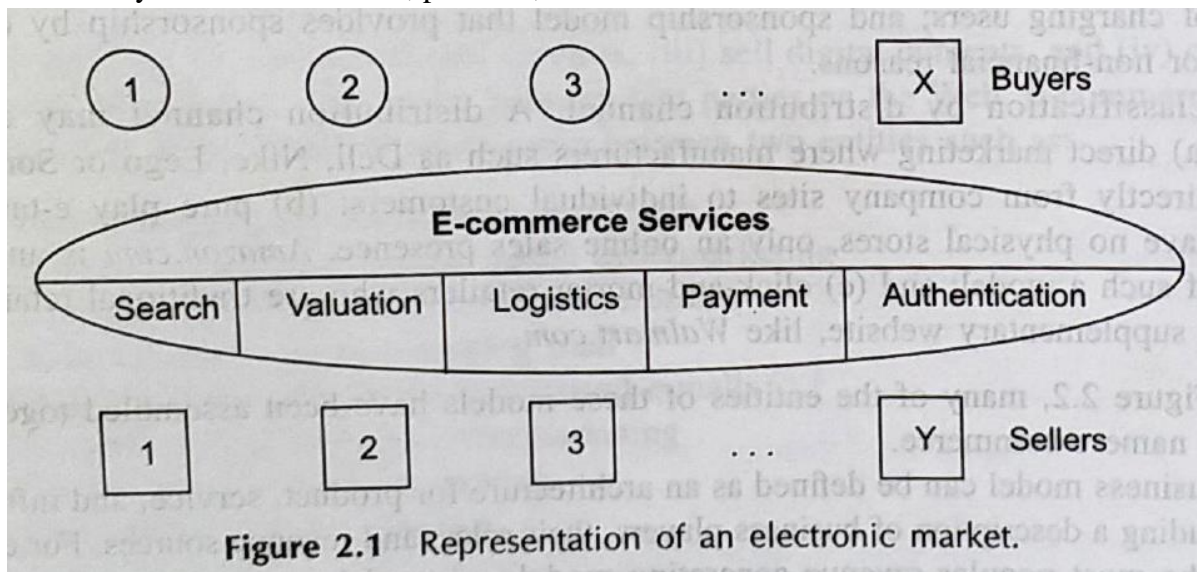


Business Model

- A company's business model is the way in which it conducts business in order to generate revenue.
- Some models are quite simple; others can be intricately woven.
- A business model can be defined as an architecture for product, service, and information flow, including a description of business players, their roles, and revenue sources.
- For example; some of the most popular revenue-generating models adopted by companies are:
 - (i) charge fees for advertising,
 - (ii) sell goods and services,
 - (iii) sell digital contents,
 - (iv) charge for processing and transactions that occur between two parties on the web.
- E-commerce can be defined as any form of business transaction in which the parties interact electronically.
- A transaction in an electronic market represents a number of interactions between parties. For instance, it could involve several trading steps such as marketing, ordering, payment, and support for delivery.
- The interaction between participants is supported by electronic trade processes (that are basically search, valuation, payment and settlement, logistics, and authentication).
 - The Internet and the World Wide Web allow companies to efficiently implement these key trading processes. For instance, many search services and brokers are available to help buyers find information, products, and merchants in electronic markets.



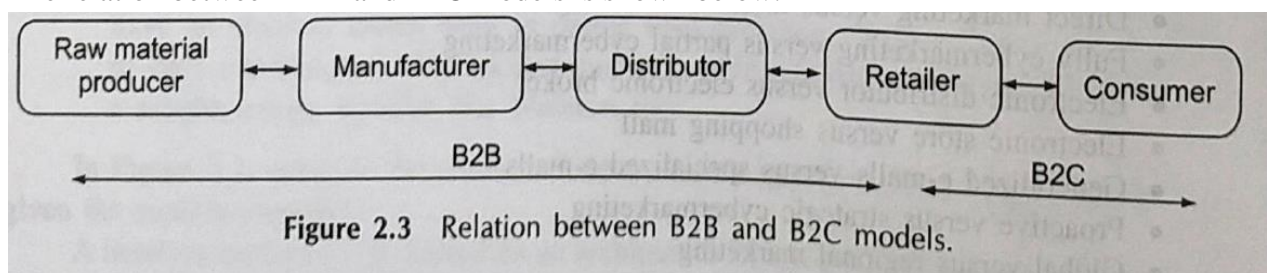
- A company's business model is the way in which it conducts business in order to generate revenue.
- In the new economy, companies are creating new business models and reinventing old models.
- Business models are categorized in different ways.
- Although there are many different ways to categorize business models, they can be broadly classified as follows:
 1. E-business model based on the relationship of transaction parties.
 2. E-business model based on the relationship of transaction types.
 3. Classification by revenue model. A revenue model may comprise:
 - (a) product sales model that charges customers directly for the products or services they buy;

- (b) subscription model that charges a fixed monthly or annual rental for the service;
 - (c) transaction fee model that charges a service fee based on volume and value of the transactions offered; advertising support model that charges advertisers instead of charging users; and sponsorship model that provides sponsorship by companies for non-financial reasons.
4. Classification by distribution channel. A distribution channel may comprise:
- (a) direct marketing where manufacturers such as Dell, Nike, Lego or Sony market directly from company sites to individual customers;
 - (b) pure play e-tailers who have no physical stores, only an online sales presence. Amazon.com is an example of such a model; and
 - (c) click-and-mortar retailers who are traditional retailers with a supplementary website, like Walmart.com.

E-business Models Based on the Relationship of Transaction Parties

Business-to-Consumer (B2C)

- Electronic markets are emerging in various fields. Different industries have markets with different characteristics.
- For example, an information B2C market differs in many respects from the automotive B2B market.
 - Information B2C – sell digital information goods, such as news, articles, music, books, or digital videos.
 - The infrastructure, such as servers and networks, must support the delivery of large files, streaming media and other types of digital goods in an efficient way.
 - This B2C market over the Internet can be viewed as an open system, where the number of participants is unknown.
 - Automotive B2B market – the products traded, such as parts and components of cars, have a high degree of specificity.
 - The market infrastructure used is to be mainly based on Electronic Data Interchange (EDI) over expensive VAN services.
 - EDI involves the exchange of standardized, structured information between organizations, permitting direct communication between computer systems.
 - Servers, networks, and software should provide the infrastructure to integrate Web-based applications with mainframe and legacy systems.
 - B2B is a closed market as the number of participants involved in trading is limited and known a priori.
- Understanding the nature of the market's requirements is critical for creating the underlying e-business infrastructure.
- The relation between B2B and B2C models is shown below.



- B2B covers business transactions along the various interactions existing in the value chain from producers of raw materials to retailers and consumers including manufacturers and distributors.
- On the contrary B2C reflects only the interactions between a customer and a retailer.
- Basically, B2C transactions include the following steps: (i) account acquisition, (ii) product discovery through search and browse, (iii) price negotiation, (iv) payment, and (v) product delivery. In some cases, dispute resolution and customer services may also exist.

TABLE 2.1 Summary of e-business Transaction Models

<i>Model</i>	<i>Description</i>	<i>Examples</i>
B2C	Sells products or services directly to consumers.	<i>amazon.com, autobytel.com, eDiets.com, Pets.com</i>
B2B	Sells products or services to other businesses or brings multiple buyers and sellers together in a central marketplace.	<i>MetalSite.com, VerticalNet.com, SHOP2gether.com</i>
B2G	Businesses selling to local, state, and federal agencies.	<i>iGov.com</i>
C2C	Consumers sell directly to other consumers.	<i>ebay.com, InfoRocket.com</i>
C2B	Consumers fix price on their own, which businesses accept or decline.	<i>Priceline.com</i>
B2E	Business-to-employee (B2E) electronic commerce uses an intrabusiness network which allows companies to provide products and/or services to their employees. Typically, companies use B2E networks to automate employee-related corporate processes.	<i>Online insurance policy management. Corporate announcement dissemination. Online supply requests. Special employee offers. Employee benefits reporting.</i>

Business-to-Consumer (B2C)

- Consumers are increasingly going online to shop for and purchase products, arrange financing, arrange shipment or take delivery of digital products such as software, and get service after the sale.
 - B2C e-business includes retail sales, often called e-retail (or e-tail), and other online purchases such as airline tickets, entertainment venue tickets, hotel rooms, and shares of stock.
- Some B2C e-businesses provide high-value content to consumers for a subscription fee.
 - Examples of e-business following this subscription model include the Wall Street Journal (financial news and articles), Consumer Reports (product reviews and evaluations), and Diets.com (nutritional counselling).
- B2C e-business models include virtual malls, which are websites that host many online merchants.
- Virtual malls typically charge setup, listing, or transaction fees to online merchants, and may include transaction handling services and marketing options.
 - Examples of virtual malls include excite.com, choicemall, women.com, networkweb.com, amazon.com, Zshops.com, and yahoo.com.
- E-tailers that offer traditional or Web-specific products or services only over the Internet are sometimes called virtual merchants and provide another variation on the B2C model.

