

E-commerce 2013

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Chapter 2

E-commerce Business Models and Concepts



Class Discussion

Tweet Tweet: What's Your Business Model?

- **What characteristics or benchmarks can be used to assess the business value of a company such as Twitter?**
- **Have you used Twitter to communicate with friends or family? What are your thoughts on this service?**
- **What are Twitter's most important assets?**
- **Which of the various methods described for monetizing Twitter's assets do you feel might be most successful?**



E-commerce Business Models

■ Business model

- ❖ Set of planned activities designed to result in a profit in a marketplace

■ Business plan

- ❖ Describes a firm's business model

■ E-commerce business model

- ❖ Uses/leverages unique qualities of Internet and Web



Eight Key Elements of a Business Model

1. **Value proposition**
2. **Revenue model**
3. **Market opportunity**
4. **Competitive environment**
5. **Competitive advantage**
6. **Market strategy**
7. **Organizational development**
8. **Management team**



1. Value Proposition

- **“Why should the customer buy from you?”**
- **Successful e-commerce value propositions:**
 - ❖ Personalization/customization
 - ❖ Reduction of product search, price discovery costs
 - ❖ Facilitation of transactions by managing product delivery



2. Revenue Model

- **“How will the firm earn revenue, generate profits, and produce a superior return on invested capital?”**
- **Major types:**
 - ❖ Advertising revenue model
 - ❖ Subscription revenue model
 - ❖ Transaction fee revenue model
 - ❖ Sales revenue model
 - ❖ Affiliate revenue model



Foursquare Checks Out a Revenue Model

- **What revenue model does Foursquare use?
What other revenue models might be appropriate?**
- **Are privacy concerns the only shortcoming of location-based mobile services?**
- **Should business firms be allowed to call cell phones with advertising messages based on location?**



3. Market Opportunity

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



4. Competitive Environment

■ “Who else occupies your intended marketplace?”

- ❖ Other companies selling similar products in the same marketplace
- ❖ Includes both direct and indirect competitors

■ Influenced by:

- ❖ Number and size of active competitors
- ❖ Each competitor's market share
- ❖ Competitors' profitability
- ❖ Competitors' pricing



5. Competitive Advantage

- **“What special advantages does your firm bring to the marketplace?”**
 - ❖ Is your product superior to or cheaper to produce than your competitors’?
- **Important concepts:**
 - ❖ Asymmetries
 - ❖ First-mover advantage, complementary resources
 - ❖ Unfair competitive advantage
 - ❖ Leverage
 - ❖ Perfect markets



6. Market Strategy

- **“How do you plan to promote your products or services to attract your target audience?”**
 - ❖ Details how a company intends to enter market and attract customers
 - ❖ 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**
 - ❖ Typically, divided into functional departments
 - ❖ As company grows, hiring moves from generalists to specialists



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



Categorizing E-commerce Business Models

- **No one correct way**
- **Text categorizes according to:**
 - ❖ E-commerce sector (e.g., B2B)
 - ❖ E-commerce technology (e.g., m-commerce)
- **Similar business models appear in more than one sector**
- **Some companies use multiple business models (e.g., eBay)**



B2C Business Models

- **E-tailer**
- **Community provider (social network)**
- **Content provider**
- **Portal**
- **Transaction broker**
- **Market creator**
- **Service provider**



B2C Models: E-tailer

- **Online version of traditional retailer**
- **Revenue model: Sales**
- **Variations:**
 - ❖ Virtual merchant
 - ❖ Bricks-and-clicks
 - ❖ Catalog merchant
 - ❖ Manufacturer-direct
- **Low barriers to entry**



B2C Models: Community Provider

- **Provide online environment (social network) where people with similar interests can transact, share content, and communicate**
 - ❖ e.g., Facebook, LinkedIn, Twitter, Pinterest
- **Revenue models:**
 - ❖ Typically hybrid, combining advertising, subscriptions, sales, transaction fees, affiliate fees



B2C Models: Content Provider

■ Digital content on the Web

- ❖ News, music, video, text, artwork

■ Revenue models:

- ❖ Subscription; pay per download (micropayment); advertising; affiliate referral

■ Variations:

- ❖ Syndication
- ❖ Web aggregators



Insight on Technology: Class Discussion

Battle of the Titans: Music in the Cloud

- **Have you purchased music online or subscribed to a music service? What was your experience?**
- **What revenue models do cloud music services use?**
- **Do cloud music services provide a clear advantage over download and subscription services?**
- **Of the cloud services from Google, Amazon, and Apple, which would you prefer to use, and why?**



B2C Models: Market Creator

- Create digital environment where buyers and sellers can meet and transact
- e.g.,
 - ❖ Priceline
 - ❖ eBay
- Revenue model: Transaction fees



B2C Models: Service Provider

■ Online services

- ❖ e.g., Google—Google Maps, Gmail, etc.

■ Value proposition

- ❖ Valuable, convenient, time-saving, low-cost alternatives to traditional service providers

■ Revenue models:

- ❖ Sales of services, subscription fees, advertising, sales of marketing data



B2B Models: E-distributor

- **Version of retail and wholesale store, MRO goods, and indirect goods**
- **Owned by one company seeking to serve many customers**
- **Revenue model: Sales of goods**
- **e.g., Grainger.com**



B2B Models: E-procurement

- **Creates digital markets where participants transact for indirect goods**
 - ❖ B2B service providers, application service providers (ASPs)
- **Revenue model:**
 - ❖ Service fees, supply-chain management, fulfillment services
- **e.g., Ariba**



B2B Models: Exchanges

- **Independently owned vertical digital marketplace for direct inputs**
- **Revenue model: Transaction, commission fees**
- **Create powerful competition between suppliers**
- **Tend to force suppliers into powerful price competition; number of exchanges has dropped dramatically**



B2B Models: Industry Consortia

- **Industry-owned vertical digital marketplace open to select suppliers**
- **More successful than exchanges**
 - ❖ Sponsored by powerful industry players
 - ❖ Strengthen traditional purchasing behavior
- **Revenue model: Transaction, commission fees**
- **e.g., Exostar**



Private Industrial Networks

- **Digital network**
- **Used to coordinate communication among firms engaged in business together**
- **Typically evolve out of company's internal enterprise system**
- **e.g., Walmart's network for suppliers**



E-commerce Enablers: The Gold Rush Model

- **E-commerce infrastructure companies have profited the most:**
 - ❖ Hardware, software, networking, security
 - ❖ E-commerce software systems, payment systems
 - ❖ Media solutions, performance enhancement
 - ❖ CRM software
 - ❖ Databases
 - ❖ Hosting services, etc.



How the Internet and the Web Change Business

- **E-commerce changes industry structure by changing:**
 - ❖ Rivalry among existing competitors
 - ❖ Barriers to entry
 - ❖ Threat of new substitute products
 - ❖ Strength of suppliers
 - ❖ Bargaining power of buyers



Industry Value Chains

- **Set of activities performed by suppliers, manufacturers, transporters, distributors, and retailers that transform raw inputs into final products and services**
- **Internet reduces cost of information and other transactional costs**
- **Leads to greater operational efficiencies, lowering cost, prices, adding value for customers**

