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Think Note 1: Multi-Sided Markets

 HARVARD | BUSINESS | SCHOOL
WORKING KNOWLEDGE

New Research Explores Multi-Sided Markets

Q&A with: Andrei Hagiu
Published: March 13, 2006
Author: Sean Silverthorne

Andrei Hagiu is on the vanguard of a new field of business research that explores the dynamics of multi-sided markets. Although these markets have been around a long time, they have not really been recognized as entities unique from other markets; research into multi-sided markets only began a few years ago.

Most markets are one-sided in nature—customers interested in buying running shoes, for example. But a multi-sided market involves more players—and each has its own interests to be served. Multi-sided markets are also interdependent. Hagiu, an assistant professor at Harvard Business School, defines these multi-sided markets as platforms that serve two or more distinct groups of customers who value each other's participation. Examples: eBay provides markets for both buyers and sellers, dating club clients are both men and women, shopping malls serve both retailers and shoppers, and operating system companies need both end-users and application developers. Increasingly, thanks in large part to technology and the Internet, multi-sided markets are becoming more common.

But how do they work? What are effective strategies for players in these markets? Below, Hagiu discusses his research into this emerging field and its implications for executives. . .

Q : Can you think of examples of MSP ?

IDSC 4441

Electronic Commerce

WEEK 1 -> CLASS 1 -> INTRODUCTION

[PROBAL MOJUMDER](#)

SEPTEMBER 3RD, 2014

What is E-Commerce

Use of Internet and Web to transact business

More formally:



- **Digitally enabled commercial transactions between and among organizations and individuals**

Focus of this class

This class focuses on **business models** of E-commerce

We will mainly focus on synthesis and application these concepts and models.

- Your class participation
- Your home works
- Your final project



Syllabus

Assignment Type	Percentage	More Information
Attendance	5 %	At the beginning of the class, we will use Moodle to take attendance.
Participation	15%	<ul style="list-style-type: none"> - Class discussion; - Moodle discussion forum participation; - Moodle question forum participation; - Office hour's discussion (I expect each of you to attend at least 1 office hour meeting set up to discuss your progress and opinions).
Homework 1	10 %	1 page write up length.
Homework 2	10 %	1 page write up length.
Homework 3	20 %	2 to 3 page write up length.
Group Project Presentation	15 %	I will send you a grading rubric as a separate document.
Group Project Final Report	25 %	I will send you a grading rubric as a separate document.
Total	100 %	

Week	Date	Day	Topic	Assignment	Due	
					Homework	Group Project
1.	Sep 3	Wed	Course Overview			
2.	Sep 8	Mon	E-Commerce Business Models and Concepts (Reading – Chapter 2)	HW1 (after class)		Group List
	Sep 10	Wed				
3.	Sep 15	Mon	E-Commerce Marketing Concepts (Reading – Chapter 6)	HW2 (after class)	HW1 (before class)	Project Topic
	Sep 17	Wed				
4.	Sep 22	Mon	E-Commerce Marketing Communications (Reading – Chapter 7)		HW2 (before class)	Project Outline
	Sep 24	Wed				
5.	Sep 29	Mon	Online Retailing & Services (Reading – Chapter 9)	HW3 (after class)		
	Oct 1	Wed				
6.	Oct 6	Mon	Online Content and Media (Reading – Chapter 10)		HW3 (before class)	
	Oct 8	Wed				
7.	Oct 13	Mon	Group Project Discussion			
	Oct 15	Wed	Group Project Presentation			Project Presentation
8.	Oct 20	Mon	Group Project Presentation			Project Presentation; Final Project Draft

8 unique Features of E- Commerce

1. Ubiquity
2. Global Reach
3. Universal Standards
4. Information Richness
5. Interactivity
6. Information Density
7. Personalization
8. Social Technology



Types of E-Commerce: Using Web 2.0

- B2C
 - B2B
 - P2P
 - Social e-commerce
 - Mobile e-commerce
 - local e-commerce
 - Augmented Reality
 - Virtual Reality
- 

Think Note 2: Virtual Worlds

FT.com COLUMNS
NEW TECHNOLOGY POLICY FORUM

Economics 2.0? A business primer on virtual worlds Print

By Eli Noam
Published: October 2 2007 16:22 | Last updated: October 2 2007 16:22

In August 2007, the digital world experienced a first: a genuine [run on a bank](#) located on the “[virtual world](#)” Second Life. As depositors rushed to withdraw their funds from the shadowy Ginko Financial, their predicament drew [much attention](#). But far from identifying it as a calamity, to many commentators it confirmed the faithfulness of the computer simulation: after all, the real world had long experienced insolvencies, too.

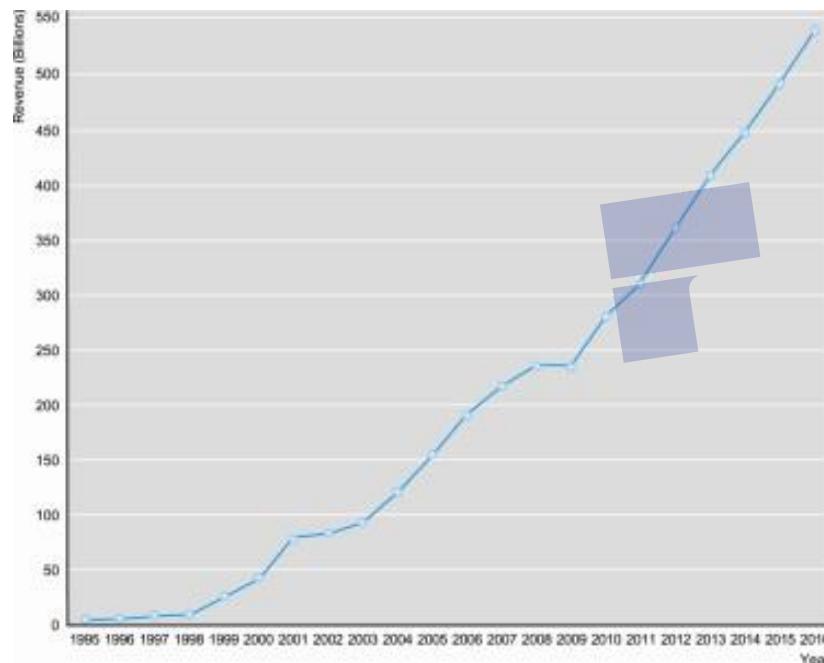
But one can also see this collapse as a test of the economic reality behind the booming “[Web 2.0](#)”, the trendy but vaguely defined set of digital operations centred on interactive and collaborative activities. Web 2.0 has brought a new lease on life to the gold rush wing of the digital economy. It is easy to accept that the new activities are exciting sociologically, aesthetically, and culturally. But are they, this time around, also a business?

Because Web 2.0 is such a vague and sprawling concept, let’s focus on one of its flagships, virtual worlds. One consulting group optimistically forecast that 80 per cent of internet users by 2011 will spend time in a virtual world. After major business magazines featured the largest of them, Second Life, on their cover, nobody, it seemed, wanted to [be left behind](#) in the old first world. Reuters established a news bureau on the site. The Swedish government built an [embassy](#). Congressmen gave virtual speeches.

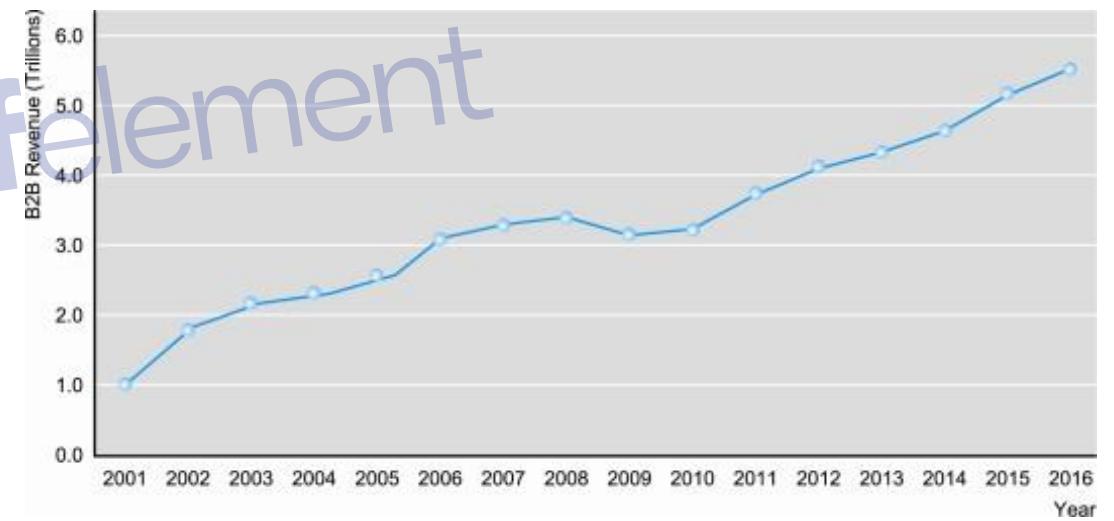
But can this virtual world sustain itself economically? Or is it fundamentally a high-tech Ponzi scheme in which early participants reap the benefits from later arrivals? There are at least seven business models in a virtual world:

Q: Are virtual worlds still in game?
- Any new examples?

Growth of E-Commerce



B2C



B2B

Ending Thoughts: Social Experiments

June 30, 2013 1:59 PM IST
Furor Erupts Over Facebook's Experiment on Users

By David Weisglass



A social-network furor has erupted over news that Facebook Inc., in 2012, conducted a massive psychological experiment on nearly 700,000 unwitting users.

To determine whether it could alter the emotional state of its users and prompt them to post either more positive or negative content, the site's data scientists enabled an algorithm, for one week, to automatically omit content that contained words associated with either positive or negative emotions from the central news feeds of 689,003 users.

The research, published in the March issue of the Proceedings of the National Academy of Sciences, sparked a different emotion—outrage—among some people who say Facebook toyed with its users' emotions and used members as guinea pigs.

"What many of us feared is already a reality: Facebook is using us as lab rats, and not just to figure out which ads we'll respond to but actually change our emotions," wrote Animalnewyork.com, a blog post that drew attention to the study Friday morning.

Facebook has long run social experiments. Its Data Science Team is tasked with turning the reams of information created by the more than 800 million people who log on every day into usable scientific research.

On Sunday, the Facebook data scientist who led the study in question, Adam Kramer, said he was having second thoughts about this particular project. "In hindsight, the research benefits of the paper may not have justified all of this anxiety," he wrote on his Facebook page.

*Q: What's your view on large scale experiments
on real people?*

*Q: Will you support e-commerce websites
like Amazon, to carry out experiments on its customers?*



E-Commerce Business Models & Concepts

WEEK 2 -> CLASS 1 -> KEY ELEMENTS OF E-COMMERCE BUSINESS MODELS

PROBAL MOJUMDER

SEPTEMBER 8TH, 2014

8 Key Elements

1. Value Proposition
2. Revenue Models
3. Market Opportunity
4. Competitive Environment
5. Competitive Advantage
6. Marketing Strategies
7. Organizational Development
8. Management Team

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Value Proposition

1



2

Amazon
Prime
Air

Question:

Why should the customer spend on Amazon Prime?

Revenue Model

Different membership options

ancestry.com

Start exploring the world's largest online family history resource today.

Choose a membership to get started:

	Monthly membership	6-month membership	
U.S. Discovery Access all U.S. records on Ancestry.com	\$19.99	SAVE \$20 \$99	
World Explorer Access all U.S. & international records on Ancestry.com	\$34.99	SAVE \$60 \$149	
NEW World Explorer Plus Access all records on Ancestry.com, Newspapers.com & Fold3.com	\$44.99	SAVE \$70 \$199	

Get Started

Subscribe or cancel any time by calling 1-800-ANCESTRY
(7 days a week, 9am-11pm ET)

Different Subscription Fees ↑

Types

1. Subscription
2. Advertising
3. Transaction Fee
4. Sales
5. Affiliate

Revenue Model

Can you guess the revenue models?

Types

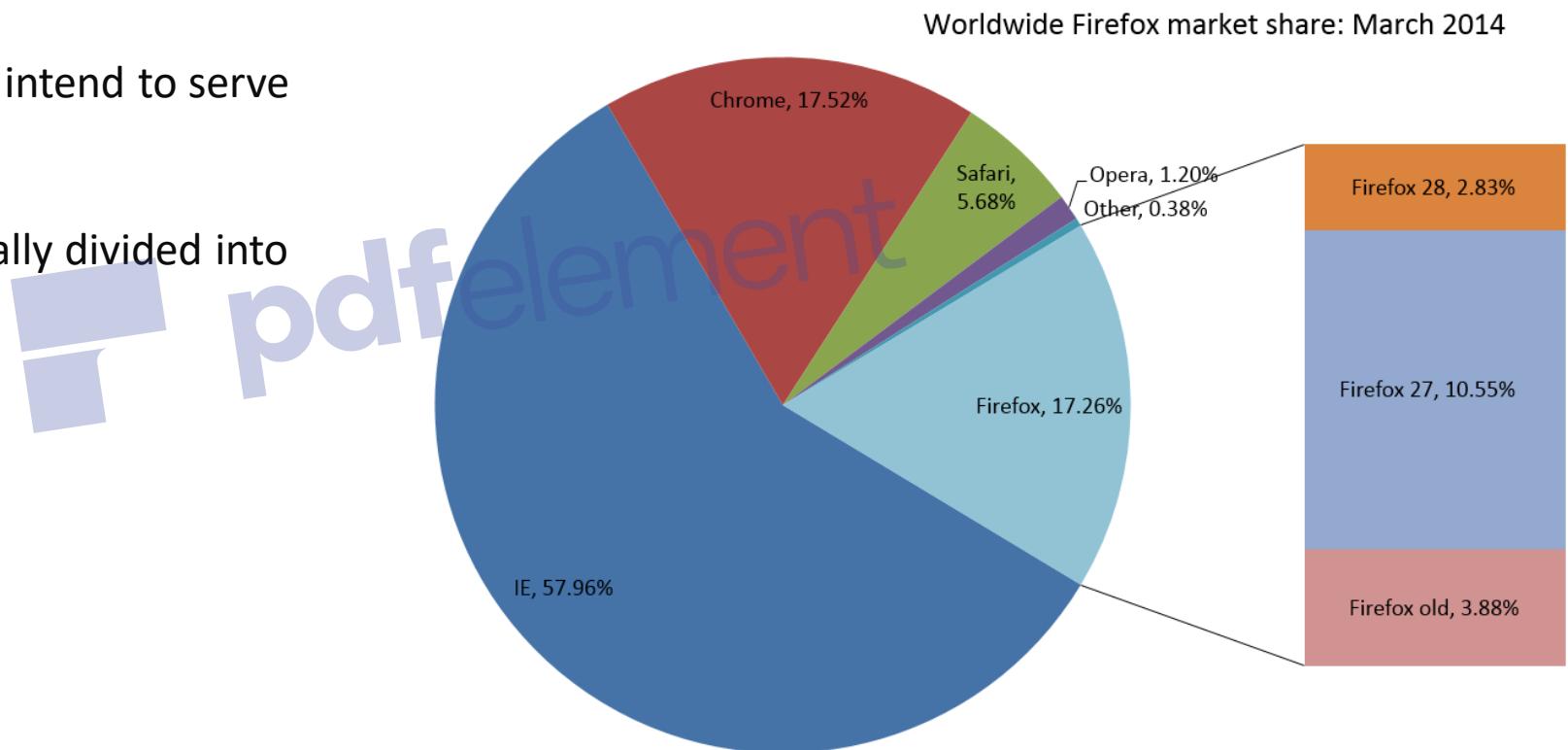
1. Subscription
2. Advertising
3. Transaction Fee
4. Sales
5. Affiliate



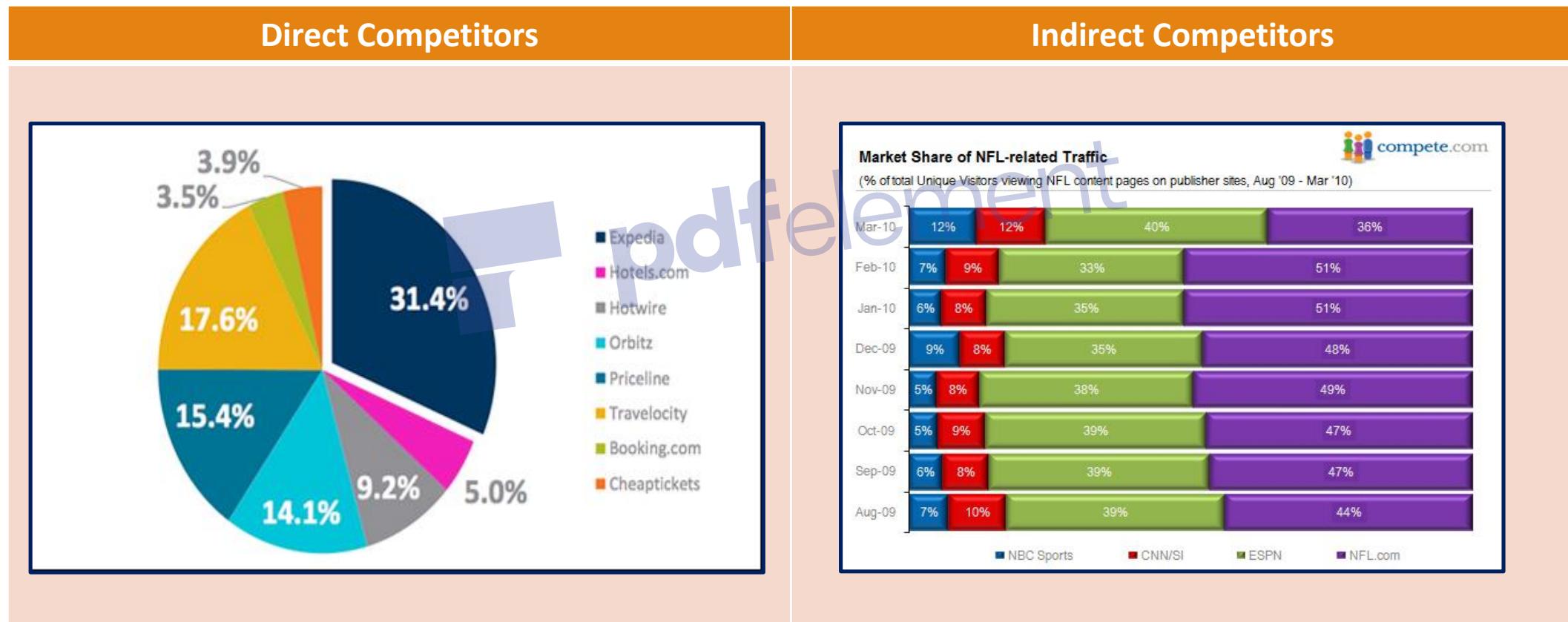
Business	Revenue Model
Yahoo.com	
Dropbox	
iTunes	
Pandora	
Match.com	
eBay	
Netflix	
Amazon	

Market Opportunity

- “What marketspace do you intend to serve and what is its size?”
- Market opportunity is typically divided into smaller niches

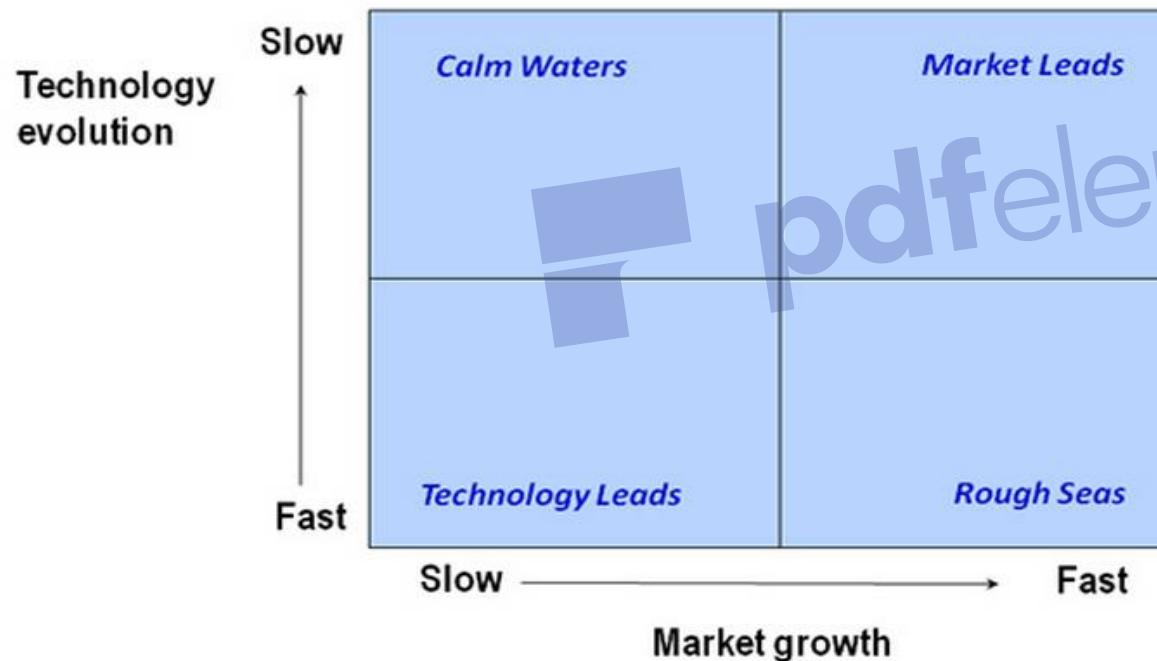


Competitive Environment



Competitive Advantage

First Mover Advantage Framework



Some very successful companies adopt a “**Fast Follower**” approach, whereby they wait to see how the pioneer does, then enter avoiding their mistakes before they have acquired unstoppable momentum