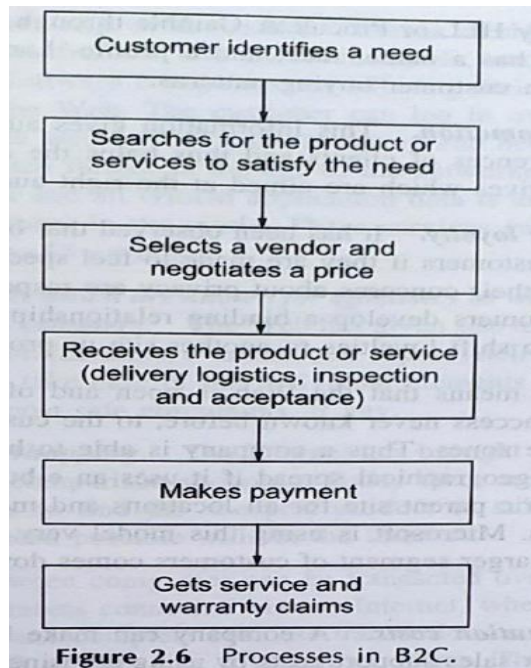
- Examples of virtual merchants include amazon.com (books, electronics, toys, and music), eToys.com (children's books and toys), and ashford.com (personal accessories).
- E-tailing is expected to grow to a 2.5 trillion dollars in 2018.

Opportunities and Challenges of B2C E-Commerce

- The opportunities and the challenges posed by the B2C e-commerce are enormous.
 - A large amount of investment has gone into this and many sites have either come up or are coming up daily to tap this growing market.
- Some of the reasons why one should opt for B2C are:
 1. **Inexpensive costs, big opportunities.** Once on the Internet, opportunities are immense as companies can market their products to the whole world without much additional cost.
 2. **Globalization.** Even being in a small company, the Web can make you appear to be a big player which simply means that the playing field has been levelled by e-business. The Internet is accessed by millions of people around the world, and definitely, they are all potential customers.
 3. **Reduced operational costs.** Selling through the Web means cutting down on paper costs, customer support costs, advertising costs, and order processing costs.
 4. **Customer convenience.** Searchable content, shopping carts, promotions, and interactive and user-friendly interfaces facilitate customer convenience, thus generating more business. Customers can also see order status, delivery status, and get their receipts online.
 5. **Knowledge management.** Through database systems and information management, you can find out who visited your site, and how to create, better value for customers.

How Does B2C Work?

- B2C e-commerce is **more than just an online store**.
- It really is about managing the entire process – It is just **using technology as a tool for order processing and customer support**.
- Figure depicts the processes in B2C.



1. **Visiting the virtual mall.** The customer 'visits' the virtual mall by browsing the **online catalogue**—a very **organized manner of displaying products** and their related information such as price, description, and availability.

- Finding the right product becomes easy by using a keyword search engine.
 - Virtual malls may include a basic to an advanced search engine, product rating system, content management, customer support systems, bulletin boards, newsletters and other components which make shopping convenient for shoppers.
2. **Customer registers.** The customer has to register to become part of the site's shopper registry.
 - This allows the customer to avail of the shop's complete services.
 - The customer becomes a part of the company's growing database and can use the same for knowledge management and data mining.
 3. **Customer buys products.** Through a shopping cart system, order details, shipping charges, taxes, additional charges and price totals are presented in an organized manner.
 - The customer can even change the quantity of a certain product.
 - Virtual malls have a very comprehensive shopping system, complete with check-out forms.
 4. **Merchant processes the order.** The merchant then processes the order that is received from the previous stage and fills up the necessary forms.
 5. **Credit card is processed.** The credit card of the customer is authenticated through a payment gateway or a bank.
 - Other payment methods can be used as well, such as debit cards, prepaid cards, or bank-to-bank transfers.
 6. **Operations management.** When the order is passed on to the logistics people, the traditional business operations will still be used.
 - Things like inventory management, total quality management, warehousing, optimization and project management should still be incorporated even though it is an e-business.
 - Getting the product to the customer is still the most important aspect of e-commerce.
 7. **Shipment and delivery.** The product is then shipped to the customer.
 - The customer can track the order/delivery as **virtual malls have a delivery tracking module on the website** which allows a customer to check the status of a particular order.
 8. **Customer receives.** The product is received by the customer and is verified.
 - The system should then tell the firm that the order has been fulfilled.
 9. **After-sales service.** After the sale has been made, the firm has to make sure that it maintains a good relationship with its customers.
 - This is done through customer relationship management or CRM.

Business-to-Business (B2B)

1. B2B is an e-commerce model whereby **a company conducts its trading and other commercial activity – through the Internet** and the **Customer is another business itself**.
 - It means **commercial activity between companies through the Internet** as a medium.
 - **Companies** have by and large **computerized all the operations worldwide** and now they need to go into the **next stage** – by **linking their Customers and Vendors**.
 - This is **done by SCM**, which is an integral part of ERP application.
 - Companies need to **set up a backbone of B2B applications**, which **will support the customer requirements on the Web**.
 - Many **B2B sites** are **company and industry specific**, catering to a **user community**.
 - Companies have **achieved huge savings in distribution related costs** due to their B2B applications.

Major Advantages of B2B

1. **Direct interaction with Customers.** This is the **greatest advantage** of e-business.
 - The **unknown and faceless customer** including other businesses, **buying the products** of a large MNC like say HLL or Procter & Gamble **through distributors, channels, shops and the like**, now **has a name, face, and a profile**.
 - Large MNCs **pay a fortune for this information** on customer **buying patterns**.
2. **Focussed sales promotion.** This **information gives authentic data about the likes, dislikes and preferences of clients** and thus helps the company **bring out focussed sales promotion drives** which are **aimed at the right audience**.
3. **Building customer loyalty.** It has been observed that online customers can be more loyal than other customers **if they are made to feel special** and **their distinct identity is recognized** and **their concerns about privacy are respected**.
 - It has also been found that once the customers develop a binding relationship with a site and its product, they do not like to shift loyalties to another site or product.
4. **Scalability.** This means that the **Web is open** and **offers round-the-clock access**.
 - This provides an **access never known before**, to the customer.
 - This access is **across locations** and **time zones**.
 - Thus, **by using an e-business model**, a company is **able to handle many more customers on a much wider geographical spread**.
5. **Savings in distribution costs.** A company can **make huge savings in distribution, logistical and after-sales support costs – by using e-business models**.
 - Since there is **a higher level of customer-business interaction** occurring in the e-business models, companies are able to avoid setting up of huge backbone of sales and support force.
 - Typical examples include computer companies, airlines, and telecom companies.

Tools and Techniques at the Disposal of B2B Enterprises:

- It is **important to know the right marketing strategies**, which would be **required to sell successfully** and profitably **over the Web**.
 - The **Web as a medium provides you with a unique platform to enable various strategies**.
1. **Use of pricing as a tool.** There is a wealth of research on pricing used as a tool to generate sales on the Internet.
 - The biggest e-tailer of them all, amazon.com, made it big by giving substantial discounts.
 - Part of these heavy discounts is attributed to the distributor level commissions, which are now being passed on to the customer.
 - Companies are giving things free on the Internet in order to get a critical mass of subscribers, which helps in getting advertising revenues.
 2. **Use of application service provider model.**
 - Software companies are now offering their packages through the Web.
 - The customer can log in over the Internet and access the software from the web server of the company and need not download it into his PC.
 - In the age of networked PCs, instead of using the hard disk, all critical application data is kept on the Web and can be accessed from anywhere in the world. These services (which are not products) are being offered at, say, \$5 an hour.
 3. **Use of generic models (which are **known for efficiency** as well as **personalized attention**) to various business customers.** The Web has given rise to a new partnership between brick-and-mortar manufacturers, e-tailers, and express delivery companies like FedEx.

