is responsible for converting proprietary formats from the application layer into universal EDI standards, such as ANSI X12 or EDIFACT, ensuring that the data can be understood by different trading partners.

3. **3. Packing (Transport) Layer:**

This layer manages how the standardized EDI documents are transmitted between trading partners. It facilitates the transfer of files in a compatible format and can involve various methods like email, value-added networks (VANs), or direct internet connections.

4. **4. Physical Network Infrastructure Layer:**

This is the foundational layer that defines the actual communication paths and technologies used for transmission, including dial-up lines, the internet, or specialized network services.

Definition of Industry Value Chain:

The **Industry Value Chain** is the **full range of activities required to bring a product or service from concept to delivery**, including production, marketing, sales, and after-sales service.

In **E-Commerce**, the value chain includes:

1. **Suppliers** (raw material providers)
2. **Manufacturers** (producers of goods)
3. **Distributors** (logistics, storage)
4. **Online Platforms** (websites, apps)
5. **Payment Systems** (e.g., cards, wallets)
6. **Customers**

✓ **Advantages of E-Commerce:**

1. **Convenience** – Shop anytime, anywhere.
 2. **Wider Reach** – Sellers can reach global markets.
 3. **Cost Reduction** – Less expense on physical stores.
 4. **Product Comparison** – Easy to compare prices/features.
 5. **Faster Buying Process** – No queues or travel.
 6. **24/7 Availability** – Online stores never close.
-

✓ Disadvantages of E-Commerce:

1. **Lack of Physical Experience** – Can't touch or try products.
 2. **Delivery Delays** – Possible shipping issues.
 3. **Online Scams & Fraud** – Risk of fake websites/products.
 4. **Internet Dependence** – Requires stable connection.
 5. **Privacy Issues** – Data security concerns.
-

✓ Importance of E-Commerce in Today's World:

1. **Boosts Digital Economy** – Creates jobs, increases trade.
2. **Empowers Small Businesses** – Reach large markets with low investment.
3. **Encourages Innovation** – Promotes use of AI, logistics, digital payments.
4. **Improves Customer Experience** – Personalized services, easy returns.
5. **Global Trade Growth** – Businesses go beyond local boundaries.

Firm Value Chain (in E-Commerce):

Definition:

A **Firm Value Chain** refers to the **series of internal business activities within a firm** that add value to a product or service at each step, from production to delivery.

→ □ It helps analyze how a company **creates value** and gains a **competitive advantage**.

★ Components of Firm Value Chain:

(According to Michael Porter)

⚙️ Primary Activities:

1. **Inbound Logistics** – Receiving and storing inputs.
2. **Operations** – Converting inputs into final products.
3. **Outbound Logistics** – Delivering products to customers.
4. **Marketing and Sales** – Advertising and selling.
5. **Service** – After-sales support and customer service.

⚙️ Support Activities:

1. **Firm Infrastructure** – Management, planning.
2. **Human Resources** – Hiring, training.
3. **Technology Development** – IT support, automation.
4. **Procurement** – Purchasing raw materials.

✓ In E-Commerce:

- Online order processing = **Operations**
- Website advertisements = **Marketing**
- Payment gateway = **Outbound logistics**

✓ 2. Firm Value Web (in E-Commerce):

Definition:

A **Firm Value Web** is a **network-based model** where a firm interacts with **multiple partners** (suppliers, customers, logistics, IT providers) to create value collectively.

→ □ It emphasizes **flexibility, collaboration, and digital connectivity** in modern e-commerce.

★ Key Features:

- Dynamic and interconnected
- Involves many external players
- Real-time data sharing
- Builds competitive advantage through partnerships

✓ In E-Commerce:

Example: An online shop (like Amazon) uses:

- Courier companies (for delivery)
- Software companies (for IT)
- Banks/payment apps (for payments)
- Review sites and social media (for feedback)

All work **together as a value web**.

🔄 Difference between Value Chain and Value Web:

Feature	Firm Value Chain	Firm Value Web
Structure	Linear (step-by-step)	Network-based (multiple connections)
Focus	Internal processes	External collaboration
Flexibility	Less flexible	Highly flexible
Example	Manufacturer → Store → Customer	Amazon with vendors, delivery, reviews

Definition of Local E-commerce

Local e-commerce is the **digital trading of products or services within a specific locality** using websites, apps, or social media platforms, aiming to serve local consumers quickly and efficiently.

How to Create a Local E-commerce Business

Here's a simple step-by-step process:

1. **Identify Your Niche**
 - Decide what products/services to sell (e.g., groceries, clothes, handmade crafts, local food delivery).
2. **Register Your Business**
 - Register with the local authority and get a PAN/VAT number (as per Nepali rules if you're in Nepal).
3. **Build an Online Presence**
 - **Website:** Use platforms like Shopify, WooCommerce (WordPress), Wix, or even Facebook Shops.
 - **Mobile App** (*optional*): For better reach and convenience.
 - **Google My Business:** Register to appear in local searches.
4. **Add Products and Prices**
 - Include photos, descriptions, pricing, stock availability, and local delivery details.
5. **Setup Payment Options**
 - Include mobile wallets (eSewa, Khalti), bank transfer, or cash on delivery.
6. **Delivery System**
 - Use your own delivery team or partner with local delivery services.
7. **Marketing**
 - Use **Facebook Ads, TikTok, Instagram**, and **local influencer marketing**.
 - Offer local promotions and discounts.

What is Local E-commerce?