Think Note 1: Groupon Business Model

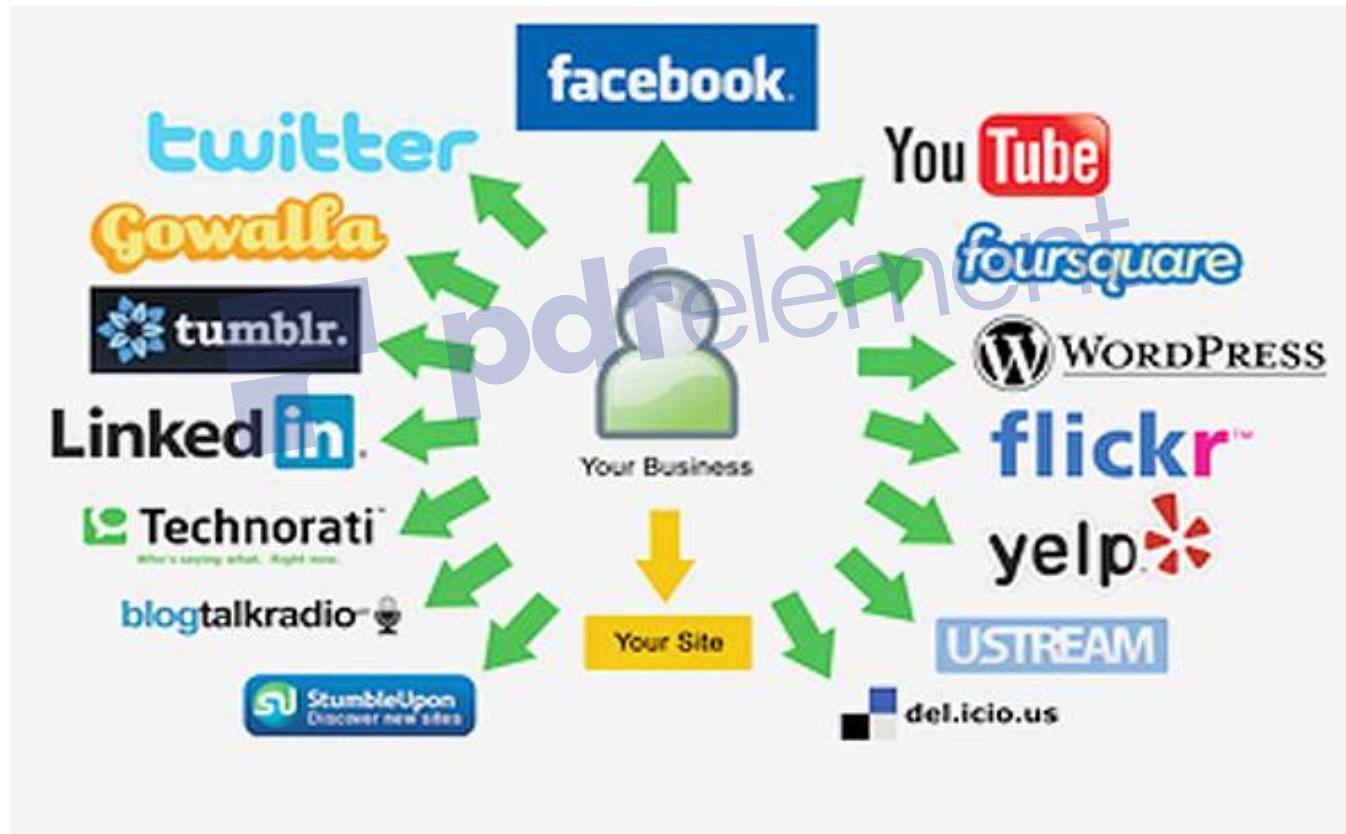
UNDRESSING Groupon An Analysis of the Groupon Business Model

Ahmadali Arabshahi
December 16, 2010

Questions

- Value Proposition ?
- Revenue Model ?
- Market Opportunity ?
- Competitive Environment ?
- Competitive Advantage ?

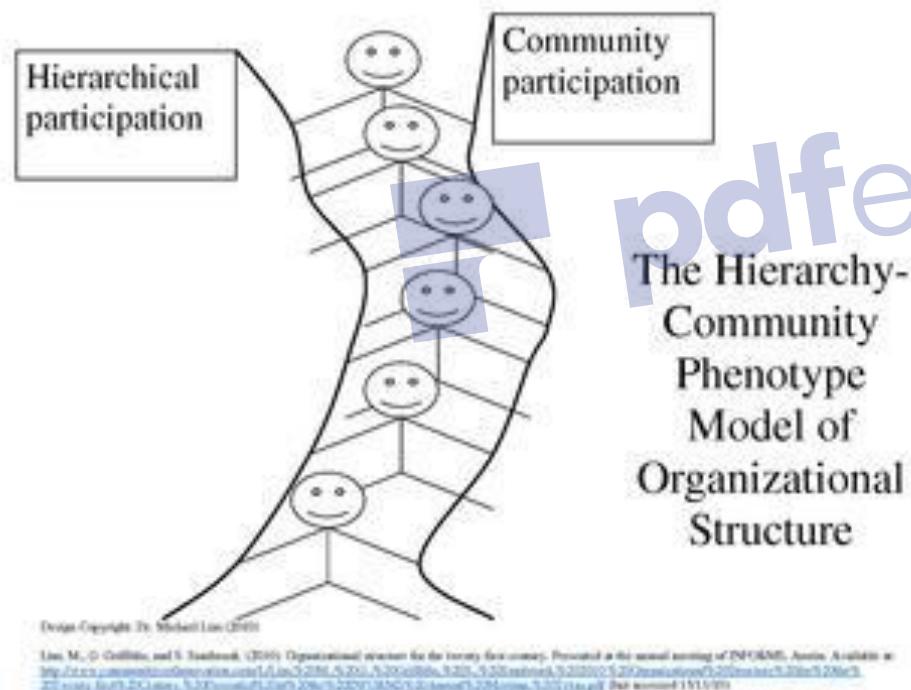
Marketing Strategy



Social Media Marketing Strategy

Organizational Development

All firms need an organization to efficiently implement their business plans and strategies



*The firm of the 21st century is not just a **hierarchy** which ensures maximum efficiency and profit; it is also the **community** where people belong to and grow together, where their affective and innovative needs are met.*

Management Team

*All firms need the **team** to efficiently implement their business plans and strategies*



E-Commerce Business Models & Concepts

WEEK 2 -> CLASS 2 -> B2C AND B2B

PROBAL MOJUMDER

SEPTEMBER 10TH, 2014

Agenda

Part 1

We categorize business models according to major E-commerce sectors:

1. **Business-to-Consumer (B2C) E-commerce:** The connection between online business and individual consumers. (This is the most well known type.)
2. **Business-to-Business (B2B) E-commerce:** The connection between a single business supplier and a single business purchaser. (It is more than 10 times the size of B2C.)

Part 2

Role of internet and web toward E-commerce.

(How the internet has changed the business environment in the last decade?)

Business-to-Consumer (B2C) Business Models

1. **E-tailers:** They are online retail stores. (They operate mainly in the virtual world or as “bricks-and-clicks” stores.)
2. **Community Provider:** They are sites for like-minded people to meet and converse. (like Facebook, LinkedIn, Twitter, etc.)
3. **Content Provider:** They distribute information content over the web.
4. **Portal:** They offer web search tools, as well as content and services. (like Yahoo, MSN, AOL, etc.)
5. **Transaction Broker:** These sites process transactions for consumers. (like Monster.com)
6. **Market Creator:** They build a digital environment where buyer and sellers can transact. (like eBay)
7. **Service Provider:** They offer services online. (like photo sharing, video sharing, etc.; Example Youtube)

Question 1: Which one is your personal favorite?

E-Tailer

Scope: Retail market in US in 2012 is estimated to be around \$3.7 trillion.

Revenue Model: It is product based, where customer pay for the purchase of an item.

Competitive Environment: Extremely competitive. There is very low barrier to entry. Thus, e-tailers face challenge in differentiating their business.

Strategy: E-tailers can use niche strategy to get business.

More Info: Week 5

Question 2: How is e-tailers penetrating in global markets, say in Asia Pacific?

Types	
Virtual Merchants	Brick-and-Clicks
iTunes	JCPenney
blue nile® Since 1999	BARNES & NOBLE BN.com
drugstore.com® the uncommon drugstore	Walmart
BLUE & FLY	STAPLES®
amazon Prime	sears SHOP YOUR WAY
	REI®

Community Providers

Value Proposition: It is a one-stop site where users can focus on their most important concerns and interests.

Revenue Model: Hybrid model with subscription fee, sales revenue, transaction fee, Freemium, advertising, etc.

Competitive Environment: Community is the fastest growing online activity.

Strategy: Community needs

- Breadth and depth of knowledge; guidance; advice,
- Experienced personnel for moderation, and
- Easy to use platforms.

Types	
Social Networking Sites	Traditional Online Communities
	
	
	
	
	

Question 3: What feature would you like have in communities?

Content Provider

Content providers distribute “**Information content**,” like text, digital video, music, artwork, etc.

Information content market: In 2012, U.S. consumers spend more than \$19 billion for online content.

Revenue Model: Subscription fee, pay per download, advertising, partner promotions, **Freemium**.

Key Strategy: It is important to own the content.

Other Strategy: To be an aggregator. Can provide post-aggregation services, like those by Shopping.com.



Pay per download



Pay per download



Advertising,
partner promotions



Advertising,
partner promotions



Advertising,
partner promotions



Subscription fee



Advertising

Question 4: What other post-aggregation services can shopping.com provide?

Portals

Today, portals are “destination” sites.

They are places where consumers do web search, read news, meet people, etc.

Revenue Model: Advertising, referral fee, and fee for premium services

Top 5: Google, Yahoo, MSN/Bing, AOL, Ask.com

Types:

- A) Horizontal Portal (like Yahoo, MSN, AOL) -> Aim at all users of the internet.
- B) Vertical Portal -> Focused on a particular subject (like sailboat market).



Transaction Brokers

These sites process transactions for consumers.

Involved Industries: Financial services, travel services, job placement services (Monster.com)

Key Issue: Many customers fear switching from offline broker to online brokers. (due to security concerns)

Revenue Model: Transaction Fee

Examples: [E*Trade](#), Ameritrade, Datek, and Schwab.



Market Creator

They build a digital environment where buyers and sellers can meet

Example: Priceline (allows consumer to set price for travel accommodations, etc), eBay (uses online auction)

Revenue Model: Commission (i.e. percentage of sales price)



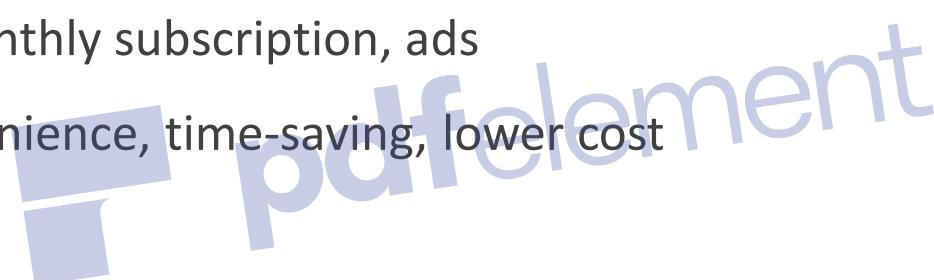
Service Provider

They offer services to customers online

Examples: photo sharing, video sharing, blogs, email service, etc

Revenue Model: Fee, monthly subscription, ads

Value Proposition: Convenience, time-saving, lower cost

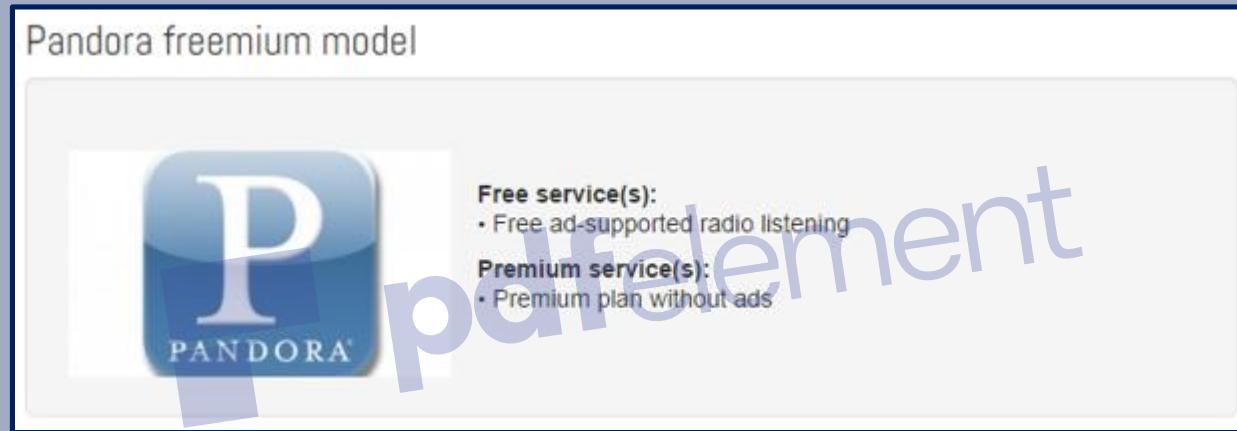


Exotic Examples: Fast-food restaurants, computer storage ([Carbonite](#)), legal services ([RocketLawyer](#)), grocery shopping ([FreshDirect](#) & [Peapod](#)) , vacation planning...



Question 5: Can you think of other examples?

Think Note 2: Pandora Case



Questions:

- Compare Pandora's original business model with its current business model. We did it shifted from full freemium to ad-supported model?
- What needs to be considered to make freemium work?
- Also, can you think of a better revenue model to improve Pandora's profits and customer base?

Business-to-Business (B2B) Business Models

- In 2012, revenue from B2B e-commerce in US was **\$4.12 trillion**.
- B2B e-commerce mainly relies on **Electronic Data Interchange (EDI)**.

Types:

1. **E-Distributor:** Companies that supply product and services directly to individual businesses. (like Grainger.com)
2. **E-Procurement:** These firms create and sell access to digital electronic markets. (like Ariba. It provides software to help firm's organize their procurement process.)
3. **Exchanges:** It is an independent digital electronic marketplace where suppliers meet purchasers. They make money by charging a commission or fee.
4. **Industry Consortia:** They are industry-owned vertical marketplaces that serve industries, like automobile, chemical, etc. Vertical marketplaces supply a smaller number of companies with specific products.
5. **Private Industrial Networks:** They consist of 75% of all B2B expenditures. They help coordinate communication among firms of similar nature. (example is ERP systems)

Role of Internet and Web toward E-Commerce

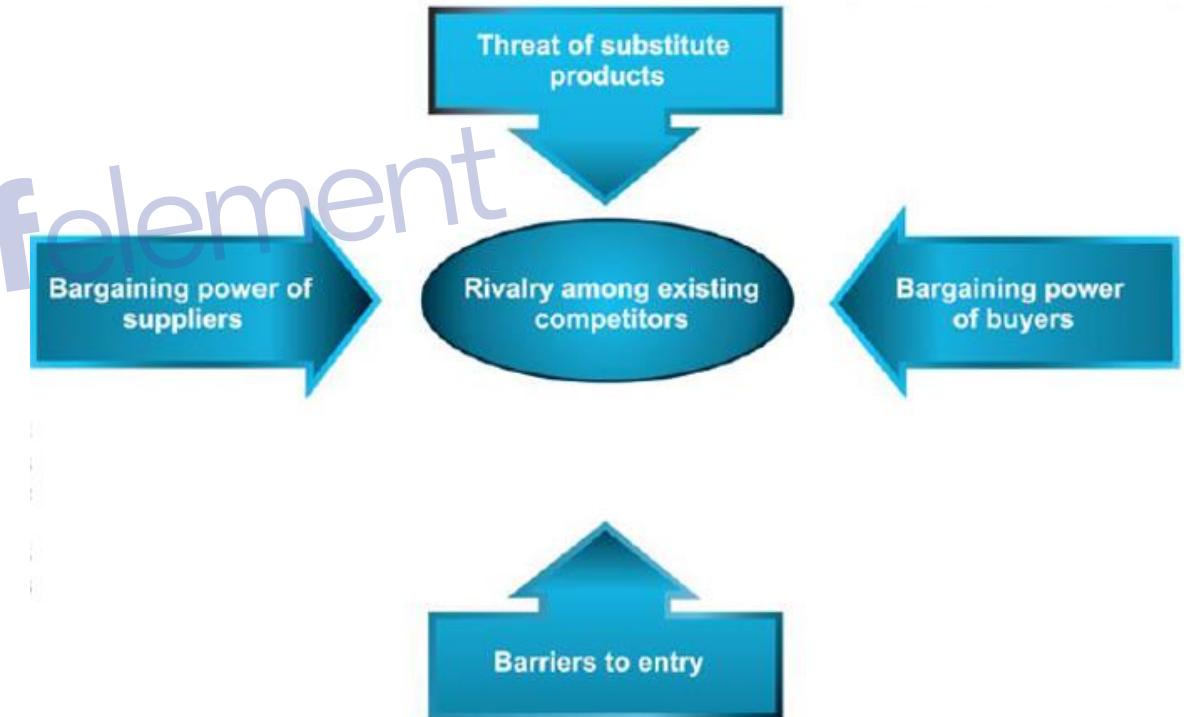
E-commerce changes industry structure.

(Industry structure is the general business environment in the industry)

Key Pillars:

1. Price Competition
2. Barrier to Entry
3. Bargaining Power (Seller Side)
4. Bargaining Power (Buyer Side)
5. Product Substitution

How E-commerce Influences Industry Structure



Question 6: On which of the 5 pillars the influence of E-Commerce is highest?

Next Week

- Chapter 6: E-Commerce Marketing Concepts.
- Don't miss to read the cases in Chapter 6.



E-Commerce Marketing Concepts

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WEEK 3 -> CLASS 1 -> SOCIAL MARKETING

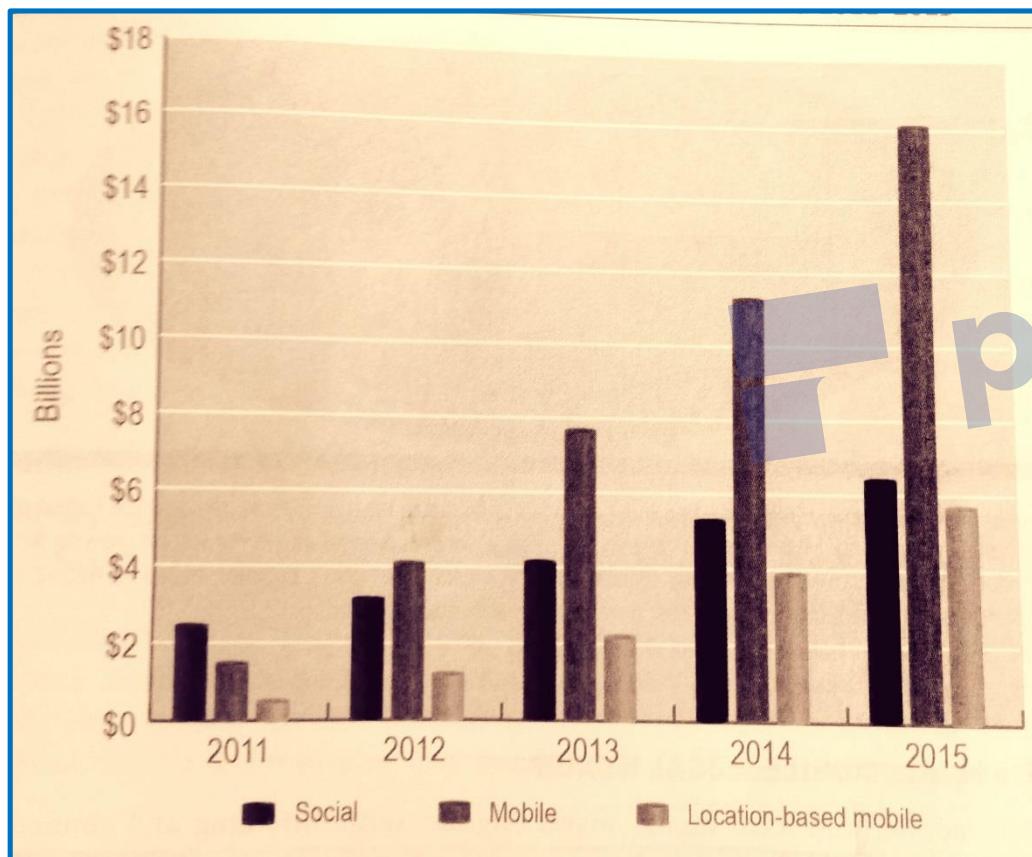
PROBAL MOJUMDER

SEPTEMBER 15TH, 2014

From Eyeballs to Conversations

Pre 2007	Post 2007
<ul style="list-style-type: none">• Creating a corporate Web site• Buying display ads on Yahoo• Purchasing Ad Words on Google• Sending e-mails• Eyeballs & Impressions	<ul style="list-style-type: none">• Facebook• Smartphones (Apple iPhone in 2007)• Marketing as 'conversation'• Marketing as 'engagement'• Local marketing

Social, Mobile, and Location Marketing



In other words, it's Digital Marketing

Question 1: What are the key requirements for digital marketing?