- These organizations take care of the individual elements of the customer, the order fulfilment and the post-sale complaints, if any.
- 4. **Use of comparison shopping.** The Internet has brought in a whole new concept of price matching and comparison-shopping.
 - Today there are sites, which will take you to hundreds of sites to find the cheapest product to suit your specifications. This would never have been possible without the Internet.
- Business activities between companies can be transacted over an **extranet**.
 - An extranet consists of two or more intranets connected via the Internet, where participating companies can view each other's data and complete business transactions such as purchasing.

B2B Models

1. B2B models (Like B2C models) take a variety of forms.
 - There are basic **B2B Internet storefronts** (such as Staples and Office Depot) that provide business customers with purchase, order fulfilment, and other value-added services.
2. Another B2B model is a business trading community, also called a **vertical Web community**.
 - It acts as a central source of information for a vertical market.
 - A vertical market is a specific industry in which similar products or services are developed and sold using similar methods.
 - Examples of broad vertical markets include insurance, real estate, banking, heavy manufacturing, and transportation.
 - The information available at a vertical Web community can include buyer's guides, supplier and product directories, industry news and articles, schedules for industry trade shows and events, and classified advertisements.
 - MediSpeciality.com (healthcare), HotelResource (hospitality), and NetPossibilities (building trades) are examples of virtual vertical marketspaces.

B2B Exchanges

- B2B exchanges are **websites** that **bring multiple buyers and sellers together – in a virtual centralized marketplace**.
 - In this marketplace, **buyers and sellers can buy from and sell to each other at dynamic prices** determined by the **exchange rules**.
 - **B2B exchanges** can be **further categorized into** several ways as **aggregators, trading hubs, post and browse markets, auction markets, and fully automated exchanges**.

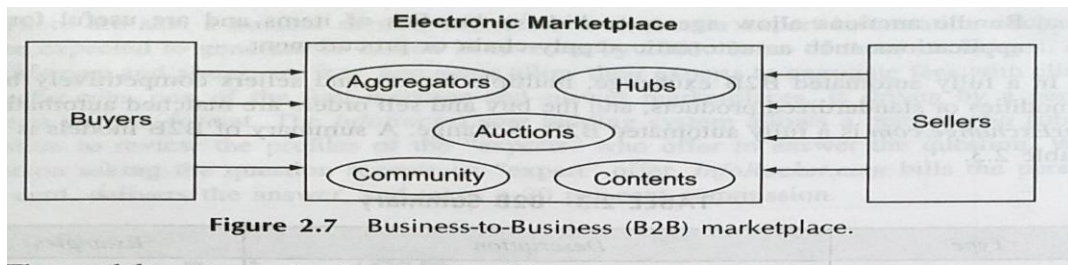
<i>Element</i>	<i>Benefit</i>
Centralized marketplace	Neutral and nonaligned with either sellers or buyers.
Standardized documentation	Users are prequalified and regulated.
Price quotes, price history, and after-the-sale information provided	Pricing mechanism is self-regulating.
Confidential transactions between businesses.	Clearing and settlement services provided.

- **B2B aggregators** provide **a single marketplace for company purchasing** – by providing many like-formatted supplier-product catalogues in one place.
 - Examples of B2B **aggregators** include e-chemicals (industrial chemicals), Chenidex (chemicals), MetalSite (steel and other metals), and freightquote.com (shipping services).

- **Trading hubs** are B2B sites that provide a marketplace for multiple vertical markets.
 - **Horizontal trading hubs** support buyers and sellers from many different industries. VerticalNet is an example of a horizontal trading hub.
 - **Diagonal trading hubs** support specific types of buyers or sellers, or specific types of products across multiple industries. SHOP2gether.com is an example of a diagonal trading hub.
- **Post and browse markets** such as CATEX (insurance, reinsurance, and risk management), CreditTrade (credit derivatives), and TechEx (life sciences intellectual property) **enable participants to post buy or sell opportunities on an electronic bulletin board**.
 - Interested parties meet through the postings and negotiate transactions for themselves.
- **B2B auction markets** enable **multiple buyers or sellers – to enter competitive bids** on a contract.
 - Examples of B2B auction markets include e-STEEL (steel and other metals), HoustonStreet.com (energy), Altra (energy), and Manheim Online (auto dealer auctions).
 - Auction markets may include **reverse auctions** or **"name your price"** auctions.
 - In a reverse auction, a product's selling price continues to decline until the product is purchased.
 - "Name your price" auctions, which allow buyers to enter a bid for a product or service that a seller can then provide at the bid price, are also called reverse auctions.
 - FreeMarkets is an example of a B2B site conducting reverse auctions.

Business-to-Business Transactions and Models

- B2B interactions **involve much more complexity** than B2C.
- For instance, typical B2B transactions include the following steps:
 1. Review catalogues,
 2. Identify specifications,
 3. Define requirements,
 4. Post request for proposals (REP),
 5. Review vendor reputation
 6. Select vendor,
 7. Fill out purchase orders (PO),
 8. Send PO to vendor,
 9. Prepare invoice,
 10. Make payment,
 11. Arrange shipment, and
 12. Organize product inspection and reception.
- B2B operations can be too risky
 - **Due to large number of transactions involved,**
 - If **e-business sites** cannot **guarantee adequate quality of service** in terms of **performance, availability and security**.
- Several models and classifications have been proposed for B2B commerce.
- The figure illustrates an **electronic marketplace** for **B2B trading**.
- The **model** could be oriented to a **vertical market** (e.g. wholesale trade, chemicals, construction, and electronics) or to a **horizontal approach**.



→ The models can now be described as follows:

1. Aggregators. In the aggregation model, **one company aggregates buyers to form a virtual buying entity and aggregates suppliers to constitute a virtual distributor.**

- For example, in the science marketplace, one company became the central buying location for thousands of buyers to implement their own purchasing rules and obtain volume discounts.

→ The **aggregator** takes the **responsibility** for **selection** and **fulfilment**, **pricing**, and **marketing segmentation**.

- Another example is an electronic company that offers a total home buying service, from search to financing, under one site.

2. Hubs or process integration. It **focusses on producing a highly integrated value proposition through a managed process.**

→ Hubs have been defined as **neutral Internet-based intermediaries** that **focus on a specific industry** or a **specific business process**.

→ Hubs **host electronic markets** and **create value** (by **reducing the costs of transactions between sellers and buyers**).

- There are examples of vertical hubs that serve a vertical market or a specific industry, such as energy, steel, telecommunications, and plastic.
- On the contrary, **functional hubs specialize in horizontal markets across different industries.**
- **Functional hubs focus on business processes** such as **project management** and **MRO** (Maintenance, Repair and Operating, and procurement).
- An **electronic business** company that provides office supplies to many industries is a good example of a functional hub in B2B commerce.

3. Community or Alliance. In the community model, **alliances are used to achieve high value integration without hierarchical control.**

→ **Members** and **end-users** play **key roles** as **contributors** and **customers**.

→ Basically, communities produce knowledge with economic value, such as Linux, MP3, and **Open Source**.

→ A summary of B2B models is given in Table

TABLE 2.3 B2B Summary

Type	Description	Examples
B2B storefronts	Provide businesses with purchase, order fulfillment, and other value-added services	<i>Staples.com</i> <i>OfficeDepot.com</i>
B2B vertical markets	Provide a trading community for a specific industry	<i>HotelResource.com</i>
B2B aggregators	Provide a single marketplace for business purchasing from multiple suppliers	<i>MetalSite.com</i>
B2B trading hubs	Provide a marketplace for multiple vertical markets	<i>VerticalNet.com</i>
B2B post and browse markets	Provide a marketplace where participants post buy and sell opportunities	<i>CATEX.com</i> <i>CreditTrade.com</i> <i>TechEx.com</i>
B2B auction markets	Provide a marketplace for buyers and sellers to enter competitive bids on contracts	<i>e-STEEL.com</i> <i>HoustonStreet.com</i> <i>Altra.com</i> <i>FreeMarkets.com</i>
B2B fully automated exchanges	Provide a marketplace for the automatic matching of standardized buy and sell contracts	<i>PaperExchange.com</i>

4. Content. Content is an **end product** of this **B2B model**.

→ It has the **purpose of facilitating trading**.

→ **Revenue** can be **generated from subscriptions**, membership, or advertising.

- For example, there are e-companies that sell information about contracts to bid market intelligence and analysis, and jobs by industry.

→ In a fully automated B2B exchange, multiple buyers and sellers competitively bid on commodities or standardized products, and the buy and sell orders are matched automatically,

→ PaperExchange.com is a fully automated B2B exchange.