E-commerce and Industry Value Chains

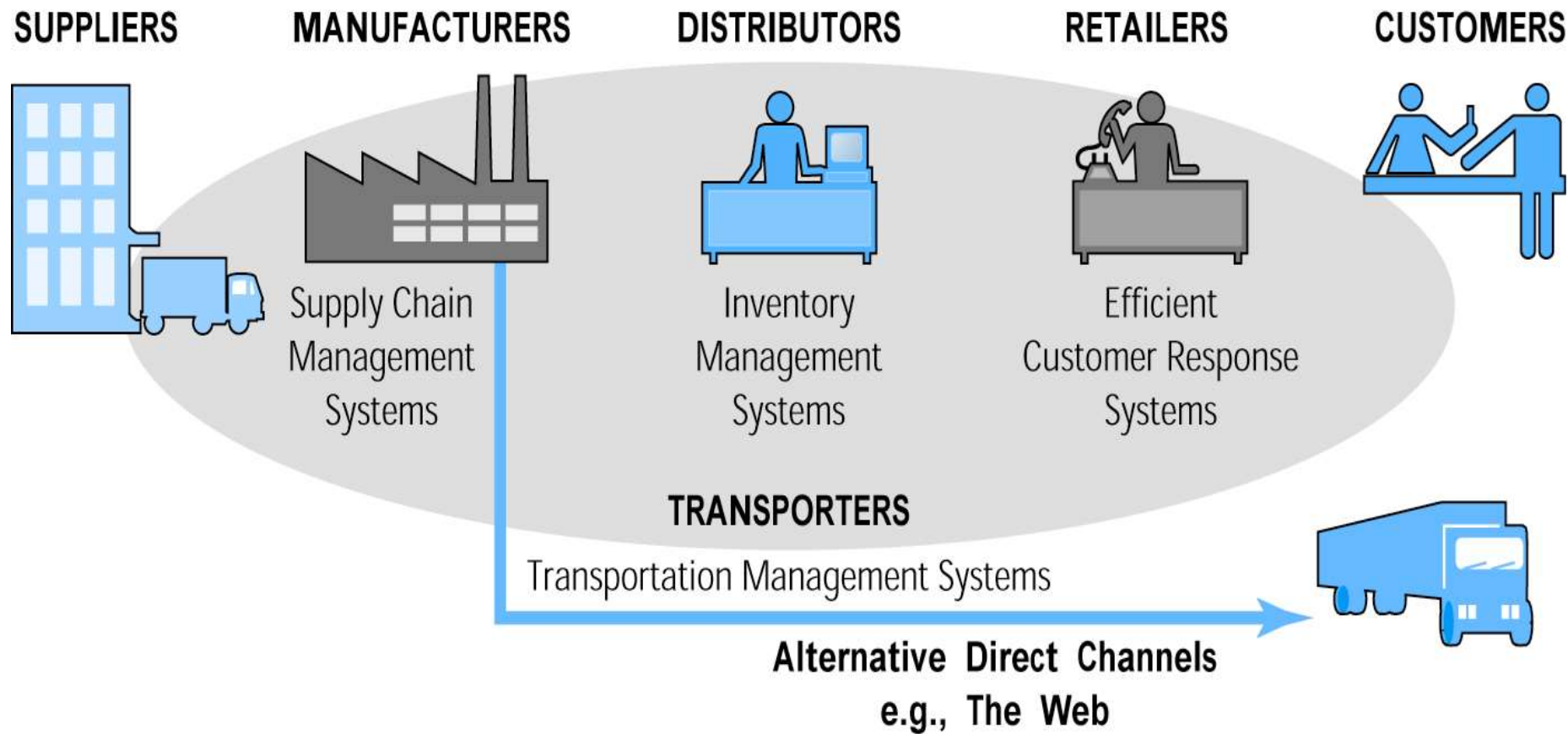


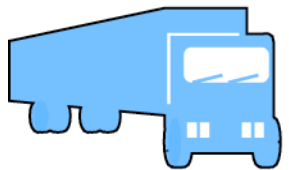
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E-commerce and Firm Value Chains

Administration
Human Resources
Information Systems
Procurement
Finance/Accounting

SECONDARY ACTIVITIES

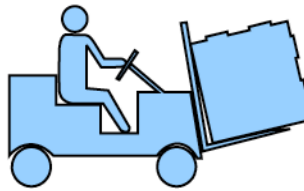
PRIMARY ACTIVITIES



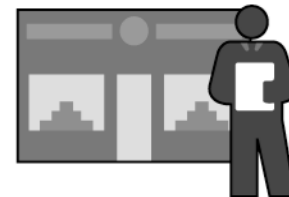
**Inbound
Logistics**



Operations



**Outbound
Logistics**



**Sales and
Marketing**



**After Sales
Service**

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Firm Value Webs

Internet-enabled Value Web



Figure 2.6, Page 98



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