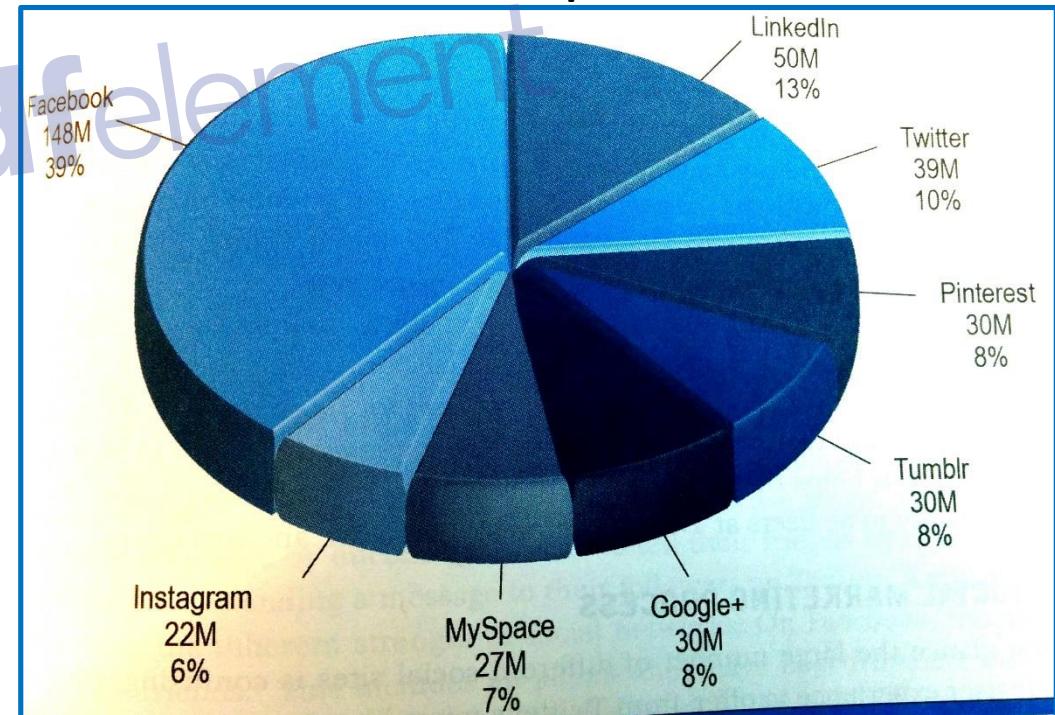
Social Marketing

Aim: To encourage your potential customers to become **fans** of your company's product and services, and engage with your business by entering into a **conversation** with it.

Social Marketing Players

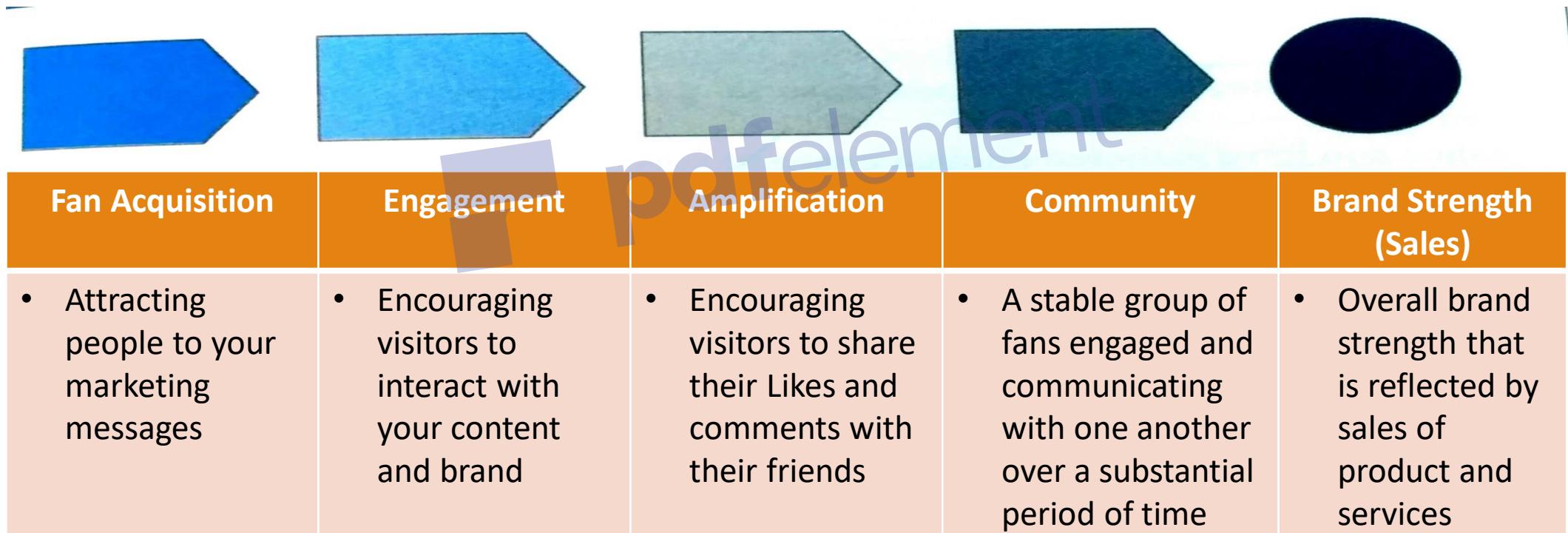


Number of Unique Visitors



Social Marketing Process

Five Step Process



Question 2: Which step is most important for social marketing?



Marketing

Mark Zuckerberg

Mark Zuckerberg

Timeline About Photos Friends More

Follow Mark to get his public posts in your news feed.

18,621,164 Followers

About

Founder and CEO at Facebook (February 4, 2004 to present)

Studied Computer Science at Harvard University (Post: Phillips Exeter Academy and Andover High School)

Lives in Palo Alto, California

From Dobbs Ferry, New York

Khalil shared a link. about a minute ago

Dear Mark Zuckerberg,

First sorry for breaking your privacy and post to your wall , i had no other choice to make after all the reports i sent to Facebook team .

My name is Khalil , from Palestine .

See More

Features

- Profile
- Friend Search
- Timeline**
- Tagging
- News Feed**
- Status Update
- Like Button
- Apps
- Open Graph
- Graph Search**

World's largest repository of deeply personal behavioral information



Marketing Tools

Marketplace Ads - Display ads.

News Feed – Place for firm's ads, like “stories about friends,” “Premium Ads”

Brand Page – Firms brand page.

Promoted Posts – Ads that start as posts, and promoted by user.

Sponsored Stories – Friends stories that advertisers sponsor.

Like Button – Allows users to share their feelings about content.

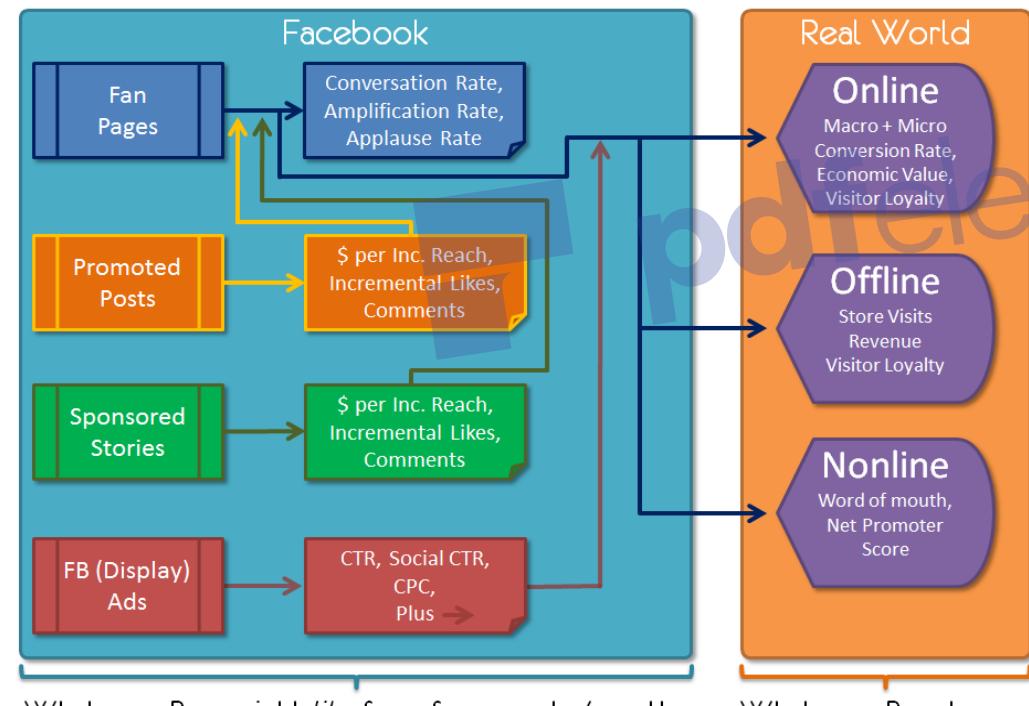
Mobile ads – Displays ads on Newsfeed in smartphones.

Facebook Exchange (FBX) – A real-time bidding system that allows advertisers to target their ads.



Marketing Measurement

Facebook Advertising: Measuring Holistic Business Value



Let's check:



Question 3: How can Coca-Cola leverage Facebook Marketing? (Think of features to use, marketing tools and marketing measurements)

Think Note 1: Facebook

Fact:

Despite having the largest online social audience in the world, and its recent success in mobile display ads, it remains unclear if Facebook can monetize its user base.

Question:

Using which strategies can make social marketing on Facebook work for marketers? Give examples.





Marketing

Features

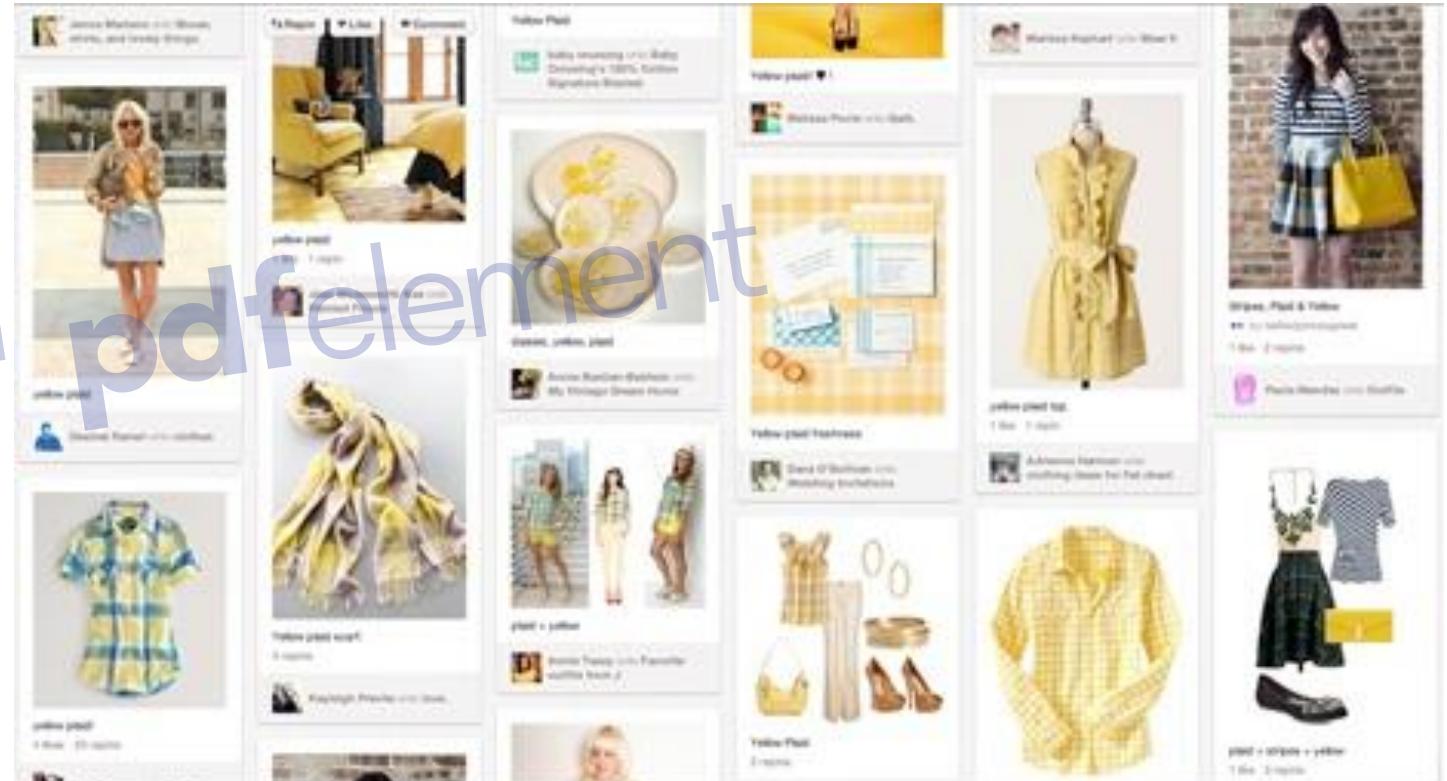
- Tweet
- Follower
- Message
- Hashtag #
- @ username
- Reply
- Timeline
- Retweet
- Links

Marketing Tools

- Promoted Tweets (\$ 0.5 to \$1.5)
- Promoted Trends (on hashtags, \$200,000 per day)
- Promoted Accounts
- Enhanced Profile Page (\$15,000)
- Amplify (a digital dashboard)
- Television Ad Retargeting (used by big media companies)
- Lead Generation Cards

Pinterest Marketing

- 25 million unique visitors
 - 15% of all online adults
 - **80% women**
 - Noncommercial look



Marketing Tools

- **Disguised Display Ads**
 - Add Pin It button
 - Theme-based boards
 - Product Pins

Question 4: How can you use Pinterest in a Marketing Campaign?

Next Class

- Mobile and Local Marketing
- Don't miss to read the cases in Chapter 6.
- Submit Group Project Topic



E-Commerce Marketing Concepts

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WEEK 3 -> CLASS 2 -> MOBILE AND LOCAL MARKETING

PROBAL MOJUMDER

SEPTEMBER 17TH, 2014

Mobile Marketing

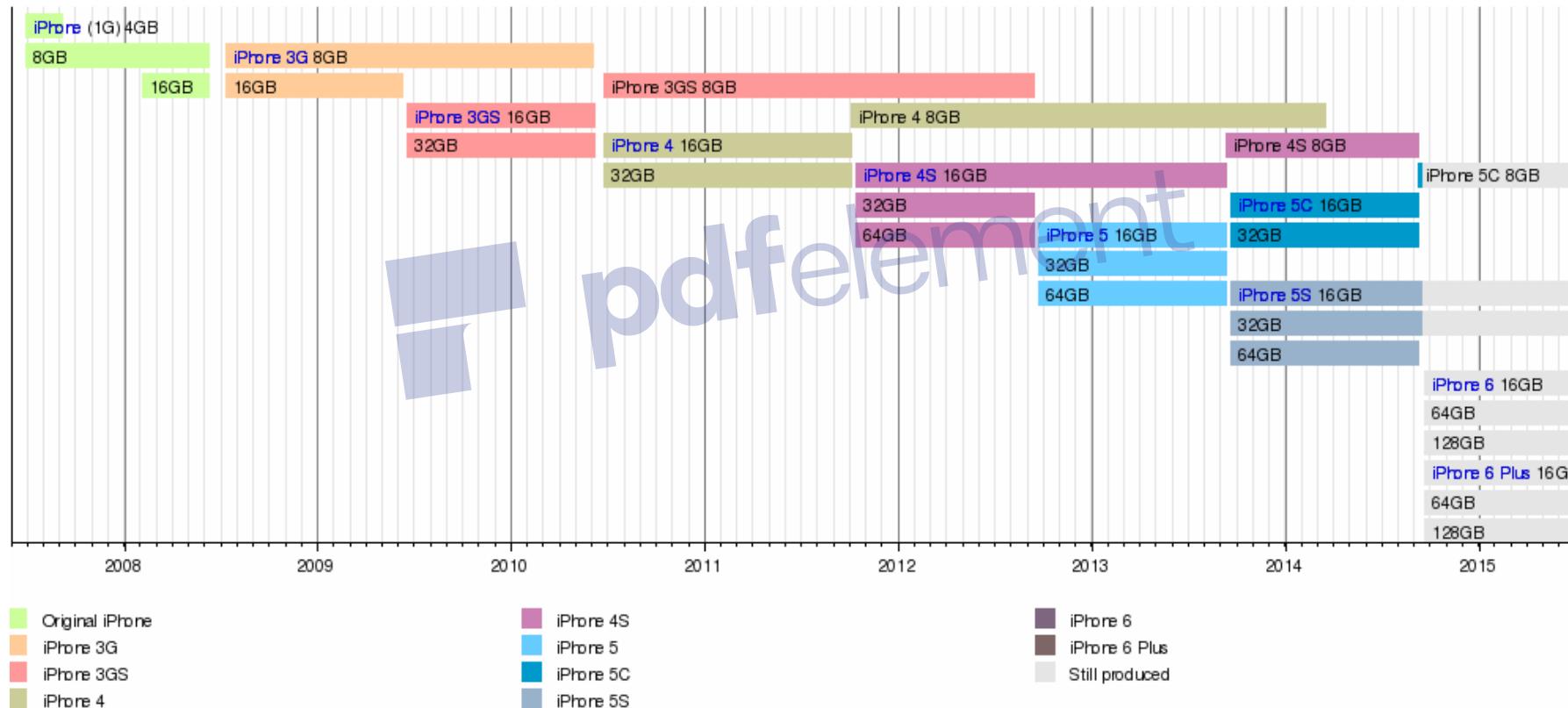
Mobile

- Over 90% retailers are interested!
- 246 million Americans use mobiles!
- 140 million Americans use smartphones!
- People look at least 40 times a day!
- Keeps device in arm's length!



- Make Calls
- Text Friends
- Listen to Music
- Watch Videos
- Shopping

iPhone's Timeline



M-Commerce

- Growing at over 50% a year. (12% growth rate for desktop e-commerce)
- By 2017, M-commerce will be 18% of E-commerce
- Amazon is the biggest (\$4 billion in sales)

Top Players :

Shopping

amazon.com

Walmart

QVC QUALITY. VALUE. CONVENIENCE.

Music & Apps

Apple Inc.