Consumer-to-Consumer (C2C) e-business model

→ With the C2C e-business model, **consumers sell directly to other consumers via online classified ads and auctions**, or **by selling personal services or expertise online**.

- Examples of consumers selling directly to consumers are ebay.com (auction) and olx.com.
- There are also a number of new consumer-to-consumer expert information exchanges that are expected to generate \$12 billion in revenue by 2015.
- **Some of these exchanges are free**, and **some allow their experts to negotiate fees** with clients.

→ InfoRocket.com, one of the first **question-and-answer marketplaces**, is driven by a **person-to-person auction** format.

- The InfoRocket.com bidding system – It allows **a person (who submits a question)** – to review the profiles of the **"experts" (who offer to answer the question)**.
- When the **person** (asking the question) accepts an **"expert"** offer – InfoRocket.com bills the person's credit card, delivers the answer, and takes a 20 per cent commission.

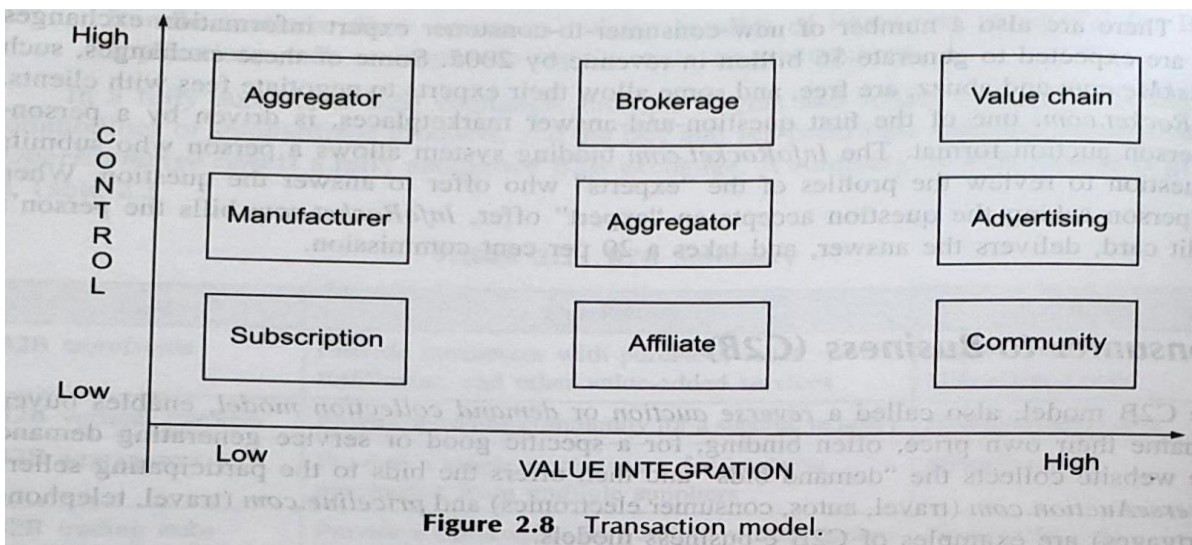
Consumer-to-Business (C2B) e-business Model

→ The C2B model, also called a **reverse auction** or **demand collection model**

- It enables buyers to name their own price (often binding) for a specific good or service – by generating demand.
 - The website collects the "demand bids" and then offers the bids to the participating sellers.
- ReverseAuction.com (travel, autos, consumer electronics) and priceline.com (travel, telephone, mortgages) are examples of C2B e-business models.

E-business Models Based on the Relationship of Transaction Types

- This business model is essentially 'ruled by' the following 'two' parameters:
- **On the basis of value addition.** It is the addition of 'value' to a product/service, due to the opportunities that it offers on the Web.
- **On the basis of control.** At the high end of control – there is 'hierarchical control' and at the low end there is 'no control', hence it is self-organizing.
 - Normally, the control is done through the policies of the website.
- Based on these, nine types of transactions can be identified as listed below:
 1. Brokerage
 2. Aggregator
 3. Info-mediary
 4. Community
 5. Value chain
 6. Subscription
 7. Manufacturer
 8. Advertising
 9. Affiliate
- These 'transaction types' take place in a variety of ways.
- Moreover, any given firm may combine one or two of these types – as part of its Web business strategy. (See Figure)



1. Brokerage Model

- The characteristics of the brokerage model are as follows:
 - The 'price-discovery mechanism' is its key-principle.
 - It is a meeting point for sellers and buyers.

- Auctions and Exchanges are the modes of Transactions.
- It is a 'Free Market'.
- It consists of Global Network of Buyers and Sellers.
- It is a Virtual Marketplace enabled by the Internet.
- It encompasses all types of organizations now.

Advantages of the Brokerage Model

→ Following are the advantages of the brokerage model:

- C2C trading
 - (a) Allows buyers and sellers to trade directly bypassing intermediaries, and
 - (b) Reduces cost for both the parties.
- Global reach
- Trading convenience
 - (a) It allows trading at all hours, and
 - (b) provides continually updated information.
- A sense of Community through direct buyer and seller communication
- Efficient access to information
- Alleviation of the risks of anonymous trading.

Brokerage—Price Discovery Mechanisms

→ There are three kinds of 'price-discovery mechanisms', which form the basis for the brokerage model. They are:

1. Auction
2. Reverse Auction
3. Market Exchange

→ Some examples of price discovery mechanism-based models are:

- B2B
 - B2B sell side FastParts.com
 - B2B buy side FreeMarket.com
 - B2B exchanges Covisint.com
- B2C Priceline.com
- C2C ebay.com

→ Some Indian brokerage sites are:

- www.ebay.in
- www.mahindrafirstchoice.com
- www.indiacar.com
- www.steelexchangeindia.com

→ **Auction broker.** Many different auction formats have emerged since the first auction occurred in Babylon in about 500 B.C.

→ Today, different auction formats are aggregated on certain common attributes.

- There are open and sealed-bid auctions.
- There are auctions where the auction price ascends as the auction proceeds and there are auctions where the price descends at regular intervals.
- There are single auctions and double auctions.

→ **English auction.** The English auction is one of the most common auction formats.

→ It is also known as the open-outcry auction or the ascending-price auction.

- It is frequently used for selling art, wine, and other physical goods, which do not have a limited lifetime.
- The English auction is defined in the following way:
 - The auctioneer starts off the auction with the **lowest acceptable price** or the 'reserve price'.
 - He then **receives bids from the bidders until the point from which there is no raise in the bid.**
 - At that point, the auctioneer **'knocks down'** the item – It indicates that the **highest bidder will receive the item in exchange for the sum of money he bid for.**
 - Sometimes, the **reserve price will not be made known to the public.**
 - This may happen **when the auctioneer is uncertain about the price expectation of the bidders** and **when he wishes the bidders to totally set the price level.**
 - As a consequence of not giving the reserve price, the item will never be sold if the highest bid is lower than the reserve price.
- The bidders are often anonymous, especially if the bidding occurs through electronic means.
 - This is done to preserve the identity of the bidders.
 - A well-known bidder may increase the price expectation of the product just because a person known to him has entered a bid.
 - He may be his business rival. Therefore, this kind of bidding will not be beneficial for the bidders.
 - The seller might benefit from a 'non-anonymous' bidding process, if he wants to acquire the highest price possible
- In a traditional physical auction, the auctioneer can highly influence the bidding process.
 - He can manipulate bidders with his voice, his gestures, and his personality.
 - Manipulation can also occur within an electronic English auction.
 - Sometimes the auction site may provide the bidders with alert messages if their bids are too low.
- Winner's curses is a widespread phenomenon within the English auction format.
 - This occurs when the bidder gets too excited in an auction and pays more for an item than his actual valuation.
- **Dutch auction.** The Dutch auction was developed in Netherlands **to auction flowers and other products with a limited life.**
- It is also known as the **descending-price auction.**
 - In a Dutch auction, the **opening price is set extremely high.**
 - The price then **descends** with a **predefined amount**, at **predefined time intervals**, **until** – a **buyer claims the product to be mine.**
 - When **many items of the same product** are **auctioned at the same time**, **many bidders** may **claim the product as mine at different points of time until** – **no more items of the product are left.**
- This process results in – **different prices for different bidders**, with the first person claiming the **product as mine** being the **one who pays the highest price.**
- The auction time period is often very short.
- This auction format is normally used for products that will perish in a short time.
 - Besides the **flower auctions** in Holland, it has been **used to sell fish** in England and in Israel.
 - A dispose Dutch auction is often practised in department stores during the sales season to dispose off excess inventory accumulated over a period of time.