Local e-commerce uses the internet to buy and sell commodities and services within a specific geographical area, mainly targeting local customers. In contrast, ecommerce is broader, covering all kinds of markets, while local ecommerce focuses on local communities offering products and services online, with delivery or pickup locally. Adopting this approach, businesses can take advantage of the convenience that online shopping offers, integrating them with their existing services and creating a platform creating the online and offline experiences of shopping in a way that showcases local culture and bonds with the community.



Why is Local E-commerce Important?

Local e-commerce is a transformational trend that leads to the movement towards a sustainable, community-conscious business approach. Through the e-commerce platform, local stores are provided with the means to extend their market space within the community, making the combination of online shopping and neighborhood engagement attractive to shoppers. This not only helps (small) businesses overcome the giants of the retail world but also stimulates a feeling of community, which results in consumers keeping loyalties to the local economy. In addition, local e-commerce can significantly decrease carbon footprints by using local delivery systems, which are preferred by customers who are increasingly aware of climate change and are looking for sustainable and ethical shopping opportunities.

How to Start a Local E-commerce Business

1. **Market Research:** Identify a niche or demand in your local market that you can address with your products or services.
2. **Business Plan:** Develop a detailed plan covering your business model, target market, marketing strategy, and financial projections.
3. **Legal Setup:** Choose a business structure (e.g., sole proprietorship, LLC) and register your business. Obtain any necessary licenses or permits.
4. **Website Creation:** Build an eCommerce website with a user-friendly design and secure payment processing. Consider platforms like Shopify or WooCommerce.
5. **Inventory Management:** Organize your inventory system for efficient tracking and fulfillment of orders.
6. **Marketing and SEO:** Promote your business through [social media](#), local SEO, and other digital marketing strategies to attract local customers.
7. **Customer Service:** Establish strong customer service practices to build trust and loyalty with your customer base.

What Is Global Ecommerce?

Global ecommerce is the practice of selling goods or services over the Internet to customers in other countries beyond your own, as opposed to domestic selling within one's home country.

Global ecommerce allows businesses to tap into foreign markets and reach new customers. In other words, expanding internationally online.

Think [Amazon](#), one of the largest global ecommerce platforms allowing selling in [over 100 countries](#) with [local websites in 20 countries](#), or [Alibaba](#), a global [B2B ecommerce](#) platform connecting millions of buyers across countries and regions to global suppliers, especially [suppliers in China](#).

But you don't need to be an industry titan like Amazon to go global online. Smaller businesses can also get overseas sales.

For example, niche ecommerce companies like [Pura Vida Bracelet](#) collaborate with artisans globally and sell handmade bracelets to international fans. Or [Allbirds](#), which ships their advertised 'most comfortable shoes in the world [to over 40 countries](#), plus providing local websites in 9 languages. Or [Precondo](#), an online platform that connects global investors with real estate opportunities in Montreal.

Pura Vida Bracelet, Allbirds, and Precondo are all examples of "global ecommerce."

Benefits of Global Ecommerce

Why have over **50% of retailers and manufacturers** expanded beyond the domestic market? There are some good reasons.

Mitigate Market Saturation

Market saturation happens when the amount of a product or service in a market has been maximized, and there is no more potential demand or room for new customers, limiting a business's profits.

Once saturation hits, companies may be forced to compete solely on price and quality to take customers away from other established brands in the same saturated market.

At this point, looking beyond local sales may be a better option.

Diversify The Risk

In essence, international expansion reduces reliance on single regions.

This shares similarities with market saturation, although it is not entirely synonymous.

Imagine something unexpected happens, anything from trend shifts to strikes. This could affect how well your product sells in your country. However, you can navigate this challenge if opportunities still exist overseas.

Reach Economies of Scale

Selling to a larger audience worldwide means increased production, ultimately reaching “economies of scale.”

Economies of scale refer to the cost advantages businesses can achieve through increased production. In simpler words, the bigger a business gets, the lower its costs per item tend to be.

Specifically, this can be achieved because

- Businesses can spread fixed costs, like the rent of existing factories or a manager's salary, over a larger number of goods.
- Businesses have better purchasing power with suppliers. Bigger procurement volumes mean better negotiated prices on materials, utilities, transportation, etc.
- Businesses gain "Experience Curve Effects." With more production runs, processes are refined, and management becomes more efficient over time. Simply put, the more you operate, the better and more cost-efficient you get.

Increase Revenue

This is the most straightforward one. The wider market plus economies of scale lead to increased total revenue for the business.

Strengthen Brand Presence

By positioning yourself as a global brand, you gain some automatic benefits regarding publicity and credibility. Simply stating that your brand is loved internationally builds trust and signals reliability.

You can further boost your brand value by emphasizing how you adhere to international best practices and standards worldwide.

Reaching a wider global audience also means getting more customer testimonials and feedback from diverse people, which is useful for analyzing and fine-tuning how your brand presents itself.

Challenges of Global Ecommerce

While international expansion offers business growth, there are also significant challenges involved, including

Laws and Regulations

Consumer protection laws, safety regulations, sales taxes, VAT, product labeling, data protection, privacy, intellectual property law, and everything else that matters in the book.

You've gone through these things when establishing your local ecommerce business.

But now that you are set on expanding overseas, it's a “different locations, different rules” scenario. You'll need to review all of the above again. Plus, consider your home country's export laws, import regulations in your target countries, and whether your products are subject to special oversight.

Understanding location-specific laws, policies, and best practices is crucial for global business. Not adhering to regulations leads to legal repercussions such as fines, lawsuits, or even bans from certain markets.

Overcoming This Challenge:

- Research laws and regulations in your target market. Refer to official sources such as [Country Commercial Guides](#).
- Consult with professionals experienced with your target market. Lawyers, consultants, and trade organizations familiar with the nuances of regulations in that country and industry can help guide your approach to staying compliant as you start operations abroad.