Hotels

Marriott

Hilton
HOTELS & RESORTS

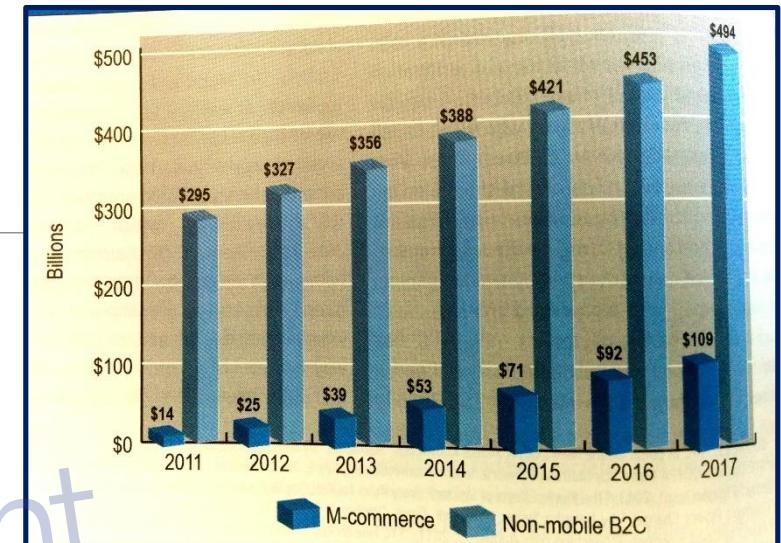
Travel

ORBITZ

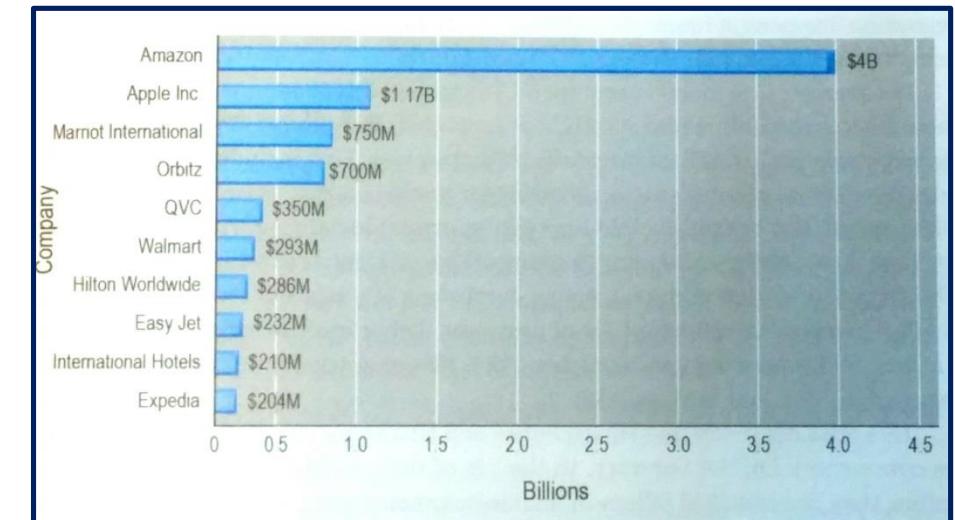
easyJet

Expedia

Growth of M-Commerce



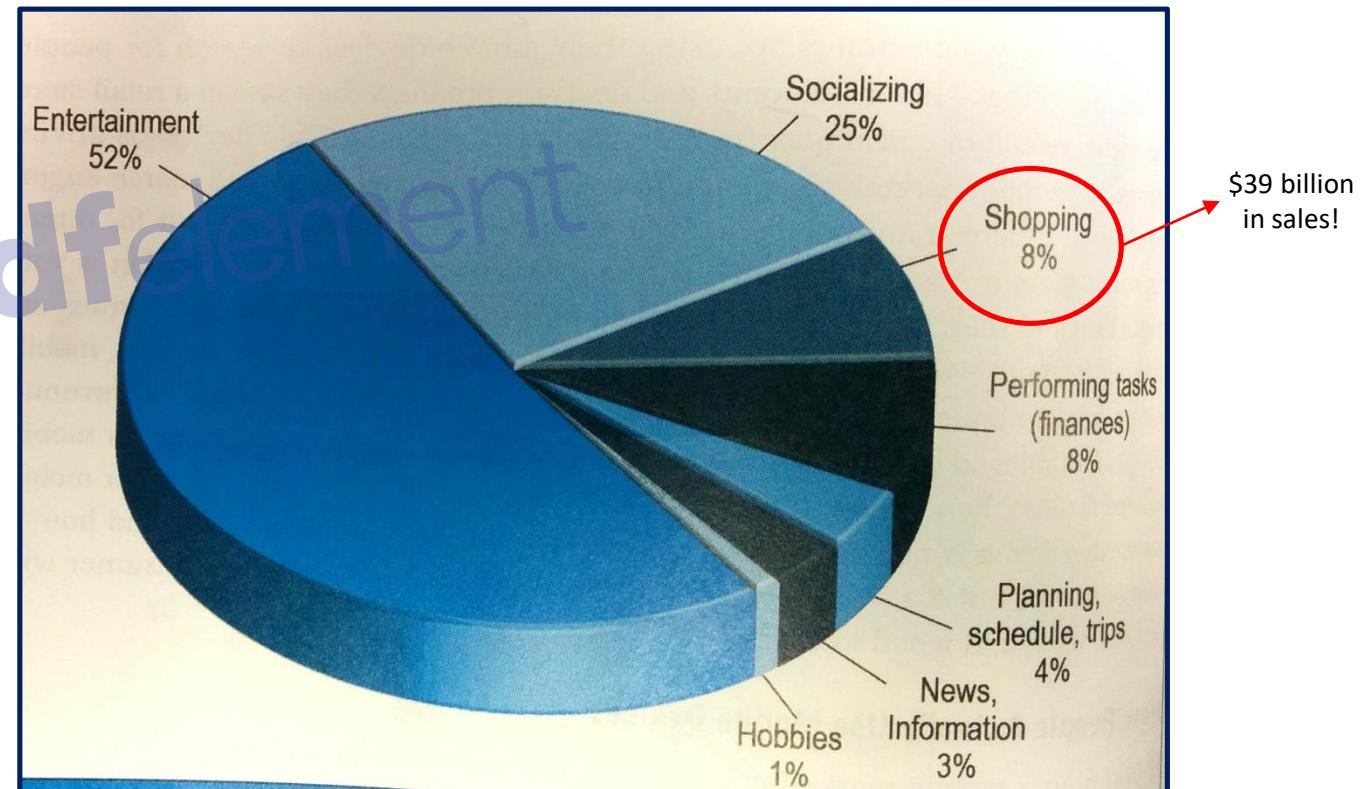
Top 10 Retailers



How People Use Mobile Devices

- 70% of use occurs in home
- 75% of “**me time**” is for entertainment
- 80% of use is on **Apps**
- Consumers use, on average, 15 Apps
- **Marketer’s Tool: In-App Ads**

Question 1: Which Apps do you use regularly?



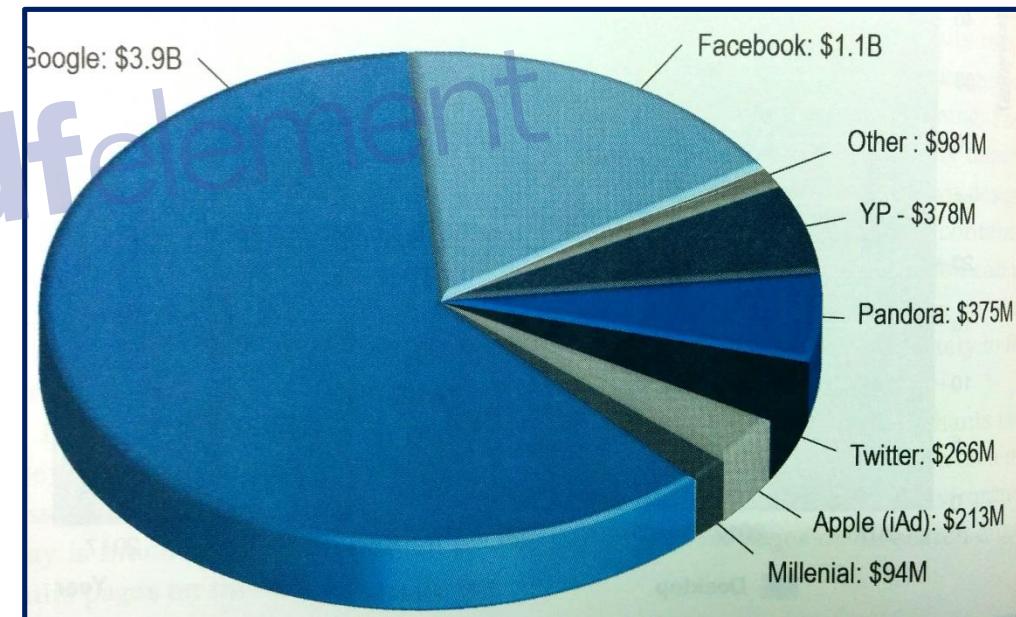
Mobile Marketing Features

Device Features

- **Personal Organizer:** Phone, calendar, clock, etc.
- **Screen Size and Resolution**
- **GPS location**
- **Web browser**
- **Apps**
- **Multimedia Capability**
- **Sensors:** Accelerometer, Gyroscope, etc.



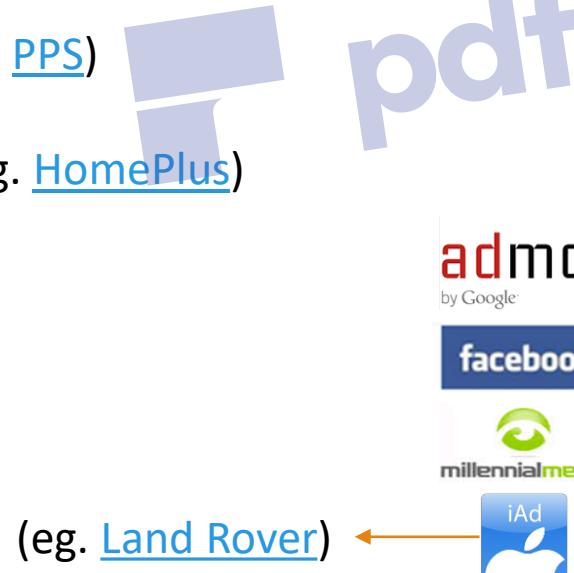
Top Mobile Marketing Firms (by Revenue)



Mobile Marketing Tools

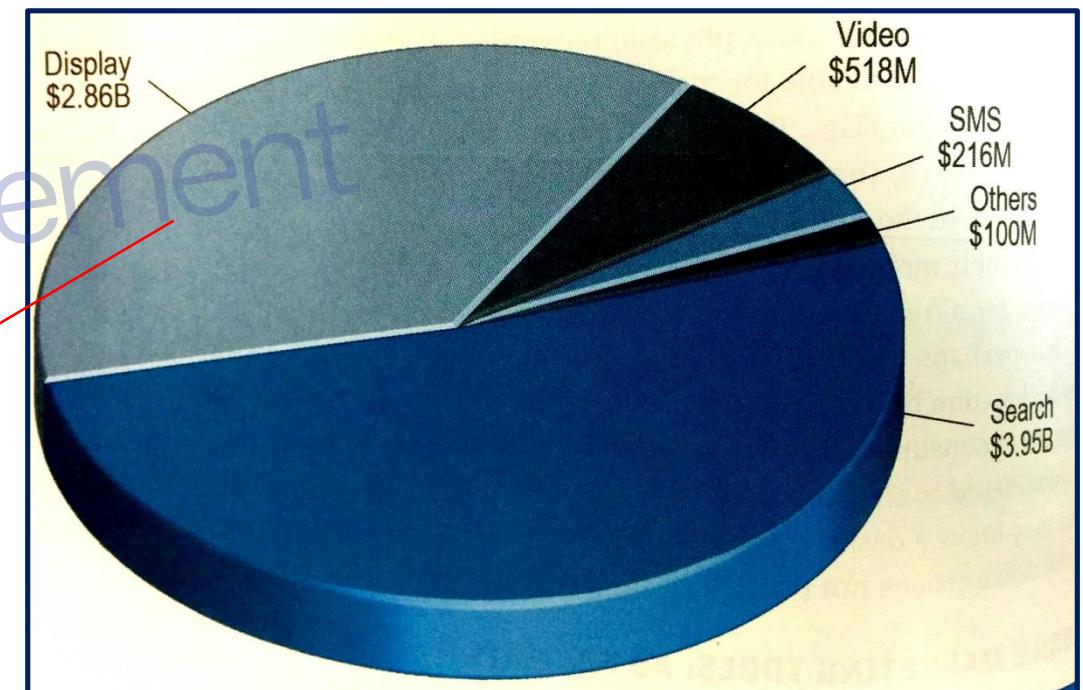
Ad Format

- **Search Ads** (can use location for targeting)
- **Display Ads**
- Video & Rich Media
- Messaging (SMS, MMS, [PPS](#))
- E-mail
- QR Code Campaigns (eg. [HomePlus](#))



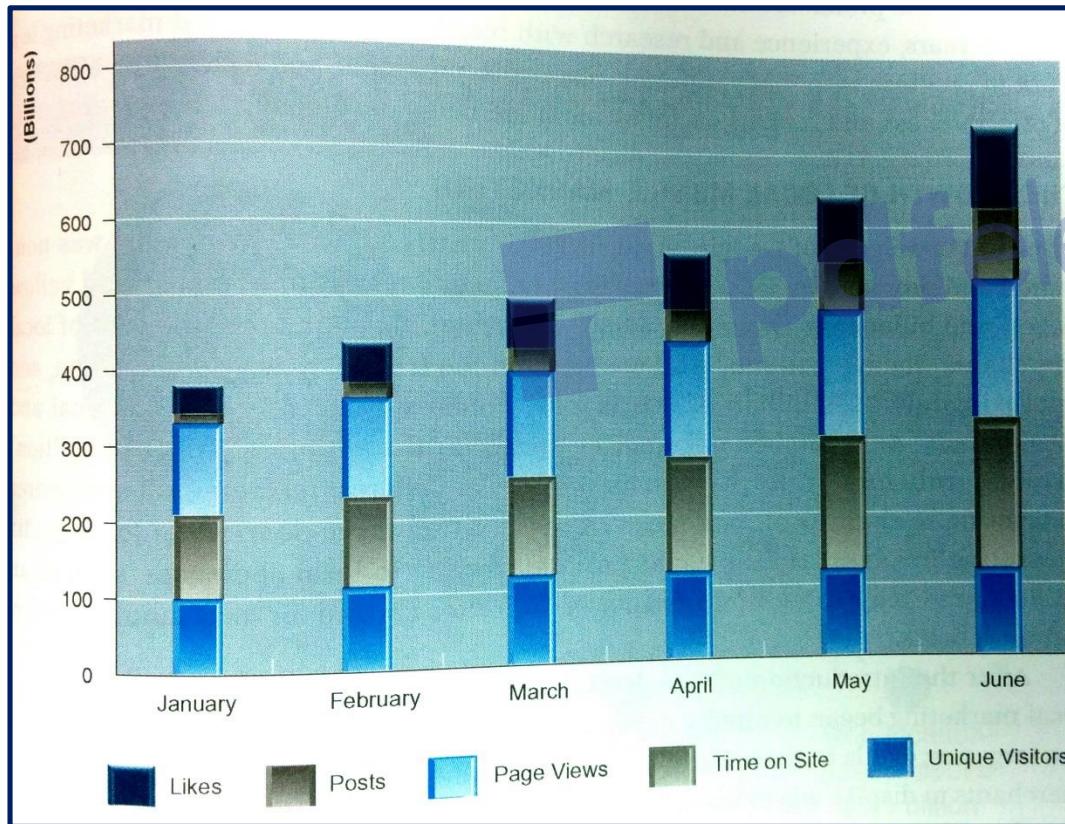
(eg. [Land Rover](#))

Mobile Marketing (by Format)



Mobile Marketing Measurement

Measuring the Effectiveness of a Mobile Branding Campaign



Mobile Marketing Campaign

Device Features

Marketing Tools

Marketing Measurements

Think Note 2: QR Code Campaigns

Questions

- How can mobile marketing campaigns leverage QR codes?
- What challenges and opportunities does QR code campaigning provides?

Big Wild QR Code Campaigns



Location-Based Marketing

- It started with introduction of **Google Maps** in 2005, and **Smartphones** in 2007.

Major Technologies

GPS (Global Positioning System)	Most accurate, yet signal is weak
Wi-Fi	Uses Wi-Fi access point to estimate location
Cell Tower	AT&T, Verizon, etc., tracks their phones
Geo-Search	Uses search queries to estimate location
Sign In	Uses sign in information to estimate location

Key Players



Google Maps
Google Places
Google AdMob
Google AdWords



facebook
.com™



PANDORA®
internet radio



Apple Inc. → Apple iAd

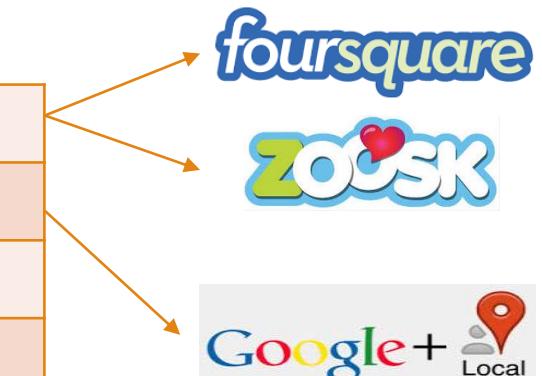


millennialmedia

Location-Based Marketing

Marketing Tools

Geo-Social	User share location with friends
Mobile-Local Social Networks	Uses location to create social networks
Geo-fencing / Geo-targeting	Sends messages within a perimeter of a store
In-store messaging	Messaging when consumer enters store
App messaging	App uses location to provide deals



Next Class

- E-Commerce Marketing Communications
- Don't miss to read the cases in Chapter 7.
- Work on Homework 2
- Submit 1 page Project Outline



pdfelement

E-Commerce Marketing Communications

WEEK 4 -> CLASS 1 -> ONLINE ADVERTISING

PROBAL MOJUMDER

SEPTEMBER 22TH, 2014

Online Marketing Communications

- **Definition:** They are all the major methods that online firms use to communicate to the consumer and create strong brand expectations.
- **Dual Purpose:** **Branding** and **Sales**.
 - **Branding Communication:** Emphasizes the benefits of the brand.
 - **Promotional Sales Communication:** They suggest the consumer to “buy now.”
- **Forms:** Online advertising, e-mail marketing, and public relations.

Online Advertising

- In 2011, online ad spending increased by more than 20%.
- The internet and online advertising have disrupted the traditional advertising business.
- Advertising budget are following customer eyeballs and moving into the web.

Trends	Impact
<u>Social, Mobile and Local</u> advertising expands.	Players: Facebook, Twitter, LinkedIn, Google and Apple.
<u>Video</u> advertising is fastest growing ad format.	50% growth rate.
<u>Search engine</u> advertising is dominant.	Spending is more than \$17 billion.
<u>Display ads</u> remain strong.	There are more than 5 trillion display ads shown.

Online Advertising

- Overall advertising spending is \$166 billion in 2012. For online advertising, it's \$37.3 billion.
- In 2016, it is expected to be the 2nd largest channel with 29% share.
- **Advantages:**
 - ✓ More people visit internet each day
 - ✓ Ability to send targeted ads
 - ✓ Ability to track performance of ads
 - ✓ Allows for greater interactivity
- **Disadvantages:**
 - ✓ Concerns about its costs and benefits
 - ✓ How to measure performance
 - ✓ To find good places to display ads

Industry Spending

Industry	Spending (%)
Retail	22%
Financial Services	13%
Telecommunication	12%
Automotive	11%
Computer	8%
Leisure Travel	8%
Consumer Packaged Goods	6%

Types of Online Advertisements

1. Display ads (banners & pop-ups)
2. Rich media ads
3. Video ads
4. Search engine ads
5. Mobile and local ads
6. Social network ads: social networks, blogs, and games
7. Sponsorships
8. Referrals (affiliate relationship marketing)
9. E-mail marketing



Display Ads: Banner Ads

- A **Banner ad** displays a promotional message in a rectangular box.
- Can observe the clicks and track user behavior.
- **Interactive Advertising Bureau (IAB)** provides guidelines to maintain user standards.
[link](#)
- **Double-Click:** A display advertising network, that deals with 30 billion impressions a day.