- From a bidder's perspective:
 - The Dutch auction forces the bidder to make a bidding decision earlier if he really wants the product.
 - In the English auction, the buyer has the possibility to bid at a lower price. This means that the bidder may bid at or near his actual valuation of the item.
- First-price sealed-bid auction. This auction has the main characteristic of not being an open-cry auction, (like the English or Dutch auction) and thus the individual bids are hidden from other bidders.
- This auction has two different phases—
 - A bidding phase, in which all the bids are collected, and
 - A resolution phase, in which the bids are opened, and the winner is determined.
- The bidding phase – Here, each bidder submits his bid, which is based on his own valuation.
 - The bidder is thus totally ignorant of all other bids that have been submitted.
- The resolution phase – Here, all the bids are opened and sorted from the highest to the lowest bid.
 - If it is only one item that is auctioned, the highest bid will be the winning bid.
 - If multiple items of the same product are auctioned, the items are awarded to the highest bids until no more items are left.
 - This is called a Discriminatory Sealed-Bid Auction, since not all the bidders pay the same price.
 - The first-price sealed-bid auction is often used for refinancing credit and foreign exchange.
 - From a bidder's perspective, a high bid (compared to the expected market valuation) raises the probability of winning.
- Vickrey auction. William Vickrey, the winner of the 1996 Nobel Prize in Economics, developed the Vickrey auction.
 - It is also called the uniformed second-price auction.
- Here – the bids are sealed and each bidder bids from his own intuitive knowledge ignorant of all the other bids.
- Distinction from first-price sealed-bid auction – the winning bidder will pay the price of the second highest bid, which is the same as the highest unsuccessful bid.
 - Thus, the winner pays less than what he has bidden.
- When the Vickrey auction is applied to include multiple units of the same item, all the winning bidders will pay the same price.
 - This price will be the highest unsuccessful bid.

Why should the Vickrey auction with the second-price rule generate more income for the seller than the first-price sealed-bid auction?

- Theoretical literature has shown that, under the assumption of private value (i.e. when an item is wanted for personal consumption), the Vickrey and the first-price sealed-bid auction will both yield the same expected price.
- Reason – In a Vickrey auction, the bidder will adjust his bids as he increases the price upwards, since he knows that he needs only to pay the second highest bid.
 - Therefore, the actual bids will better reflect the bidder's valuation of the item in a Vickrey auction than in a first-price sealed-bid auction.

Economic Rationality Behind Auctions

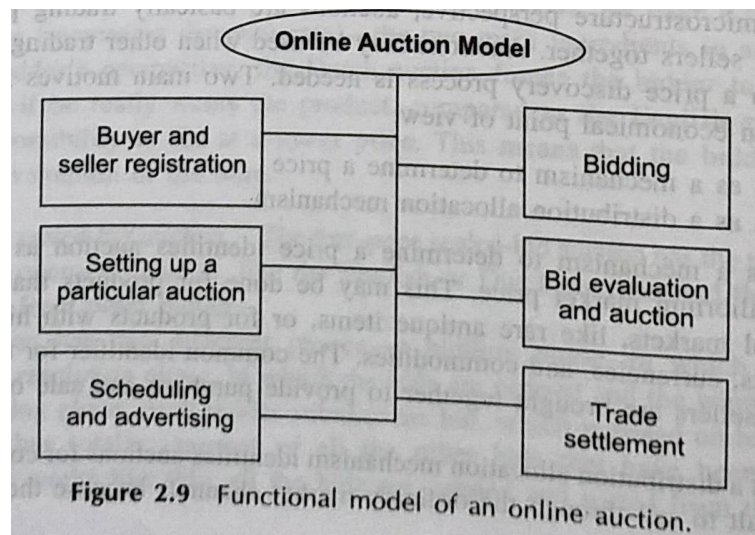
- Two main motives for auctions are identified from an economical point of view;

- Auctions as a mechanism to determine a price.
 - Auctions as a distribution allocation mechanism.
- Auctions as a mechanism to determine a price – Identifies auction as a procedure to establish an equilibrium market price.
- This may be done for products that are not traded on the traditional markets, like rare antique items, or for products with highly fluctuating prices, like stocks, currencies, and commodities.
 - The common identifier for these auctions is that buyers and sellers are brought together to provide purchase and sale orders and hence liquidity.
- Auctions as a distribution allocation mechanism – Identifies auctions for consumer products which are difficult to sell through the ordinary market channels because they are:
1. Products with limited life, such as airplane seats (which are worthless after the plane has taken off).
 2. Overstocked products which need to be separated from the new incoming products.
- In this case, the auction is a new separate distribution channel which is created to attract a large audience. In return, the sold products will often have a large discount.
 - The auctioneer's main goal is to attract as many customers as possible, so that the market will be liquid without forcing the auctioneer to do major price reductions.
- Buyers and sellers are attracted to the price discovery mechanism and the distribution allocation mechanism for different reasons. Table shows a comparison between the two mechanisms.

<i>Auction group</i>	<i>Price discovery mechanism</i>	<i>Distribution allocation mechanism</i>
Buyer	To determine an equilibrium price, to acquire rare items at a reasonable price.	To make a bargain, to acquire products at a low price.
Seller	To determine an equilibrium price, to find a customer base for rare items.	To off load excess inventory, to sell products with limited life.
Auctioneer/ Intermediary	To achieve high trading volumes, which will lead to high returns.	To achieve high trading volumes, which will lead to high returns.

Impact of the Web on Electronic Auctions

- The electronic auction process is illustrated here:
- The auctioneer brings together the suppliers (sellers) and the customers (buyers or bidders) within the auction process.
- During the process of transaction, trade objects and a rule base are needed.
- The entire auction process can be executed on the World Wide Web.



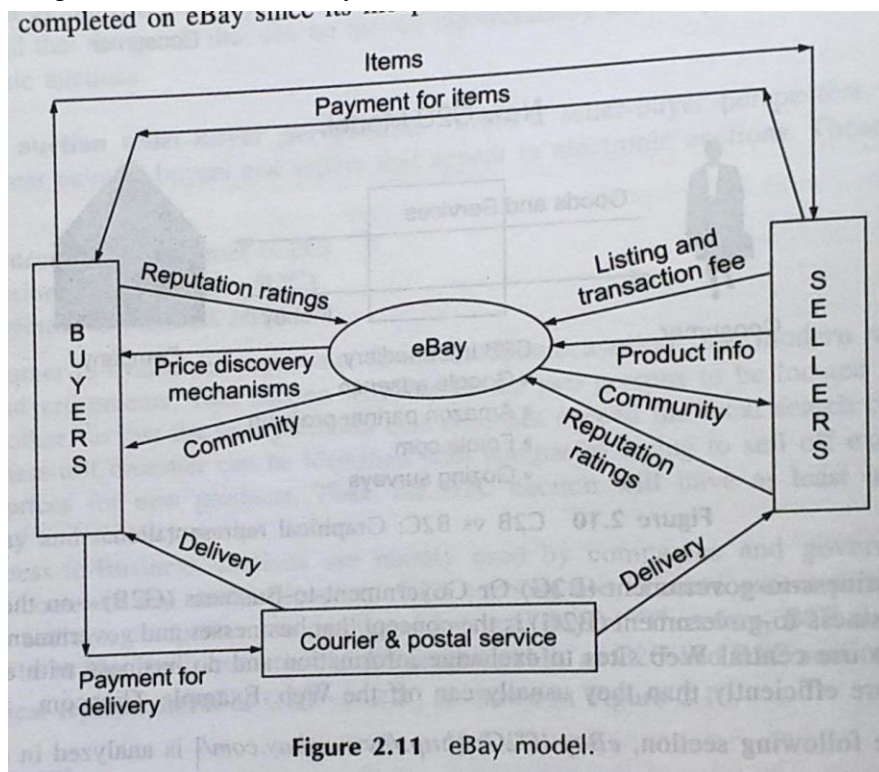
- The impact of the Web on the electronic auction is significant.
- The electronic auction can benefit from the following Web-related features:
 1. Common infrastructure with millions of potential users, which increases the possibility of an auction to occur between potential suppliers and customers.
 2. Standardized hypertext protocol for displaying the trade objects (i.e. items to be auctioned), which increases the economic feasibility of the electronic auctions.
 3. Development of standardized search functions, which help suppliers and customers to find each other.
 4. Standards for secure payments (e.g. SSL and SET), which encourage suppliers and customers to actually use the Web medium for trading.
- **Critical factors.** There are four main factors that characterize electronic auctions.
- **At least one of these factors will be present where an electronic auction appears.** The four factors are:
 - Perishability
 - Scarcity
 - Goods that may be moved electronically
 - Goods that are geographically constrained.
- **Perishability.** An example of a perishable product is an airplane ticket.
 - Each flight travel has a fixed cost to cover the fuel, maintenance, and the salaries bill.
 - Each sold ticket will generate revenue to cover part of these elements of cost.
 - When the airplane leaves the airport, the unsold tickets go waste.
 - If these tickets can be sold at an auction site at a price which more than covers the marginal cost of the ticket, the company would make a greater profit than it would do without the said auction.
- **Scarcity.** This occurs when there is an excess demand, compared to the actual supply of a particular product.
 - An auction market can be used to provide a price discovery mechanism for the product.
 - The price of the product will increase to reflect the excess demand until an equilibrium price is reached where supply equals demand.
 - Some product examples where an Internet auction may be used for price discovery are
 - New computer parts (e.g. the Intel Pentium III processor)
 - Domain names
 - IP addresses

- Collectibles: stamps, coins, wine, and so on
- Communication frequencies
- **Goods that may be moved electronically.** In terms of electronic auctions, securities are one of the most promising areas where an electronic auction may occur.
 - The largest entry barriers that an electronic auction site for securities must overcome are the **regulations set up by various Securities Exchange Commissions (SECs) around the world.**
 - These Commissions have been established by different governments to protect the public interest in terms of **company reporting criteria, inside trading rules,** and so on.
 - Therefore, it **can take longer time than one may think,** before the electronic security auction sites are widely available to the public.
- **Goods that are geographically constrained.** These goods have better chances to be part of a successful electronic auction.
 - This is due to the fact that if the transportation cost exceeds the customer's local search cost, the customer will not engage in an electronic auction.
- **Electronic auction seller-buyer perspective.** From a seller-buyer perspective, there are *three different pairs of buyers and sellers that appear in electronic auctions.* These different pairs are:
 - Consumer-to-Consumer (C2C)
 - Business-to-Consumer (B2C)
 - Business-to-Business (B2B)
- **Consumer-to-Consumer** represents, the modern version of classified advertisements. This auction will require the two persons to be located somewhat near each other, so that the transportation cost does not exceed the local search cost.
- **Business-to-Consumer** can be identified with companies trying to sell off excess stock or fixing prices for new products. Thus, the B2C auction will have at least one of the perishability and scarcity market factors.
- **Business-to-Business** auctions are mainly used by companies and governments to sell public contracts and surplus property.
 - B2B auctions are to some extent privately held since, only business companies can qualify as potential buyers.
 - Therefore, B2B auction sites tend not to be as vigorously promoted to the general public as C2C and B2C auction sites are.

eBay

- eBay is the world's largest personal online trading community.
- eBay created a new market, an efficient one-to-one trading system in an auction format on the Web.
- Individuals (not big businesses) use eBay to buy and sell items in more than 4320 categories, including automobiles, collectibles, antiques, sports memorabilia, computers, toys, Beanie Babies, dolls, figures, coins, stamps, books, magazines, music, pottery, glass, photography, electronics, jewellery, gemstones, and much more.
 - Buyers are compelled to trade on eBay due to a wide variety of items available.
 - Similarly, sellers are attracted to eBay to conduct business.
 - eBay provides over 4 million new auctions and 450,000 new items every day.
- The eBay community is made up of individual buyers and sellers who visit the site to do more than just buy or sell—they have fun, shop around, and get to know each other (by chatting at the eBay Cafe) and much more.

- Through the bulletin boards, users meet and get to know each other, discuss topics of mutual interest, and petition one another for information.
- These bulletin boards are public forums that encourage open communication between users.
- eBay also encourages open and honest communication between the community and the company.
- Frequently, the members of the community organize grass-root movements to improve the environment in which they work and play.
- More than 60 million auctions have been completed on eBay since its inception.
- The figure describes the eBay model.



- The key to eBay's success is the trust between the buyers and sellers (who make up the eBay community), and the trust between the user and eBay (the company).
- To overcome hesitancy that is sometimes associated with Internet commerce, eBay invented the industry's first electronic information exchange exclusive to one-to-one trading, the **Feedback Forum**.

How Does One Bid?

- First, the user needs to register as an eBay member. The registration is free and takes only a couple of minutes.
- The user can then enter the auction field using his id and password.
- The person has to carefully look for what he is bidding on.
- Consider, for example, an item which costs \$20.00.
 - Enter the maximum bid in the bid box at the bottom of the page.
 - Then click on the "Review Bid" button.
 - eBay will now bid on behalf of the person, up to his maximum bid.
 - The credit card should be placed on file with eBay.
 - The seller, for his part can sit back (after entering his id and password) and watch the auction.

- **Security.** You can instantly check the reputation or business practices of anyone at eBay.
- The **Feedback Forum** is a place where users leave comments about each other's buying and selling experiences at eBay.
 - A bidder checks his seller's Feedback Profile, before he places a bid, to learn about the other person's reputation with the previous buyers.
 - If a person is a seller, he follows the same procedure with the bidders.
- Every eBay purchase is **covered by insurance**, free of charge under the terms of eBay's program.
 - If a person paid for an item and did not receive it (or if he has received the item in a form unlike what was described earlier), eBay will reimburse buyers up to \$200, less the standard \$25 deductible.
- An **escrow service** – **provides added security** to both the **buyer** and the **seller**, in transactions involving **expensive items**.
 - eBay's escrow partner – **i-Escrow**, will **hold the payment** and send it to the seller **only after the merchandise has been inspected and given approval** by the **buyer**.
 - The seller also is given the opportunity to inspect and approve a returned item before the buyer gets the **refund**.

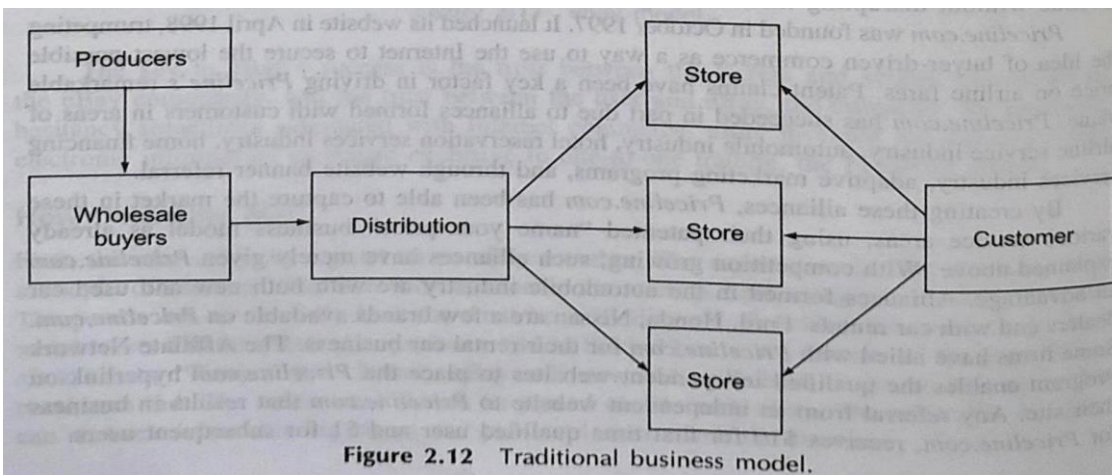
Reverse Auction

- The **reverse auction** business model is described on the Priceline website.
- Priceline.com has pioneered **a unique type of e-commerce** known as a "**demand collection system**" that **enables consumers to use the Internet to save money on a wide range of products and services** while **enabling sellers to generate incremental revenue**.
- Using a simple and compelling consumer proposition—"**name your price**", they **collect consumer demand** (in the form of individual customer offers **guaranteed by a credit card**) for a particular product or service at a price set by the customer and communicate that demand directly to participating sellers or to their private databases.
- **Consumers agree to hold their offers open for a specified period of time to enable Priceline.com to fulfill their offers from the inventory provided by the participating sellers.**
 - The fulfilled offers generally cannot be cancelled.
- **By requiring consumers to be flexible with respect to brands, sellers and/or product features, they enable sellers to generate incremental revenue without disrupting their existing distribution channels or retail pricing structures.**
- Priceline.com was founded in October 1997.
- Priceline's competitive advantage lies in its "**name your price**" business model.
- The model is fundamentally different from any other form of electronic commerce and it seems to revolutionize the way people shop for products.
- Patent claims have been a key factor in driving Priceline's remarkable value.
- It is the **world's first buyer-driven commerce system**, and **benefits both consumers and sellers by providing a unique platform where demand and supply meet.**
- It launched its website in April 1998, trumpeting the idea of **buyer-driven commerce** as a way to use the Internet to secure the lowest possible price on airline fares.
- Priceline.com has succeeded in part due to alliances formed with customers in areas of airline service industry, automobile industry, hotel reservation services industry, home financing services industry, adaptive marketing programs, and through website banner referral.
- By creating these alliances, Priceline.com has been able to capture the market in these various service areas, using their patented "name your price" business model.