**double
click**

[link](#)

Rich Media Ads

- These ads employ animation, sound, and interactivity, using Flash, HTML5, Java, and JavaScript.
- Mainly used for brand awareness.
- Types:
 - ✓ Contains In-banner video
 - ✓ Are expandable / retractable
 - ✓ Pop-ups
 - ✓ Floating versions
 - ✓ Interstitial (i.e. in between. Places full message between current and destination page)
- **For Mobile Phones:** IAB also provide mobile rich ad interface definitions (MRAID)

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Interstitial Ads

Display Ad Rising Stars [link](#)

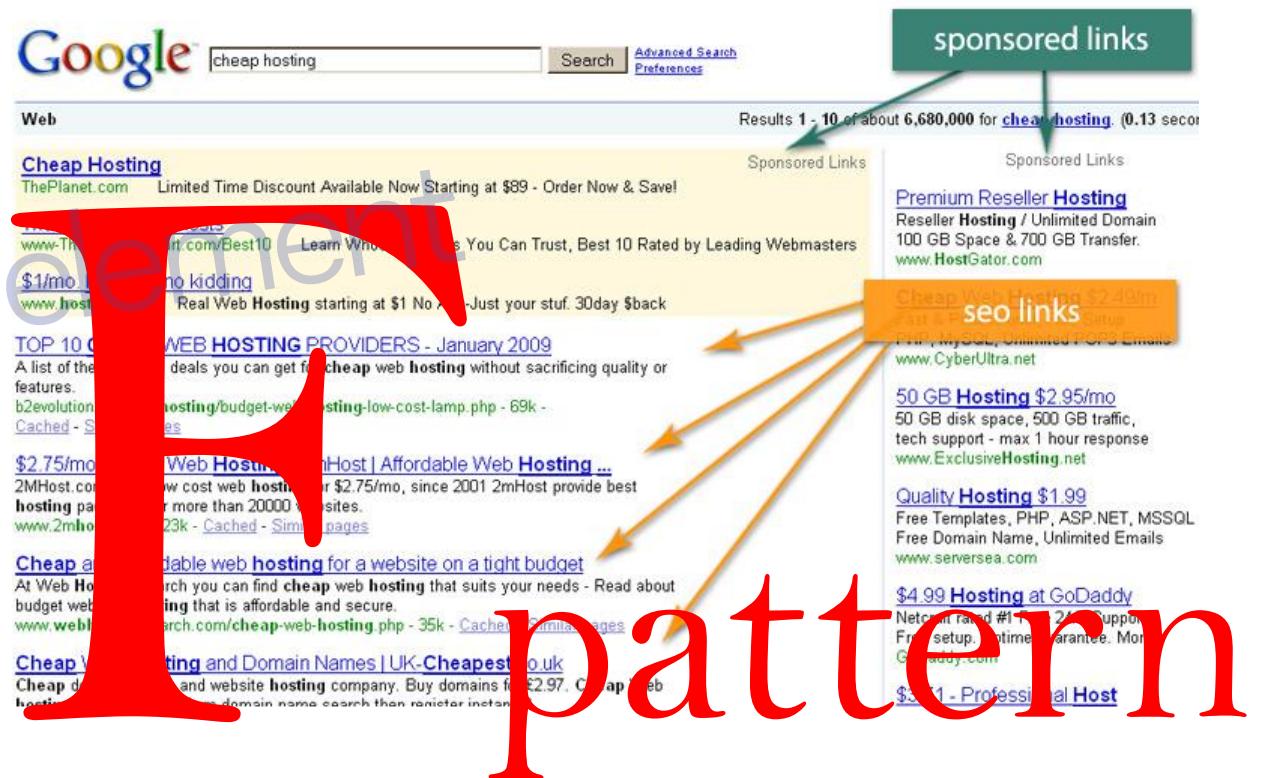
Video Ads

- They appear as in-page video commercials.
- They are far more effective! In-stream video ads had 27 times click-through rates than banner ads.
- **Formats:**
 - ✓ Pre-roll format (user watches before the video)
 - ✓ Mid-roll format
 - ✓ Post-roll format
- Mainly used by retail sites. Ex: Zappos (Created video for every one of its product; i.e. 100,000 videos)



Search Engine Ads

- It is the fastest growing segment.
- There are 17 billion searches by 114 million users per month.
- **Main Players:** Google, Microsoft / Bing, and Yahoo. They supply more than 95% of online searches.
- **Ad Types**
 - ✓ **Keyword paid inclusion** (i.e. sponsored links)
 - ✓ Advertising keywords (like Google's AdWords)
 - ✓ Search engine context ads (like Google AsSense)



Search Engine Ads

Keyword advertising

➤ Purchase keywords through a bidding process.

➤ Ad appears based on bid amount and number of clicks.

➤ Main Players

- ✓ Google: AdWords
- ✓ Microsoft: adCenter
- ✓ Yahoo: Sponsored Search



Search Engine Ads

Context Advertising

- Allows publishers to join a network, and allow search engines to place “relevant” ads on their sites.
- Revenue is split between search engine and the publisher site.
- **Main Players**
 - ✓ Google: AdSense
 - ✓ Yahoo: Content Match



[link](#)

Think Note 1: Zappos Case

Questions:

- How is Zappos focusing on marketing communications?
- What is the role of video ads?

Zappos



Mobile and Local Ads

- Search engine advertising accounts for 50% of all mobile ad spending.
- Display ads account for 36% of mobile ad spending.
- Uses location targeting.
- **Main Players**



- ✓ Google: AdMob
- ✓ Apple: iAd
- ✓ Millennial media
- ✓ Facebook

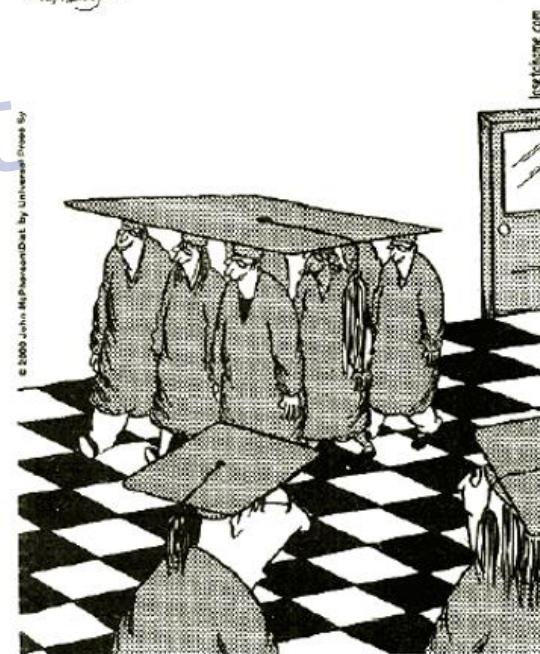
Social Network Ads

- Ads in Facebook, Twitter, LinkedIn, etc.
- Social Ad formats: Corporate Facebook page, etc.
- Key tools:
 - ✓ Facebook page
 - ✓ Use of feedback tools, like comments
 - ✓ Develop user community
 - ✓ Use context and competition for brand engagement
 - ✓ Use 'Like' button
 - ✓ Use Facebook connect (social sign on)

CLOSE TO HOME By John McPherson

McPherson

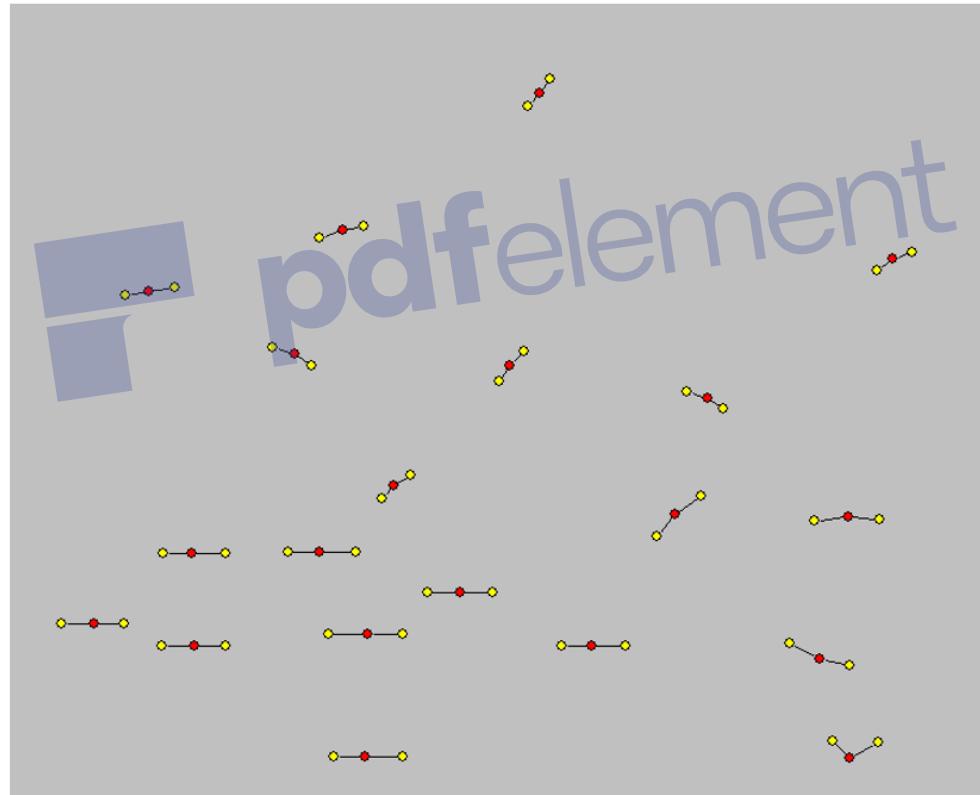
e-mail:CLOSETOHOME@COMPUSERVE.COM 5-13



"They always were a tight little clique."

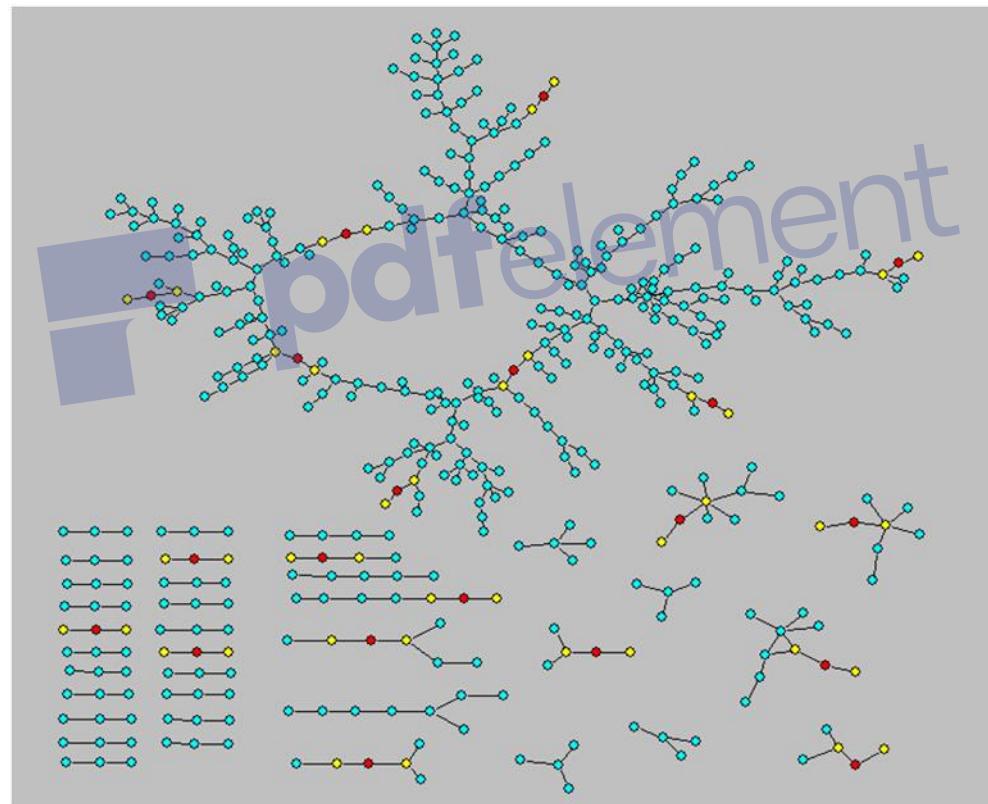
Why Does the Network Matter?

Local Vision



Why Does the Network Matter?

Global Vision



Example: Tweets for Japanese Tsunami



Global retweets of Tweets coming from Japan for one hour
after the earthquake

Sponsorships

- It is an effort to tie an advertisers name to particular information, like an event , or venue, etc.
- It's more about branding.
- Example: WebMD allows sponsorship sites to companies like Phillips.



Referrals (Affiliate Relationship Marketing)

- It permits firms to place its banner ad or logo on another firms website.
- Example: Many personal websites have Amazon's logo. When you click it, it takes you to Amazons site, and generates revenue for the site.



E-Mail Marketing

Direct e-mail marketing

- Marketing messages sent directly to users
- Opt-in audience



Spam

- Now a days, software tools can eliminate unsolicited commercial e-mails.

Next Class

- Cost and Benefit of Online Marketing
- Homework 2 due (Wednesday, midnight)



E-Commerce Marketing Communications

WEEK 4 -> CLASS 2 -> COST AND BENEFITS OF ONLINE MARKETING COMMUNICATIONS

PROBAL MOJUMDER

SEPTEMBER 24TH, 2014

Main Issues

Main concerns about online advertising:

Q1: How well online advertising really works?

Q2: How to adequately measure the costs and benefits of online advertising?



Online Marketing Metrics: Lexicon

First, we need to familiarize ourselves with Web marketing terminologies.

Display Ad Metrics – Type 1 (Audience Building)

1. **Impressions** – No. of times the ad is served.
2. **Click-through rate (CTR)** – Percentage of times the ad is clicked.
3. **View-through rate (VTR)** – Percentage of times the web site is visited.
4. **Hits** – No. of HTTP requests.
5. **Page views** – No. of Page viewed.
6. **Stickiness (duration)** – Average length of stay at a Web site.
7. **Unique visitors** – No. of unique visitors.
8. **Loyalty** – Various measures (like, page views, frequency of visit, etc.).
9. **Reach** – Percentage of Web site visitors who are potential buyers.
10. **Recency** – Time since the last action taken by a buyer.

Online Marketing Metrics: Lexicon

Display Ad Metrics – Type 2 (Conversion from Visitor to Consumer)

1. **Acquisition rate** – Percentage of visitors who indicate an interest in the Web site's product.
2. **Conversion rate** – Percent of visitors who became customers.
3. **Browse-to-buy-ratio** – Ratio of items purchased to product views.
4. **View-to-cart ratio** – Ratio of "Add to cart" clicks to product views.
5. **Cart conversion rate** – Ratio of actual orders to "Add to cart" clicks.
6. **Checkout conversion rate** – Ratio of actual orders to checkouts started.
7. **Abandonment rate** – Percentage of shoppers who do not complete the shopping process.
8. **Retention rate** – Percentage of existing customers who continue to buy on a regular basis.
9. **Attrition rate** – Percentage of customers who do not return after purchase.



Online Marketing Metrics: Lexicon

Social Marketing Metrics

1. **Gross rating points** – Audience size times frequency of views (i.e. audience reach).
2. **Applause ratio** – Number of Likes per post.
3. **Conversation ratio** – Ratio of number of comments per post.
4. **Amplification** – Number of shares (or re-tweets) per post.
5. **Sentiment ratio** – Ratio of positive comments to total comments.
6. **Duration of engagement** – Average time on site.

“Word-of-Mouth effect”



Online Marketing Metrics: Lexicon

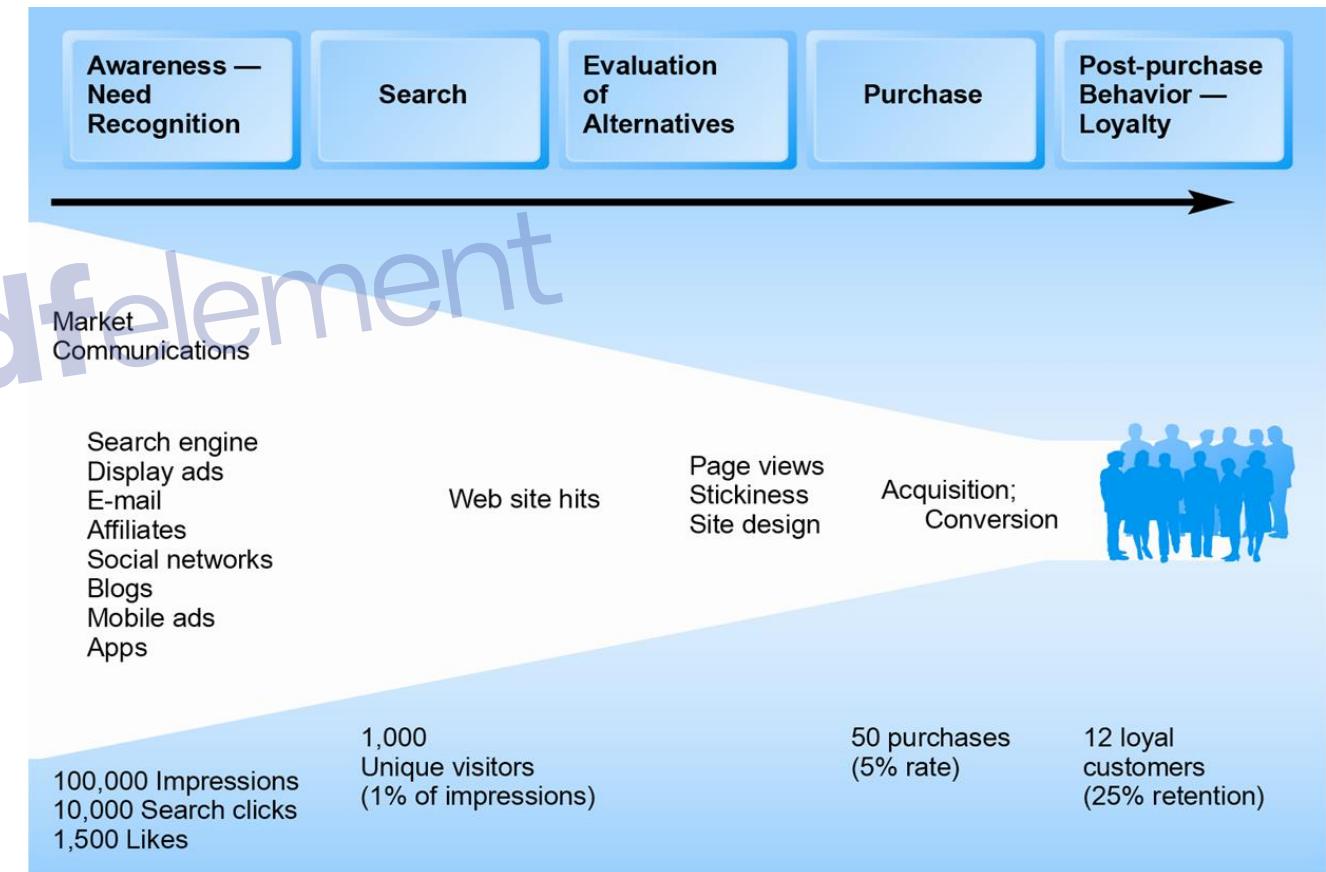
E-Mail Metrics

1. **Open rate** – Percentage of e-mail recipients who open the e-mail.
2. **Delivery rate** – Percentage of recipients who received the e-mail.
3. **Click-through rate (e-mail)** – Percentage of recipients who clicked through to offers.
4. **Bounce-back rate** – Percent of e-mails that could not be delivered.
5. **Unsubscribe rate** – Percent of recipients who click unsubscribe.
6. **Conversion rate (e-mail)** – Percentage of recipients who actually buy.



Online Consumer Purchasing Model

There is a lengthy path from simple online ad impressions, Web site visits, and page views to the purchase of a product and the company making a profit.



Q1: How well online advertising works?

- Answer depends on the goals of the campaign.
- Answer also depends on what you measure.
- **Other metrics to check:** Number of unique viewers, target impressions, brand lift, sales impact, and conversion.

Typical Click-Through Rates	
MARKETING METHODS	TYPICAL CLICK-THROUGH RATES
Display ads	.03%–.30%
Interstitials	.02%–.16%
Search engine keyword purchase	.50%–4.00%
<u>Video and rich media</u>	.50%–2.65%
Sponsorships	1.50%–3.00%
Affiliate relationships	.20%–.40%
E-mail marketing in-house list	5.00%–6.00%
E-mail marketing purchased list	.01%–1.50%
<u>Social site display ads</u>	.02%–.25%
<u>Mobile display ads</u>	.50%–.80%

Q1: How well online advertising works?

Answer: We need to check ROI of the ad campaign.

Notes

- Email is nearly twice as cost effective as search engine advertising.
- Cost effectiveness of search engines are falling due to high price of keywords.
- Further growth is possible in mobile, local, and social arenas.



Costs of Online Advertising

We need to analyze costs in order to study the effectiveness of ad campaigns.

Different Pricing Models	
PRICING MODEL	DESCRIPTION
Barter	Exchange of ad space for something of equal value
Cost per thousand (CPM)	Advertiser pays for impressions in 1,000-unit lots
Cost per click (CPC)	Advertiser pays prenegotiated fee for each click ad received
Cost per action (CPA)	Advertiser pays only for those users who perform a specific action, such as registering, purchasing, etc.
Hybrid	Two or more of the above models used together
Sponsorship	Term-based; advertiser pays fixed fee for a slot on a Web site

Costs of Online Advertising

Average cost of online advertising is currently comparable with offline media.

Average Cost Per Customer Acquisition (In 2012)

Internet search engine	\$8.50
E-mail (opt-in)	\$10.00
Television	\$11.00
Magazine	\$19.00
Yellow pages	\$20.00
Newspaper	\$25.00
Online display ads	\$50.00
Direct mail	\$50.00

Effectiveness Measure

Main Advantage: Online sales can generally be directly correlated with online marketing efforts.

Effectiveness Measure:

$$ROI = \frac{\text{Additional Revenue Received due to the ad campaign}}{\text{Cost of the ad campaign}}$$

$$\text{or, } ROI = \frac{\text{Revenue}}{\text{Cost}}$$

If ROI is greater than 1, then the ad campaign is successful.