- With competition growing, such alliances have merely given Priceline.com an advantage.
 - Priceline.com has adaptive marketing programs with numerous companies.
 - Alliances formed in the automobile industry are with both new and used car dealers and with car rentals.
 - Ford, Honda, Nissan are a few brands available on Priceline.com.
 - Some firms have allied with Priceline.com for their rental car business.
 - These programs facilitate a revenue stream based on a referral basis.
 - Any referral from an independent website to Priceline.com that results in business for Priceline.com, receives \$10 for first time qualified user and \$1 for subsequent users.
- There are also third-party participators who enable Priceline.com to thrive.
- These third parties are indirect alliances.
- Priceline.com depends on the use of the third party's computer systems.
- Some of these computer systems include: the central computer system for hotel and airline reservations, Lending Tree Inc. for home financing, Exodus Communication for infrastructure, Web and database servers, and CallTech Communications Inc. for call centre.
- Priceline.com's major sources of revenue are derived from the following areas:
 - Airline ticket reservation services
 - Hotel ticket reservation services
 - New auto purchasing
 - Home financing, including mortgages, refinancing, and equity loans
 - Adaptive marketing programs
 - Licensing patents

2. Aggregator Model

- Classic wholesalers and retailers of goods and services are increasingly referred to as "e-tailers".
- Sales can be made based on list prices or through auctions.

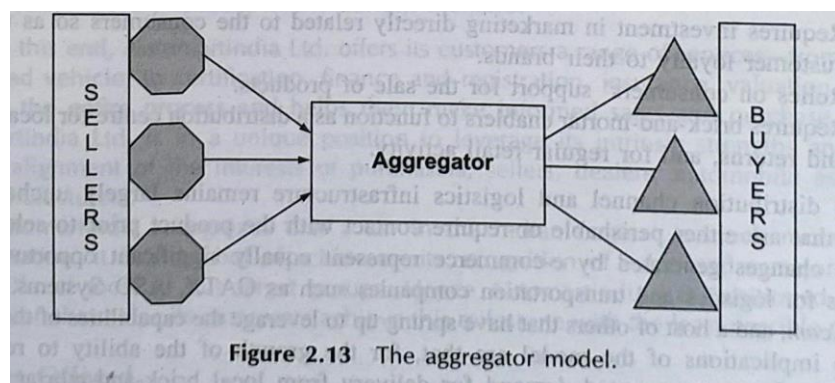


- Following are some of the aggregator models:
- 1. **Virtual merchant.** This is a business that operates only from the Web and offers either traditional or Web-specific goods and services.
 - The method of selling may be by list price or auction.
 - An example of a service merchant is Facetime, which calls itself an "application service provider".
 - It offers live customer support for e-commerce websites (e.g. Amazon, eToys, Eyewire and OnSale).

2. **Catalogue merchant.** Catalogue merchant is the migration of mail order to a Web-based order business (e.g. Levenson).
3. **Surf-and-turf.** This is a traditional brick-and-mortar establishment with Web storefront.
 - The model has the potential for channel conflict.
4. **Bit vendor.** This is a merchant that deals strictly in digital products and services and, in its purest form, conducts both sales and distribution over the Web.
5. **Subscription model.** In this, the users pay for access to the site. High value-added content is essential (e.g. WallSt. Journal, ConsumerReports).

What Do Aggregators Do?

- Based on the electronic marketplace, the aggregator model bypasses distributors so that the buyers and sellers come together.
- The aggregators are the connectors between the sellers and the buyers.
- They are involved in the overall process of
 - Selection,
 - organization,
 - matching the buyers' requirement with the particulars of the available goods,
 - fulfilment of the orders and
 - Enabling the customers to create a value about the sellers.



- There are **four types of aggregators** such as the following:
1. **Content aggregators.** They are among the first large-scale sites on the Web and mostly represent large publishing companies, e.g. Pathfinder.com.
 - Their basic challenge is that content has to be attractive enough to make the site viable.
 - For example, CANOE and Hockeyplus, that provide extensive statistics, analysis, pool information or cricinfo.com
 2. **Mainstream aggregators.** These include sites like Yahoo providing a Web directory and a search engine, along with a bunch of attractive tools like e-mail addresses, home pages, reminders, and many others.
 - The most attractive feature of these sites is that they have an 'easy-to-remember' URL which is one of the reasons for them to be the top traffic sites on the Web.
 3. **Event aggregators.** These are sites that provide in-depth content and tools tailored to the needs of a particular group, which doubles as a clearly defined customer base.
 - For example, mortgages—build tools, rates, advise, and the ability to purchase a mortgage online in the same place (Microsoft's HomeAdvisor or HomeShark)
 4. **Shopping aggregators.** Shopping aggregators let consumers roam through hundreds of sites and catalogues and find the best price in seconds. They help consumers sift through dozens of e-

commerce sites. For example, compare.com and bizrate.com evaluate their quality on independent basis as in the case of consumer reports.

- E-commerce is forcing changes in the distribution channels that require all parties (manufacturers, distributors, retailers, consumers and logistics companies)
 - To evaluate their value proposition and develop capabilities that will meet the evolving demands of the Internet age.

The capabilities needed for this model are:

- Greater investment in the brick-and-mortar infrastructure.
- Handling of inbound freight for finished goods.
- Management of a more traditional distribution network with truckload and less-than-truckload deliveries to local distribution centres.
- Optimization of stores to support customer visits to view new products and to handle exchanges and returns.
- Integration of the existing retailers with the online channel for sales, to e-consumers.
- Handling the same-day delivery of goods and pickup returns.

3. Info-mediary Model

- An organiser of virtual community is called an information intermediary or infomediary, who helps sellers to collect, manage, and maximize the value of information about consumers.
- A major Internet business model, the infomediary model is characterized by the capture and/or sharing of information.
- The simplest form of an infomediary model is the registration model.
 - In this scenario, companies require users to register before gaining access to information on their Web sites, even if the information itself is provided at no charge.
 - Registration is a condition for viewing or downloading the articles, so the company can capture contact-information and other data from the interested party and use it to make sales calls and potentially acquire new clients for its consultants.
- Data about consumers and their buying habits are extremely valuable, especially when that information is carefully analysed and used to target marketing campaigns.
- They are information business, implying that they compete on their ability to capture and manipulate information in a manner that adds value for their clients who could be sellers or buyers.

Classification of infomediaries

- Infomediaries can be classified on the basis of their relationship with sellers and buyers into four types:
 1. **Specialize agents.** These infomediaries usually manage a specialized market.
 2. **Generic agents.** These infomediaries maintain open relationship with both buyers and suppliers and involve no relationship-specific investment. They create value through their comprehensive and unbiased service, often generating revenue from advertising.
 3. **Supplier agents.** They are sponsored either by specific companies with a vested interest in selling their products or by close affiliation to the core group of sellers.
 4. **Buyer agents.** They establish relationship with a core set of buyers, working on their behalf and any number of suppliers.

4. Community Model

- The e-communities are formed when groups of people meet online to fulfil certain needs or serve their common interest, exchange information, share interests, trade goods and services, entertain and seek help.
- The community model is a method of developing an online presence in which several individuals or groups are encouraged to join and participate in ongoing interaction designed around a common purpose.
- Web communities, or virtual communities, are not only a way for like-minded people to come together online, they also are an increasingly important element of business plans.
- Communities utilize electronic tools such as forums, chat rooms, e-mail lists, message boards, and other interactive Internet mechanisms, which are usually tailored to the particular community.
- The community model comes in two basic varieties: those centered on relationships and those centered on tasks.
- Those centered on relationships – The former typically are informal, grassroots-oriented communities that revolve around shared interests, ideas, topics, and goals.
 - In these communities, the development of relationships is the primary goal.
 - To maximize member involvement, community sites must offer maximum degrees of interactivity and personalization.
 - For example, GeoCities offers space and tools for members to set up their own Web sites and establish virtual communities within the broader GeoCities community.
- Those centered on tasks – Task-centered communities generally are more structured and impersonal.
 - The relationships established or augmented online are a means to a mutual end, such as enhanced profits.
 - More specifically, web communities are established between business partners, between businesses and their customers, between different groups of customers, within companies, and between individuals and groups devoted to particular topics.

Necessary Elements for the Community Model

1. A clear focus for the community that makes sense to prospective members.
2. The requisite technical capability through your own software and hardware or a free service.
3. A proper structure, guidelines, and parameters for the discussion to keep the group on target.
4. A moderator responsible for each group or list.
5. A clear strategy on how the community will benefit your business. Since communities care a lot for maintenance, it has to achieve something to make it worth your while

5. Value Chain Model

- Value chain moves businesses away from discrete streams of data about the product being made – to one unified pool of information—one that even extends outside the company to suppliers and customers.
- The goal is to develop full and seamless interaction among all members of the chain, resulting in lower inventories, higher customer satisfaction, and shorter time to the market.

1. Generalized Portal: AltaVista as a Value Chain Model

- AltaVista Company is the premier knowledge resource on the Internet.
- With its strong search engine tool and patented technology, AltaVista opens up avenues in the maze of Internet to the richest and the most relevant information on any subject from any nook of

the Web world, Web pages, shopping, up-to-the-minute news, live audio and video, and community resources.

→ By capitalizing on the unique Web-wide features and services, the AltaVista network provides a distinct Internet experience through multiple integrated platforms, as in the following:

1. AltaVista search. The world's fastest, most comprehensive search service available in 25 languages with 8 distinct search dimensions.
2. AltaVista shopping.com. The first Web-wide comparison-shopping service on the internet, providing objective price and product comparison features to help users make intelligent purchasing decisions.
3. AltaVista live! The only real-time, customizable content source on the Web, linking content channels on topics such as money, news, sports, entertainment, and more.
4. AltaVista raging bull. The Web's stickiest site, which has the Web's most active community of message boards, with an emphasis on finance.
5. AltaVista free access. One of the fastest growing ISP services in the world, with over 2 million registered users in the US and Canada.
6. AltaVista international. Currently over half of its traffic comes from outside the US. To further encourage this growth, AltaVista has recently created local sites in France, Germany, Italy, the Netherlands, Sweden, and the UK.
 - The portal gives the website owner access to online traffic reporting through Reporting.net site.
 - With reports available at any time, the owner can assess how effectively his affiliate network site is marketing AltaVista's products.

2. **Personalized Portal:** My Yahoo! As a Value Chain Model.

→ Some of the topics that Yahoo offers are:

1. Pick your weather cities
2. Track your stock quotes
3. Read your choice of news
4. Find local movie Showtime
5. Follow your favourite sports team

6. The manufacturer or Direct model

- The manufacturer or direct model – It is predicated on the power of the web to allow a manufacturer (i.e., a company that creates a product or service) to reach buyers directly and thereby compress the distribution channel.
- The manufacturer model can be based on efficiency, improved customer service, and a better understanding of customer preferences.
- **Purchase** -- the sale of a product in which the right of ownership is transferred to the buyer.
- **Lease** -- in exchange for a rental fee, the buyer receives the right to use the product under a "terms of use" agreement. The product is returned to the seller upon expiration or default of the lease agreement. One type of agreement may include a right of purchase upon expiration of the lease.
- **License** -- the sale of a product that involves only the transfer of usage rights to the buyer, in accordance with a "terms of use" agreement. Ownership rights remain with the manufacturer (e.g., with software licensing).

- **Brand Integrated Content** -- in contrast to the sponsored-content approach (i.e., the advertising model), brand-integrated content is created by the manufacturer itself for the sole basis of product placement.

7. Advertising Model

- The Web advertising model is an extension of the traditional media broadcast model.
- The broadcaster (Website) provides **content** (usually for free) and **services** (like e-mail, chat, forums) along with **advertising messages** in the form of **banner ads**.
- The banner ads may be the major source of revenue for the broadcaster.
- The broadcaster may be a 'content creator' or a 'distributor' of content created elsewhere.
- The advertising model only works when the volume of viewer traffic is large or highly specialized.
- Advertising-driven sites are currently one of the cornerstones of e-commerce.
- The principle is simple and well known.
 - A site offers free access to something and shows advertisements on every page.
 - When a user clicks on an advertisement, he goes to an advertiser's page.
 - The advertiser pays the site operator for showing his advertisement (eyeballs) or for every time someone clicks on the advertisement (click-through).

Web Pricing Models

1. CPM or impression only (sets cost-per-thousand of guaranteed ad views)
2. Click-through (the advertiser pays based on the number of times the banner is clicked by a user)
3. Sponsorships (package deals of impressions and click-throughs)
4. Cost-per-lead (the advertiser pays when a viewer registers or submits personal information)
5. Cost-per-sale (agreed upon charge for the viewers who actually purchase a product or service based on the ad)
6. Straight revenue sharing deals (the publisher receives a commission which is paid upon sale from an ad)

Types of Advertising on the Internet

1. Portals. A search engine that may include varied content or services.
 - A high volume of user traffic makes advertising profitable and permits further diversification of site services.
 - A personalized portal allows customization of the interface and content to user. Example: Yahoo
2. Classifieds. Lists items for sale or wanted for purchase.
 - Listing fees are common but there also may be a membership fee. Example: Monster.com
3. User-based registration. Content-based sites that provide free access to users but require the user to submit demographic details by registration. Example: NYTimes Digital
4. Query-based paid placement. Sells favourable link positioning (i.e. sponsored links) or advertising keyed to particular search terms in a user query. Example: Google
5. Contextual advertising. Freeware developers who bundle ads with their product. For example, a browser extension that automates authentication and form fill, installs delivers advertising links or pop-ups as the user: surfs the Web. Example: eZula.

8. Subscription Model

- Users are charged a periodic (daily, monthly, or annual) fee to subscribe to a service.
- It is common for sites to combine free content with "premium" (i.e. subscriber or member only) content.
- Subscription fees are incurred irrespective of actual usage rates.
- Subscription and advertising models are frequently combined.
- **Content Services** provide text, audio, or video content to users who subscribe for a fee to gain access to the service. Example: Netflix.com
- **Person-to-Person Networking Services** are conduits for the distribution of user-submitted information, such as individuals searching for former schoolmates. Example: Classmates.com
- **Trust Services** come in the form of membership associations that abide by an explicit code of conduct, and in which members pay a subscription fee. Example: Truste.com
- **Internet Services Providers** offer network connectivity and related services on a monthly subscription. Example: America Online.
- The organization makes money on the basis of membership/subscription.
- Some popular topics of Subscription model are:
 - Existing newsletter topics
 - Trade associations

9. Affiliate Model

- The affiliate (or click-through) model is a popular e-commerce relationship in which an online merchant agrees to pay an affiliate in exchange for providing an advertisement and link to the merchant's site.
- The affiliate model provides purchase opportunities wherever people may be surfing.
- It does this by offering financial incentives (in the form of a percentage of revenue) to affiliated partner sites.
- Each sale generated as a result of a customer "clicking through" from an affiliate to the merchant results in a small commission for the affiliate.
- The deal provides a stream of cash to affiliates and brings the merchant, which owns the affiliate network, a host of new traffic, cutting customer-acquisition costs and allowing it to target its desired audience.
- The affiliate model is inherently well-suited to the web, which explains its popularity. Variations include banner exchange, pay-per-click, and revenue-sharing programs.
- **Banner exchange.** It trades banner placement among a network of affiliated sites.
- **Pay-per-click.** It is the site that pays affiliates for a user click-through.
- **Revenue sharing.** It offers a per cent-of-sale commission based on a user click-through in which the user subsequently purchases a product.
- The affiliate saves the expense of handling inventory, advertising and promoting the product, and processing the transaction. In fact, the affiliate risks no funds whatever.
 - Cdnnow.com and amazon.com were two of the first companies to create successful affiliate programs on the Web.
 - CDnow's Web Buy program, which includes more than 250,000 affiliates, is one of CDnow's main sources for new customers.
 - The amazon.com program has over 400,000 affiliate sites.