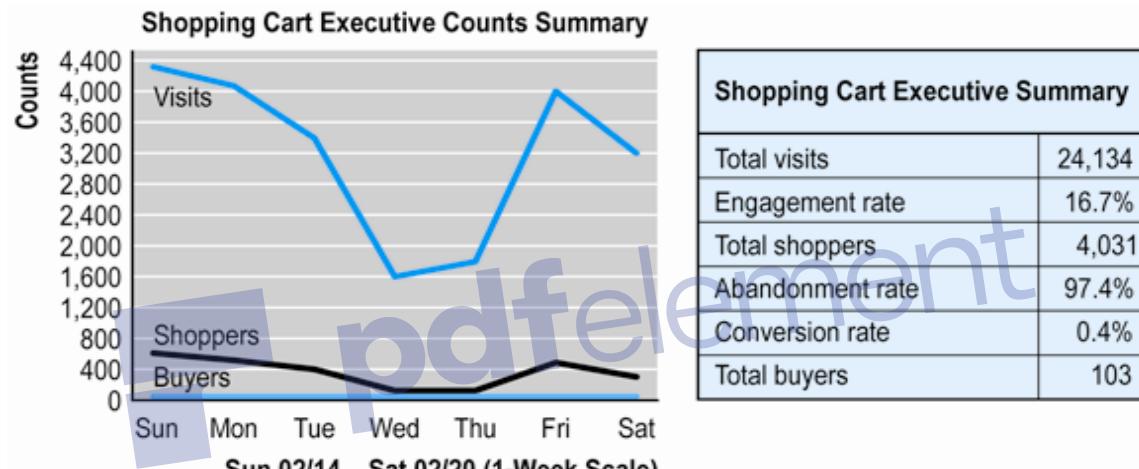
Cost Comparison: Traditional vs. Online

- Online ads are more costly on a CPM basis than traditional mass media marketing.
- CPM for TV ad is 2 to 4 cents.

Traditional Advertising	Costs
Local television	\$4,000 for 30-second (max is \$45,000)
Network television	\$80,000-\$600,000 for 30-second
Radio	\$200-\$1,000 for 60-second spot
Newspaper	\$120 per 1,000 circulation of full-page ad
Billboard	\$5,000-\$25,000 for a 1-3 month rental of a freeway sign

Online Advertising	Costs
Banner ads	\$2-\$15 per 1,000 impressions
Video and rich media	\$20-\$25 per 1,000 impressions
E-mail	\$5-\$15 per 1,000 targeted e-mail addresses
Social network ads	\$0.50-\$3.00 per 1,000 impressions

Example: Website Activity Analysis



Shopping Cart Executive Summary – Help Card

Abandonment rate — The percentage of **shoppers** who did not become **buyers**. This includes both **cart abandoners** and **checkout abandoners**.

Conversion rate — Percentage of visitors who became **buyers**.

Engagement rate — Percentage of visitors who become **shoppers**.

Total buyers — Number of buyers who visited your site. Buyers are visitors who reached a page that you configured as an **order complete page**.

Total shoppers — Number of shoppers who visited your site. A shopper is a visitor who reached a page that you configured as a **shopping page**.

Total visits — Number of times a visitor came to your site.

Think Note 2: Ad-blocking Software

Task -

- 2 groups - For and Against
- Choose a side.
- Each group comes up with 5 points.
- We have a debate!



Next Class

- Chapter 9: Online Retailing & Services.
- Read cases in Chapter 9.
- Will float Homework 3 on Monday (after class).
- Will discuss group project presentation and report on Monday, and put up a document in Moodle.

Online Retail and Services

WEEK 5 -> CLASS 1 -> ONLINE RETAIL

PROBAL MOJUMDER

SEPTEMBER 29TH, 2014

Online Retail Sector

Most Important Theme: The effort by retailers (both offline and online) to integrate their operations so they can serve customers in various ways.

- U.S. retail industry is \$11.4 trillion. (about 71% of GDP)

What's New in Online Retail (2013-2014)

- Growth in Mobile commerce. (\$50 billion in 2014)
- Growth in Social commerce. (\$9 billion in 2014)
- Growth in Local commerce. (\$4.4 billion in 2013)
- Average annual online purchase is \$1,663. (10% growth since 2013)
- Online retail is the fastest growing retail channel.
- 89% of internet users in U.S. are now online shoppers.

Retail Industry

- The retail industry has 7 segments:
 1. **Durable Goods:** 31% share. (Use web as an informational tool.)
 2. **General Merchandise:** 18% share.
 3. **Food & Beverage:** 14% share. (Use web to inform their location and menus; Allow delivery via web orders.)
 4. **Specialty Stores:** 15% share.
 5. **Gasoline and Fuel:** 13% share.
 6. **Mail Order/Telephone Order (MOTO):** 3% share. (It's the predecessor of E-commerce.)
 7. **Online Retail Firms:** 6% share.

Online Retailing

- It's the most high-profile e-commerce sector.
- **Early Story:** Early writers predicted that the retail industry would be revolutionized.

The vision:

- ✓ Internet reduced **search cost** and **transaction costs**.
- ✓ **Entry costs** to the online retail market were much less.
- ✓ Traditional offline physical store merchants would be forced out of business.
- ✓ There won't be any **intermediaries** (i.e. middlemen).

Result: The vision is not purely true!

Question: Why do you think the online retail revolution, as it was earlier considered, did not happen in reality?

Online Retail Sector Today

- It is growing faster than its offline counterparts.

Online Retail: Advantages and Challenges

Advantages	Challenges
Lower supply chain costs	Concerns about security
Lower costs of distributing	Concerns about privacy of personal information
Ability to reach larger geographies	Delays in delivery
Ability to react quickly to customer tastes	Inconvenience associated with good return
Ability to change prices instantly	Lack of trust to online brands

Virtual Merchants



Types

Brick-and-Clicks



Multi-Channel Integration

- It's the most important e-commerce retail themes of 2013-2014.

Types of Integration:

1. **Online order, in-store pickup**
2. **Online order using store directory**
3. **In-store kiosk web order, home delivery**
4. **In-store retail clerk Web order, home delivery**
5. **Web orders, in-store returns**
6. **Online Web catalog:** It supplements offline physical catalog. Also, has more products
7. **Online Web site promotion to drive customer to stores**
8. **Mobile order**
9. **Geo-fencing mobile notification:** Use smartphone location technology to target ads

Are Online Firms Viable?

Strategic Analysis – It helps us comprehend the competitive situation of the firm.

It has 2 parts..

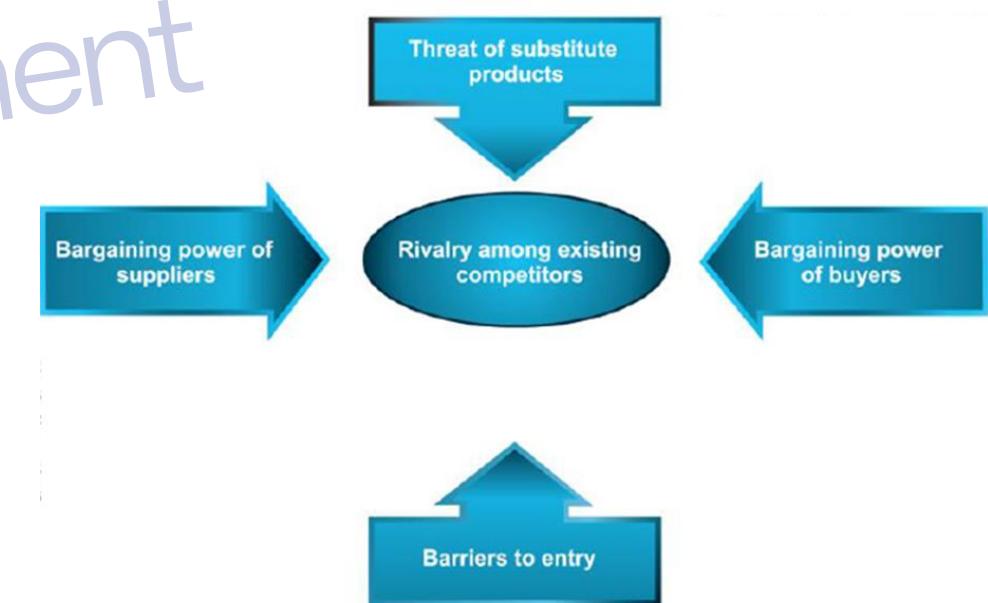
Industry Specific Strategic Factors

- Barrier to entry
- Power of suppliers
- Power of customers
- Existence of substitute goods
- Industry value chain
- Nature of intra-industry competition

Firm Specific Strategic Factors

- Firm value chain
- Core competencies
- Synergies
- Technology
- Social and legal challenges

How E-commerce Influences Industry Structure



Types of Online Retailers

1. Virtual Merchants
2. Bricks-and-clicks (also called multi-channel merchandisers)
3. Catalog Merchants
4. Manufacturer-direct firms



Virtual Merchants

- They are single-channel Web firms.
- Cost:
 - ✓ Building and maintaining Web sites
 - ✓ Building an order fulfillment infrastructure
 - ✓ Developing a brand name
- Examples

[Link 1](#)[Link 2](#)

Bricks-And-Clicks

➤ Also called multi-channel merchants.

➤ **Advantage**

- ✓ Brand Name
- ✓ National customer base
- ✓ Warehouses

➤ **Challenges**

- ✓ Coordinating prices across channels
- ✓ Handling returns at retail stores

➤ **Examples**





- Around 800 department stores
- Created Macys.com in 1995
- Macys.com is ranked 12th on Internet Retailer's list.
- 40% growth over 2011
- Receives 13 million monthly unique visitors
- Social Media presence (Facebook, YouTube, Twitter, Pinterest)

Web Site Features

- Interactive catalog
- Enlarged product views
- Ability to product in different colors
- Product comparison
- Product rating
- Product recommendation
- Real-time inventory check system

Think Note 1: Alibaba vs. Amazon

Questions –

- Who will win the global e-commerce war?
- Will Alibaba become a viable competitor for Amazon in the West?
- Will Amazon be able to compete on Alibaba's home turf?



Common Themes

- Prices didn't get too low, since customer wants **convenience** and **brand** image.
- **Middleman** did not disappear.
- Merchants focus to create an **integrated environment**. (across channels and devices)
- Online retailing is spreading to **niche markets** (like diamonds, jewelry, fashion, etc)

Next Class

- Chapter 9: Online Services.
- Read cases in Chapter 9.
- Will submit Homework 2 grades (before class).



Online Retail and Services

WEEK 5 -> CLASS 2 -> ONLINE SERVICES

PROBAL MOJUMDER

OCTOBER 1ST, 2014

Are Online Firms Viable?

Strategic Analysis – It helps us comprehend the competitive situation of the firm.

It has 2 parts..

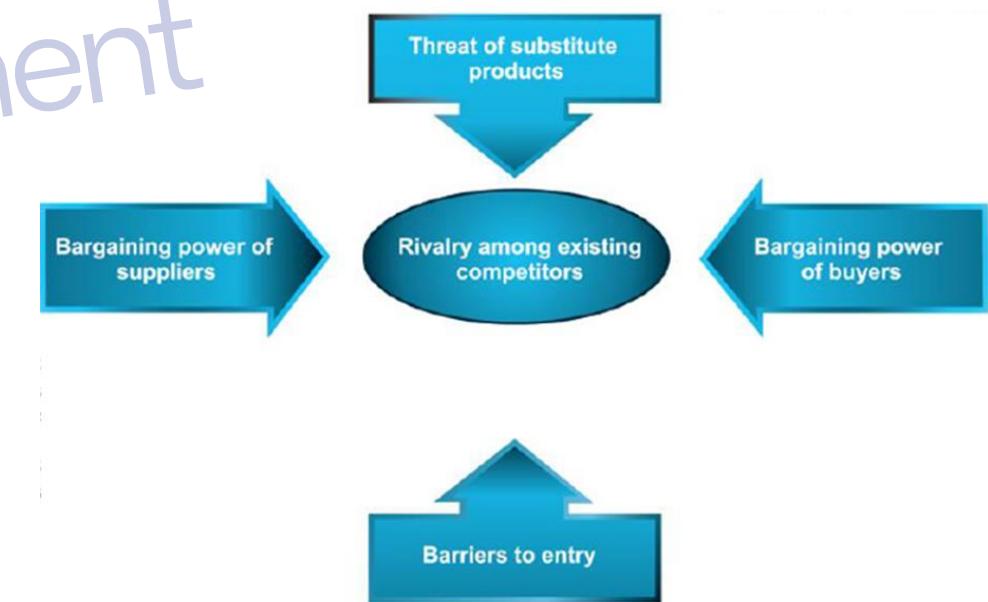
Industry Specific Strategic Factors

- Barrier to entry
- Power of suppliers
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- Existence of substitute goods
- Industry value chain
- Nature of intra-industry competition

Firm Specific Strategic Factors

- Firm value chain
- Core competencies
- Synergies
- Technology
- Social and legal challenges

How E-commerce Influences Industry Structure



The Service Sector

Major Groups:

- **Financial Services:** They are the largest investor in IT (about 80%)
- **Insurance Services**
- **Real Estate Services**
- **Travel Services**
- **Professional Services:** Includes Legal and accounting services
- **Business Services:** Includes consulting, advertising and marketing, and information processing.
- **Health Services**
- **Educational Services**

2 Types:

- **Transaction Brokers:** They act as intermediary to facilitate a transaction.
(Example: Stock brokers, Employment Agencies, [LendingTree.com](https://www.lendingtree.com))
- **“Hands-on” Service:** Provides the actual service.
(Here professionals need to interact directly with “client.”)

Online Financial Services

- It is a shining example of an e-commerce success story.
- **Main Example:** E*Trade
 - ✓ E*Trade has been instrumental in transforming the brokerage industry
- E-commerce has transformed the banking and financial industries
 - ✓ Major banks have their own online applications
 - ✓ Now it is very easy to purchase insurance on the Web
- **Other Examples:**

[Mint.com](#), [SmartyPig](#), [Credit Karma](#), [Moven](#), and [Simple](#)

Online Financial Consumer Behavior

- Consumers are attracted to financial sites.
- Most online consumers use financial services sites for mundane financial management
 - ✓ Checking balances of existing account
 - ✓ Paying bills

Question 1: Do you use financial apps?

Question 2: What type of financial apps do you use?

Mojiva Survey (2013)

- 70% people use mobile devices to access a financial app
- 70% access bank accounts
- 50% use credit card apps
- 40% looked at financial news & stock information
- 35% accessed budgeting apps
- 27% have brokerage accounts

Online Banking and Brokerage

- **NetBank** and **Wingspan Bank** pioneered online banking in US in 1996 and 1997, respectively.
- **Main Players (National Banks):** Bank of America, JPMorgan Chase, Wells Fargo and Capital One.
- **Main Players (Direct Banks):** Ally, Discover, Capital One 360, and USAA.
- **Start-ups**
 - ✓ [**Moven**](#): Checking account service + Online and mobile financial management tools
 - ✓ [**Simple**](#): Checking accounts linked with debit cards + financial management tools



Online Brokerage

- **Main Players:** E*Trade, Fidelity.com, Charles Schwab, Vanguard, Scottrade, TD Ametrade, Merrill Lynch, Troweprice.com, ShareBuilder

Multi-Channel vs. Pure Online

Multi-channel firms: They have both physical branches and offices and solid online offerings

Pure Online firms: They don't have physical presence.

Physical Branch:

- ✓ Open account
- ✓ Deposit money
- ✓ Take out loans
- ✓ Find home mortgages
- ✓ Rent a safety deposit



Pure Online:

- ✓ Telephone presence
- ✓ Chat features
- ✓ Video-chat

Online Insurance Services

- In 1995, the price of a \$500,000 20-year term life policy for a healthy 40-year-old male was \$995. In 2013, it's \$400. (i.e. 60% decline)
- Internet usage has led to 8%-15% decline in term life insurance prices.
- Price dispersion for term life policies fell, as more and more people began using internet for quotes.
- **Online Strategies:**

- ✓ Web sites provide ability to obtain an online quote
- ✓ Customers search costs are dramatically reduced

Accenture Survey (2013)

- 47% preferred to obtain quotes online.
- 60% use internet for research on life insurance
- 23% would research and buy online

Online Real Estate Services

- At one point, there was 100,000 real estate sites on the internet.
- **Major Sites:** Realtor.com, HomeGain, RealEstate.com, ZipRealty, Move.com, Craigslist, [Zillow](#), and Teulia
- **Key Services:**
 - ✓ Listing of houses available
 - ✓ Detailed property description
 - ✓ Multiple photographs
 - ✓ Virtual 360-degree tours
- **Example:** [Move.com](#) - “Find a neighborhood” feature



National Association of Realtors Survey (2010)

- 90% of buyers surf the internet to search for a home
- 85% purchase through an agent
- 40% said that they first learned about their home from the internet

Online Travel Services

- It is one of the most successful B2C e-commerce segment.

- Key segments

- ✓ Metasearch
- ✓ Airport Parking
- ✓ Car Rentals
- ✓ Hotel Search Engines
- ✓ Cruises
- ✓ Travel Planning
- ✓ OTAs

Question 3: What type of travel sites do you use, and for what purpose?



Why Are Online Travel Services So Popular?

- **For Consumer:** Online travel sites offer a **one-stop, convenient**, leisure and business travel experience. They offer much more **information** and many more travel **options**.
- **For suppliers:** The site integrates millions of customers into a singular customer pool.
- Travel services is ideal for e-commerce, since travel is an **information intensive product**.
- Travel does not require “**inventory**”

Online Travel Industry Dynamics

- Very competitive
- Price competition is difficult
- Sites compete in scope of offerings, ease of use, payment options, and personalization
- They are many **metasearch / Travel aggregator** sites.
(Example: [TripAdvisor](#), [Kayak](#), [Fly.com](#), [Mobissimo](#))

Major Online Travel Sites	
Name	Description
Expedia	Largest online travel service
Orbitz	Second largest online travel service
Priceline	Name your price model
TripAdvisor	Travel shopping bot that searches for the lowest fare across all other sites
CheapTickets	Discount airline tickets, hotel reservation, and auto rentals
Hotels.com	Largest hotel reservation network
Hotwire	Seeks out discount fares based on airline excess inventory

Think Note 2: ZipCar



Questions:

- Would you prefer to use Zipcars or have your own car?
- What are the advantages and disadvantages of using Zipcar?
- Do you think that their revenue model is sensible? What other revenue model can you suggest?

Next Class

- Chapter 10: Online Content and Media.
- Read cases in Chapter 10.
- Remember, we have Office Hours this **Thus & Fri** (3 pm – 5 pm)



Online Content and Media

WEEK 6 -> CLASS 1 -> ONLINE CONTENT

PROBAL MOJUMDER

OCTOBER 6TH, 2014



Agenda

- Online Content
- Online Publishing Industry (Part 1)
- Think Note 1 – Netflix & YouTube



Online Content Industry

- **Content Industry:** Most challenged by the internet.
- **2 Types:**
 - **Print Industry:** Newspaper, books, and magazines
 - **Entertainment Industry:** Television, movies, radio, video games, and music.
- **Total Revenue:** \$15 billion in 2012.

Trends in Online Content (2012–2013)

- **Vertical Integration:** Amazon, YouTube, Hulu, and Netflix enter content production business for video, books, and online TV-like channels.
- Netflix transitions to TV show distributor, along with Hulu, AOL, and Amazon. They want to capture television advertising dollars.
- YouTube launches over 100 entertainment channels.
- Online viewing begins to challenge TV, Cable and DVD rentals.
- Online video grows to 12%, as DVD and Blue-Ray retains 88% market share.
- E-book sales rise to 50% of all book sales.
- Digital music sales top physical music sales.
- Online, social, and casual games soar, as console games stagnate.

Content Producers



Question: Where do you watch TV online?

Trends in Online Content (cont.)

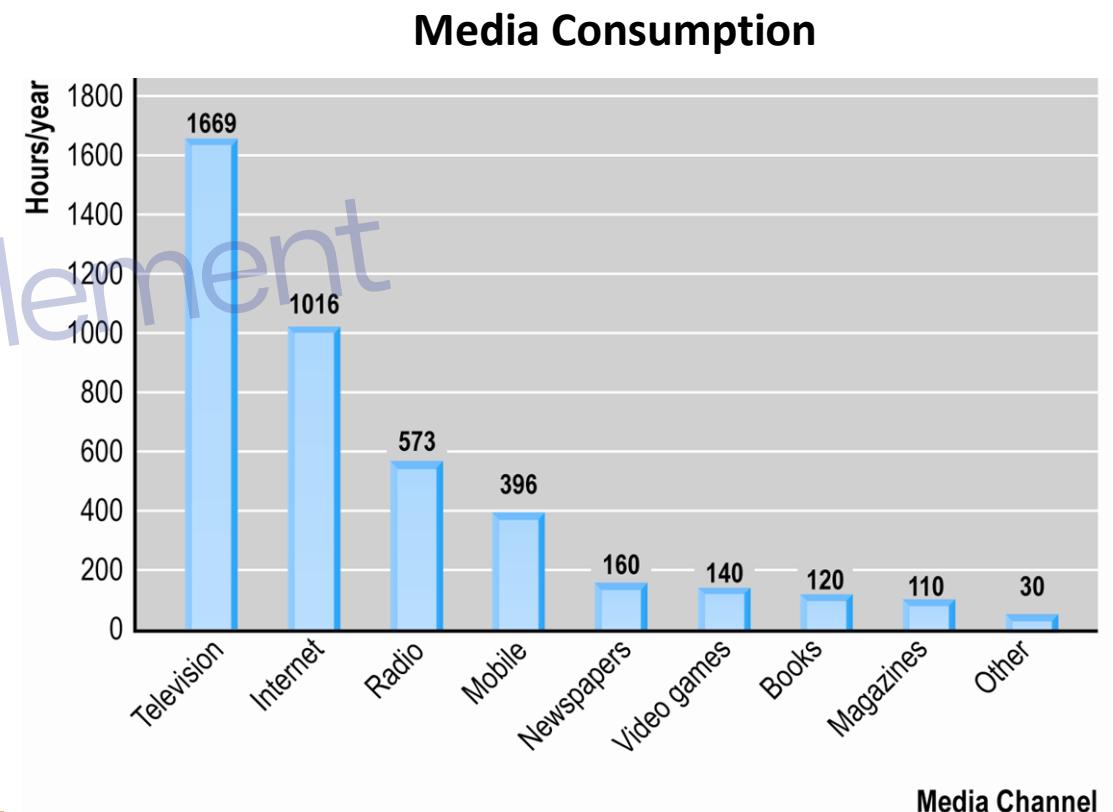
- Four Internet titans compete for ownership of **online content ecosystem**: **Apple, Google, Amazon, and Facebook.**
- **Radio:** Online radio attracts 100 million listeners each month.
- **Movies:** \$3.4 billion on online movies by spending.
- **Magazines:** Apps like Flipboard and Zinio.
- **Newspaper:** Online readership exceeds print readership.
- **Business Model:** Ad supported, subscription, a la carte, etc.
- **Paid content and free content** co-exists.
- Content gets **social**. Many social networking sites recommend contents.

Four Internet Titans



Content Audience and Market

- Average American adult spends **4,200 hrs/yr** consuming various media.
- **Over 77%** of the hours is spent consuming TV, radio, and Internet.
- Average American adult spends **2.8 hrs/day** on Internet.
- Desktop and mobile use: **4.6 hrs/day**
- Internet usage doesn't reduce TV viewing.



Question: How many hours per day do you spend on Internet?

Source: Based on data from eMarketer, Inc., 2012a, authors' estimates.

Internet vs. Traditional Media

- Cannibalization vs. Complementarity
 - ❖ Does time on Internet reduce (or increase) time spent on other media?
 - ❖ Traditional Media: Books, Newspapers, Magazines, Phone, and Radio.

- Internet Users
 - ❖ Spend relatively less time with traditional media,
 - ❖ Consume more media of all types than non-Internet users, and
 - ❖ often “**multitask**” with media consumption.

- Multimedia
 - ❖ Reduces cannibalization impact for some visual and aural media.

Multimedia Content

Examples of individual content forms combined in multimedia

*Aperture, in Geometry, is the Inclination of Lines which meet in a Point.
Aperture in Opticks, is the Hole next to the Object Glass of a Telescope, thro' which the Light and Image of the Object comes into the Tube, and thence it is carried to the Eye.*



Text

Audio

Still Images



Animation



Video Footage



Interactivity

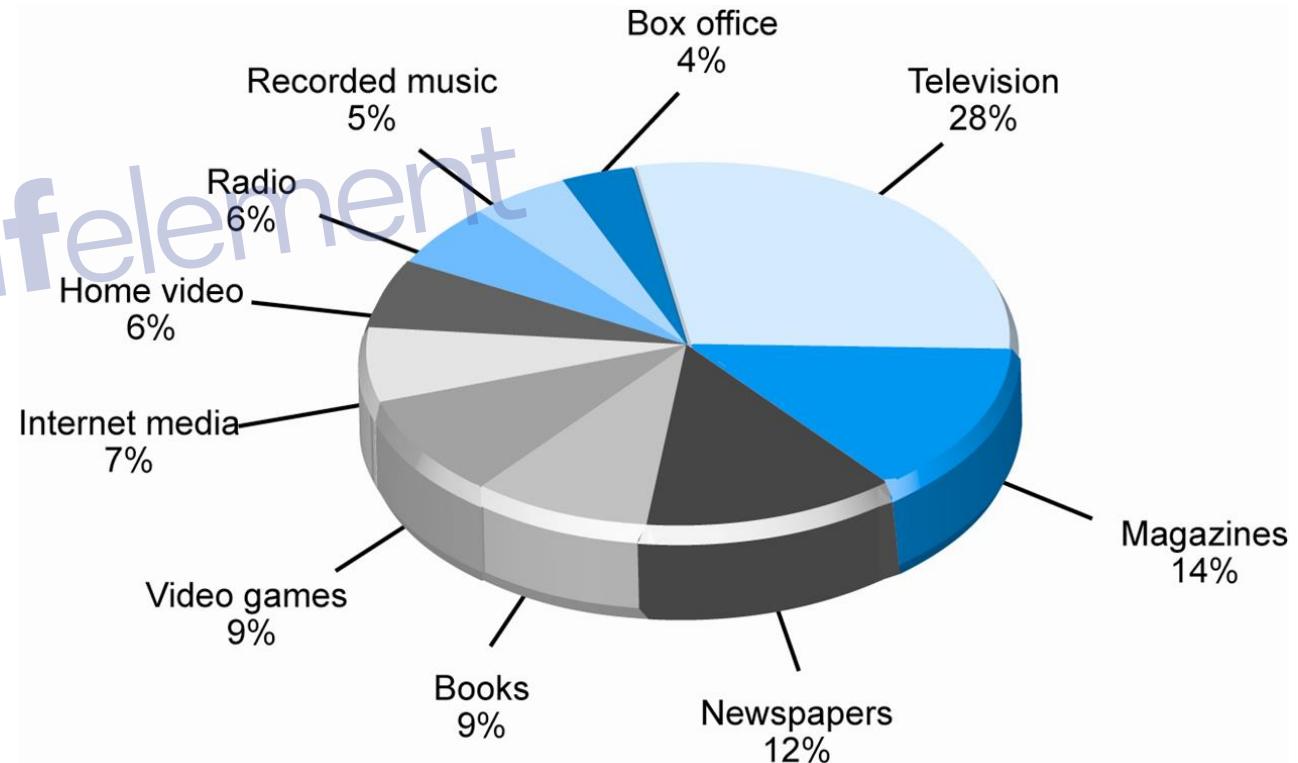
Media Revenue Models

3 Revenue Models

1. Subscription
2. À la carte
3. Advertising supported (free and freemium)

- **Freemium:** Free content can drive users to paid content.
- Users increasingly paying for high-quality, unique content. (Example: **Netflix**)

Media Revenue by Channel



Source: Based on data from industry sources; authors' estimates.

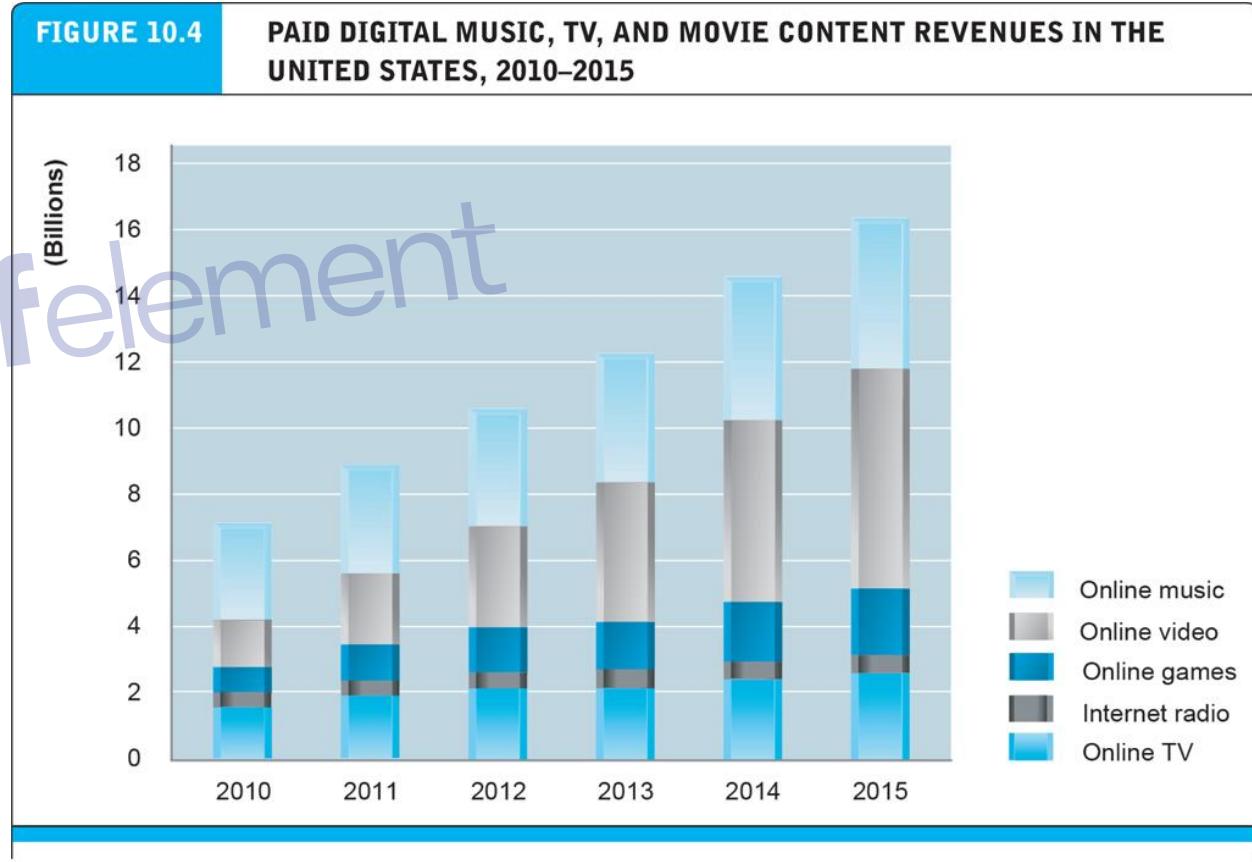
Online Media Revenue

Online Media Types

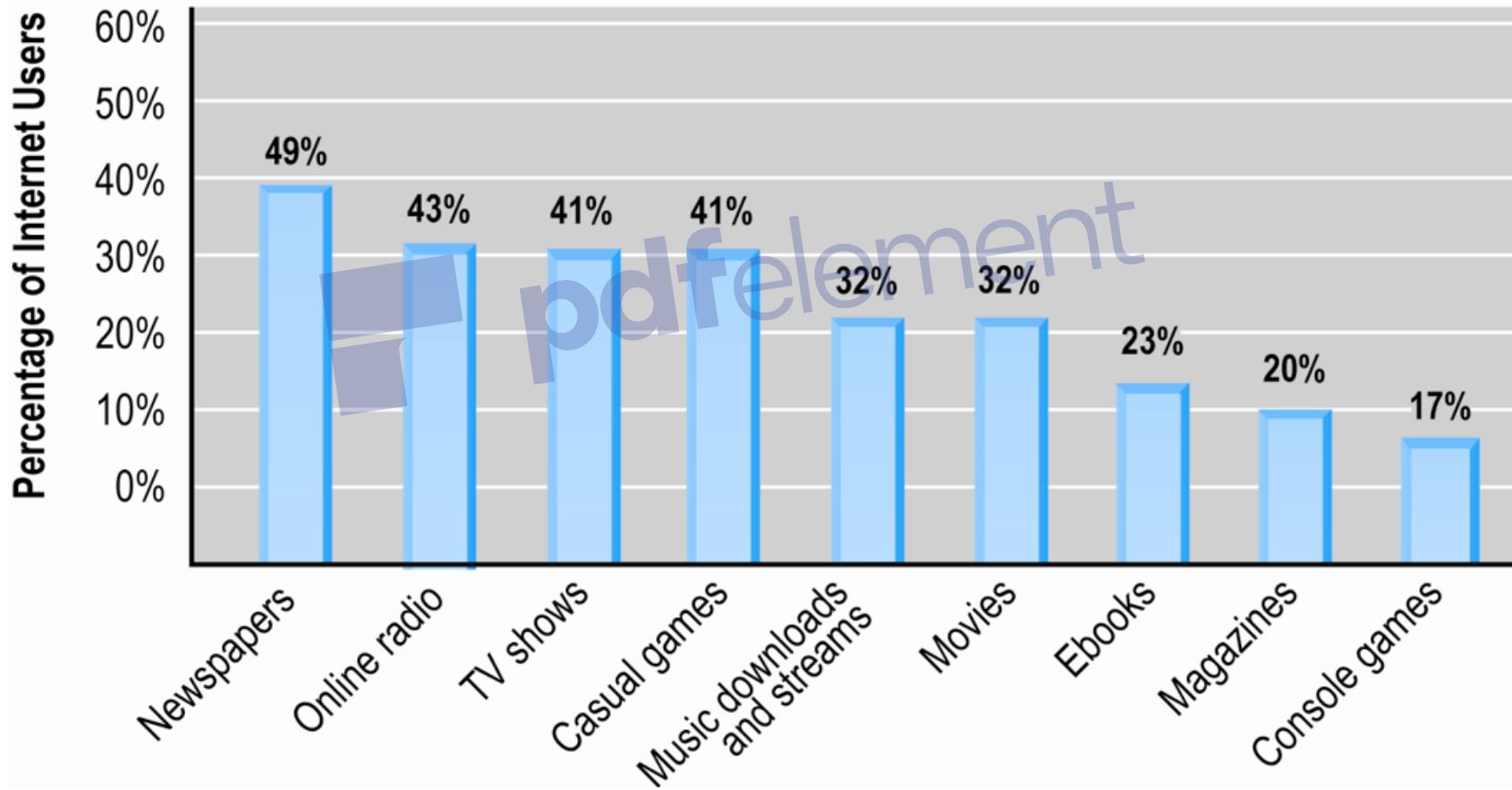
1. Online Music – [Spotify & Streaming](#)
2. Online Video
3. Online Games
4. Internet Radio
5. Online TV



Question: Which Revenue model will dominate online content in coming years?



Online Content Consumption (2012)



Source: Based on data from industry sources; authors' estimates.

Free or Fee (or Freemium)

- Early years: Internet audience expected free content but willing to accept advertising
 - ❖ Early content was **low quality**
- With advent of **high-quality** content, fee models successful
 - ❖ iTunes
 - ❖ 80 million buy from legal music sites
 - ❖ YouTube cooperating with Hollywood production studios

Digital Rights Management (DRM)

- DRM: Technical and legal means to protect digital content from unlimited reproduction and distribution
- Issue often cast as moral contest
- Telecommunications and device industries benefit from increased traffic
 - ❖ 23% of global Internet traffic is stolen material

Online Publishing Industry

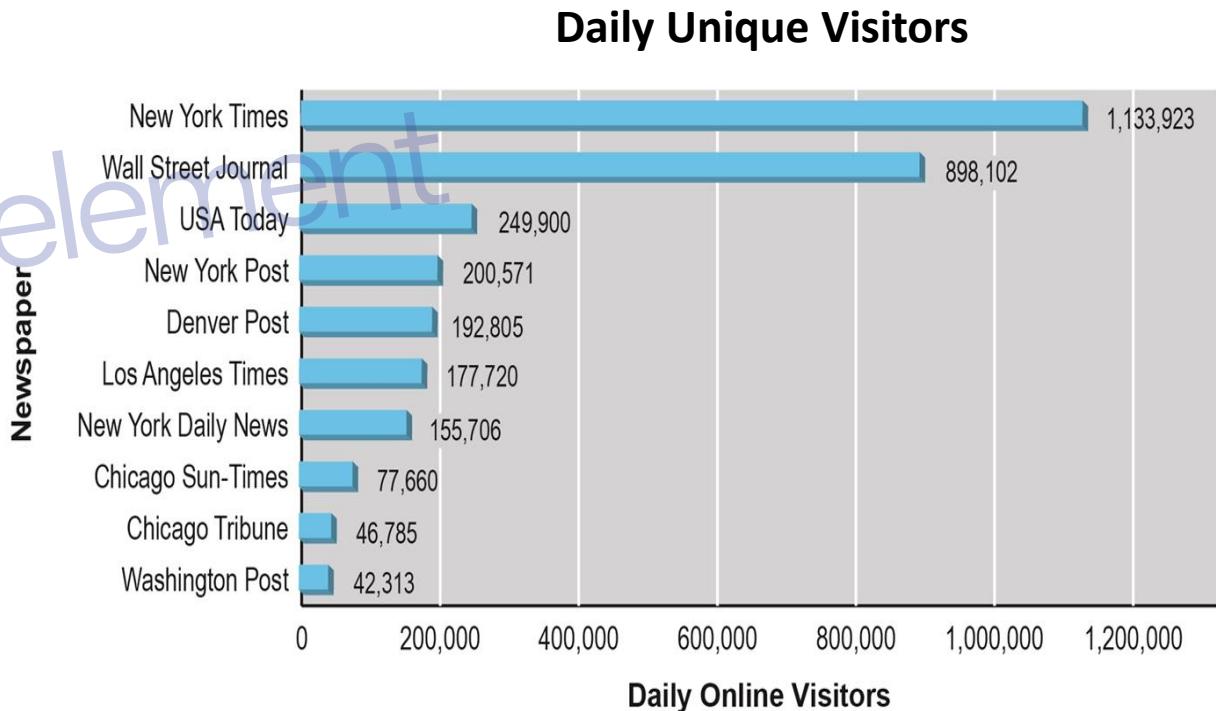
- \$92 billion based originally in print, moving rapidly to Internet
- Three segments
 - ❖ Online newspapers
 - ❖ E-books
 - ❖ Online magazines

pdfelement

Online Newspapers

- **Most troubled segment of publishing industry**
 - ❖ Failure to protect content from free distribution
 - ❖ 60% have reduced staff

- **However:**
 - ❖ Online readership growing at more than 10%
 - ❖ Mobiles, e-readers, tablets provide new avenues
 - ❖ More users willing to pay for premium content
 - ❖ Aggregators are recognizing need for high-quality content to distribute and use for advertisements



Newspaper Business Models

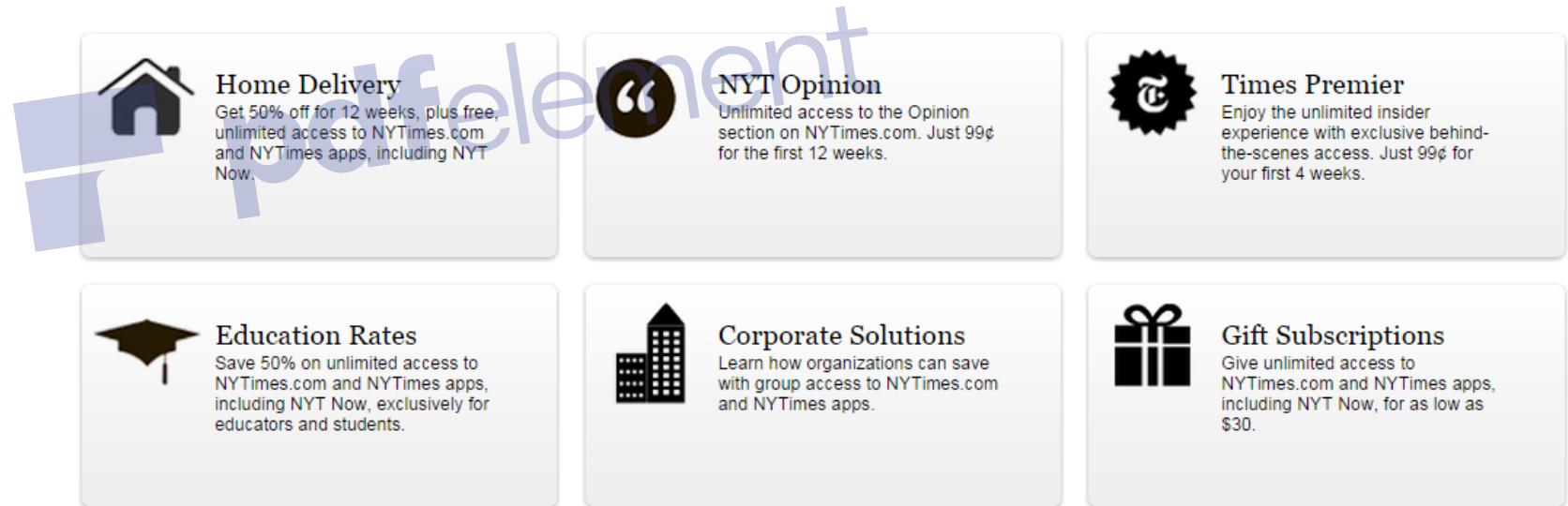
- Initially fee-based, then free, and now beginning a return to fee-based
- Newspaper headlines are primary content on Google News, Yahoo News
- *New York Times* now charging for premium access
- Newspaper efforts to ally with Internet titans
- New reader devices with reader apps

Example: New York Times

WHAT IS A DIGITAL SUBSCRIPTION? WHAT DO I GET WHEN I SUBSCRIBE?

A core New York Times digital subscription provides ongoing unlimited access to NYTimes.com from any computer or device, as well as access to apps on portable devices.

More subscriptions from The Times.



The grid contains the following information:

- Home Delivery**: Get 50% off for 12 weeks, plus free, unlimited access to NYTimes.com and NYTimes apps, including NYT Now.
- NYT Opinion**: Unlimited access to the Opinion section on NYTimes.com. Just 99¢ for the first 12 weeks.
- Times Premier**: Enjoy the unlimited insider experience with exclusive behind-the-scenes access. Just 99¢ for your first 4 weeks.
- Education Rates**: Save 50% on unlimited access to NYTimes.com and NYTimes apps, including NYT Now, exclusively for educators and students.
- Corporate Solutions**: Learn how organizations can save with group access to NYTimes.com and NYTimes apps.
- Gift Subscriptions**: Give unlimited access to NYTimes.com and NYTimes apps, including NYT Now, for as low as \$30.

Think Note 1: Netflix & YouTube

Questions –

1. Who will dominate online video industry in future?
2. In what ways Netflix & YouTube are different and similar? Suggest business strategies.



Next Class

- Chapter 10: Online Publishing Industry (Part 2), Online Entertainment Industry
- Read cases in Chapter 10.
- Homework 3 due (Wednesday Oct 8, Midnight).



Online Content and Media

WEEK 6 -> CLASS 2 -> ONLINE PUBLISHING AND ENTERTAINMENT

PROBAL MOJUMDER

OCTOBER 8TH, 2014



Agenda

- **Online Publishing Industry**
 - ✓ Online Newspaper
 - ✓ E-books
 - ✓ Online magazines
- **Online Entertainment Industry**
 - ✓ Television
 - ✓ Radio broadcasting
 - ✓ Hollywood films
 - ✓ Music
 - ✓ Games
- **Think Note 2 – Hollywood vs. Internet**



Online Publishing Industry

- **\$92 billion based originally in print, moving rapidly to Internet**
- **Three segments**
 - ❖ Online newspapers
 - ❖ E-books
 - ❖ Online magazines

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Role of copy right

[Link 1](#)

[Link 2](#)

Online Newspapers

■ Most troubled segment of publishing industry

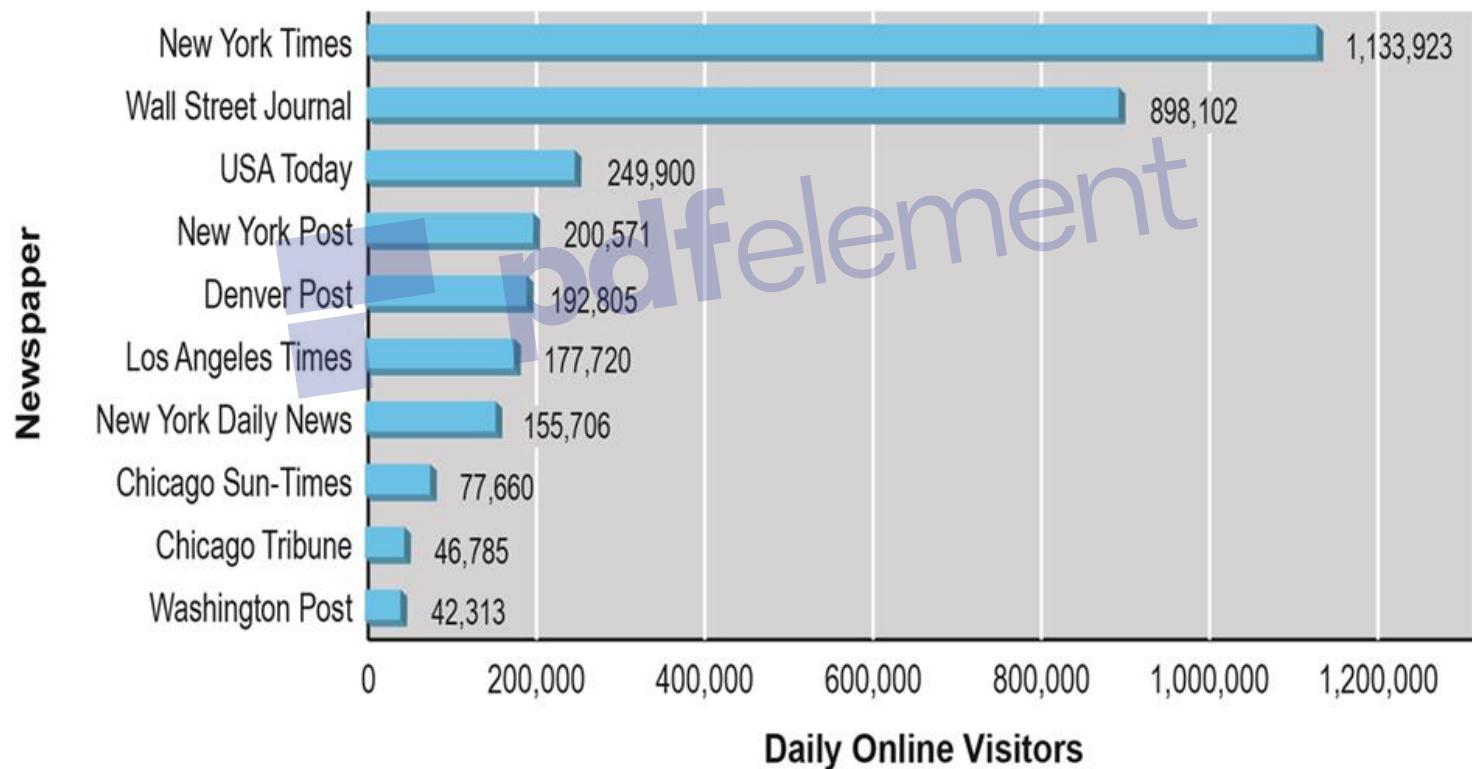
- ❖ Failure to protect content from free distribution
- ❖ 60% have reduced staff

■ However:



- ❖ Online readership growing at more than 10%
- ❖ Mobiles, e-readers, tablets provide new avenues
- ❖ More users willing to pay for premium content
- ❖ Aggregators are recognizing need for high-quality content to distribute and use for advertisements

Daily Unique Visitors at Online Newspapers



Example: New York Times

WHAT IS A DIGITAL SUBSCRIPTION? WHAT DO I GET WHEN I SUBSCRIBE?

A core New York Times digital subscription provides ongoing unlimited access to NYTimes.com from any computer or device, as well as access to apps on portable devices.

More subscriptions from The Times.

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- Times Premier**: Enjoy the unlimited insider experience with exclusive behind-the-scenes access. Just 99¢ for your first 4 weeks.
- Education Rates**: Save 50% on unlimited access to NYTimes.com and NYTimes apps, including NYT Now, exclusively for educators and students.
- Corporate Solutions**: Learn how organizations can save with group access to NYTimes.com and NYTimes apps.
- Gift Subscriptions**: Give unlimited access to NYTimes.com and NYTimes apps, including NYT Now, for as low as \$30.

Check – Wall Street Journal

Question: Why did they create so many types of subscription options?

Newspaper Business Models

- 1. Initially fee-based, then free, and now beginning a return to fee-based**
- 2. Newspaper headlines are primary content on Google News, Yahoo News**
- 3. Newspaper efforts to ally with Internet titans**
- 4. New reader devices with reader apps**

Challenges: Disruptive Technologies

- **Newspapers: A classic case of disruptive technology?**
- **Industry still in flux**
 - ❖ Newspapers have significant assets:
 - Content
 - Readership
 - Local advertising
 - Audience (wealthier, older, better educated)
 - ❖ Online audience will continue to grow in numbers and sophistication

Question: Why is online newspaper a disruptive technology?

E-Books

- E-book sales have exploded in recent years—\$5.8 billion in 2013

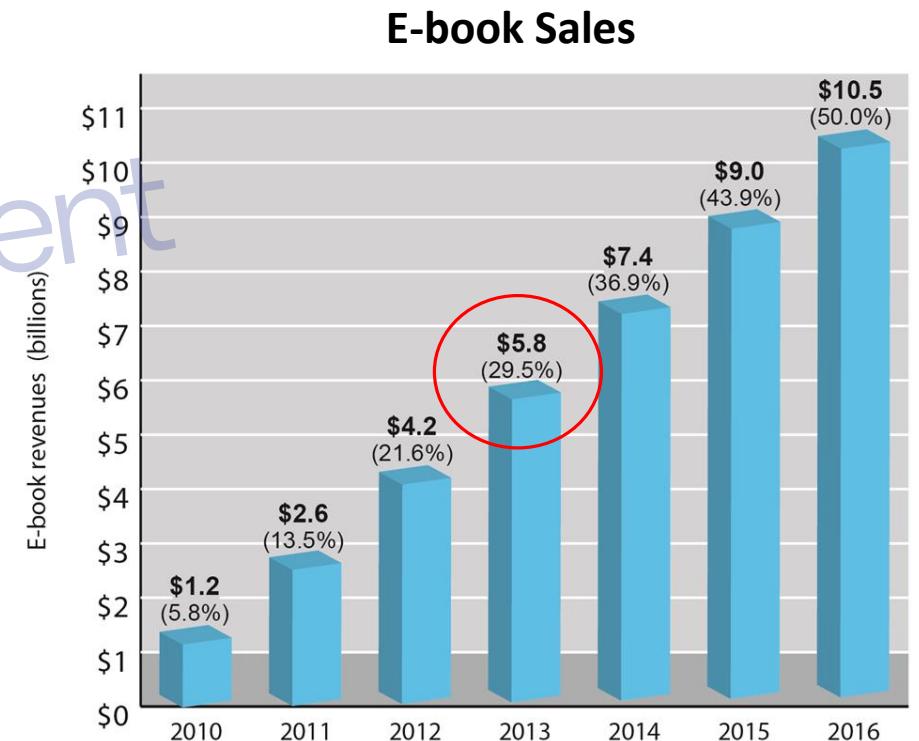
- ❖ 30% of all consumer book sales

- New channel for self-publishing authors

- ❖ Amanda Hocking's My Blood Approves (2010)

- Evolution

- ❖ Project Gutenberg (1970s)
 - ❖ Voyager's books on CD (1990s)
 - ❖ Adobe's PDF format



New Digital Ecosystems

- **E-book hardware, software, combined with online megastores**
 - ❖ Amazon Kindle: Linked to Amazon store and cloud storage
 - ❖ Apple iPad: Multipurpose tablet, linked to Apple stores
- **Authors able to bypass traditional agent, publisher channels**
- **DRM more effective for e-books than music industry**

Challenges of E-book Platform

■ Cannibalization

- ❖ Fewer physical sales
- ❖ More e-book sales, more purchases of readers
- ❖ Book publishing revenues same in 2012 and 2011

■ Finding the right business model

- ❖ Wholesale model
 - Retailers pay wholesale price and establish retail price
- ❖ Agency model
 - Distributor as agent must charge publisher's retail price

■ Converging technologies

- ❖ Interactive books, [iBook Author](#), iBook Textbooks

Magazines

■ Magazine circulation plummets 1980–2012

- ❖ From 22 million in 2001 to 10 million in 2012
- ❖ Special interest magazine sales remained stable

■ Magazines are making up for loss in print readership

- ❖ One-third of U.S. Internet users read online magazines
 - 35% of tablet users
- ❖ Apple's iPad subscription service
- ❖ Popular Web sites (Pinterest, Facebook) drive traffic to online magazines
- ❖ Social reader apps
- ❖ Magazine aggregators – Flipboard, Zinio

Online Entertainment Industry

- **Four traditional players, one newcomer**
 - ❖ Television
 - ❖ Radio broadcasting
 - ❖ Hollywood films
 - ❖ Music
 - ❖ Games (new arrival)

Online Entertainment Audience Size

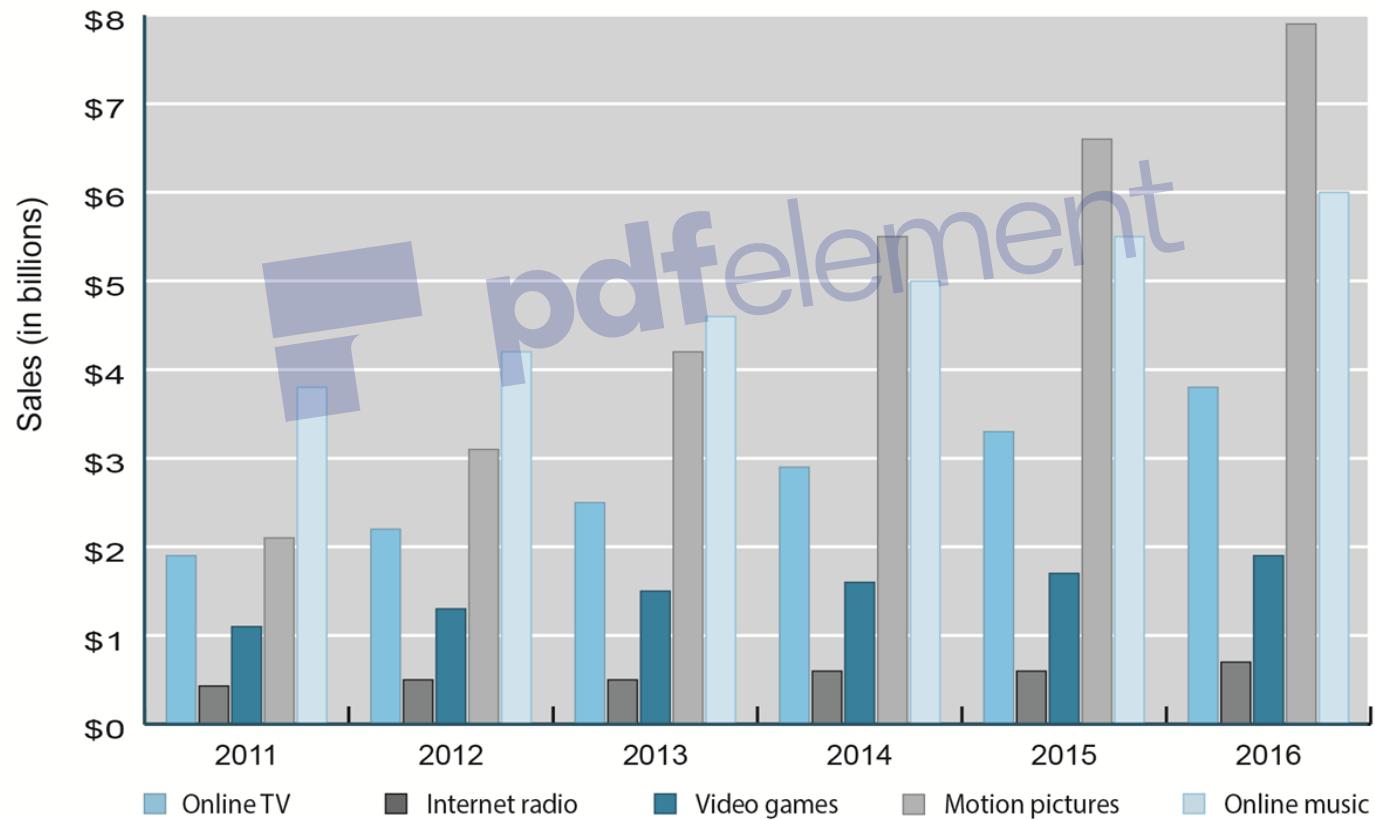
■ Online “traditional” entertainment

- ❖ Online video has largest audiences, followed by music, games

■ User-generated content:

- ❖ Substitutes for and complements traditional commercial entertainment
- ❖ Two dimensions:
 - User focus
 - User control
- ❖ Sites that offer high levels of both will grow

Projected Growth in Online Entertainment



SOURCES: Based on data from industry sources; authors' estimates.

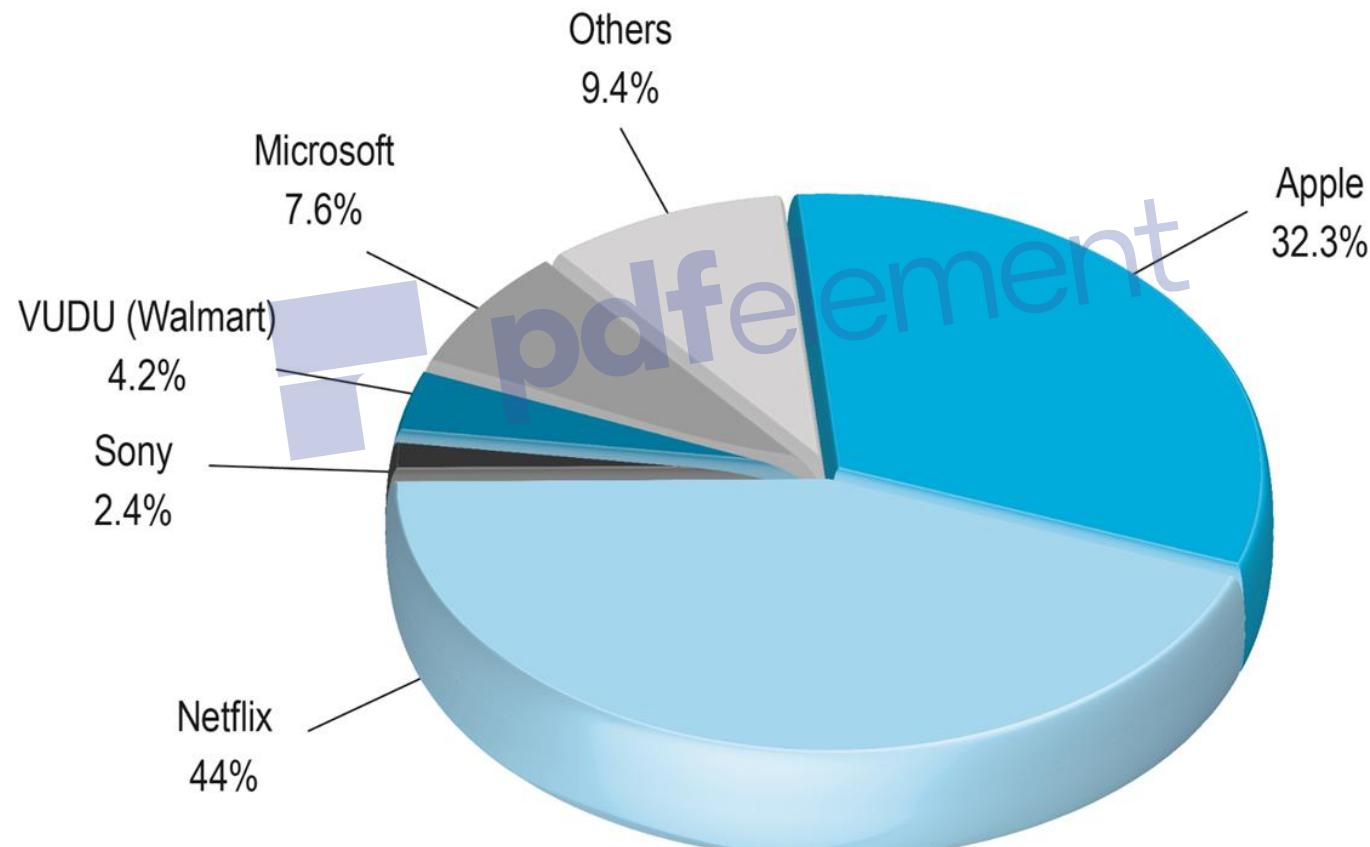
Television

- **Television: Largest provider of high-demand content**
- **TV industry transitioning to new Internet delivery platforms**
 - ❖ Expansion of broadband networks
 - ❖ New mobile platforms and cloud servers
 - ❖ OTT: Over-the-top (Internet) delivery
- **Impact on cable TV industry**
- **Social network influences**
- **Hulu: Joint venture of industry players**

Movies

- **Difficult transition from DVD-reliance to streaming distribution to PCs and mobile devices**
 - More Americans bought online movies than DVDs in 2013
 - Many alliances and competing interests between distributors and creators
- **Piracy, cyberlockers**
- **Two types of online movie sales**
 - Internet video on demand (iVOD)
 - Electronic sell-through

Online Movie Business Share of Movie Revenues



SOURCES: Based on data from NPD Group, 2013a; industry sources.

Music

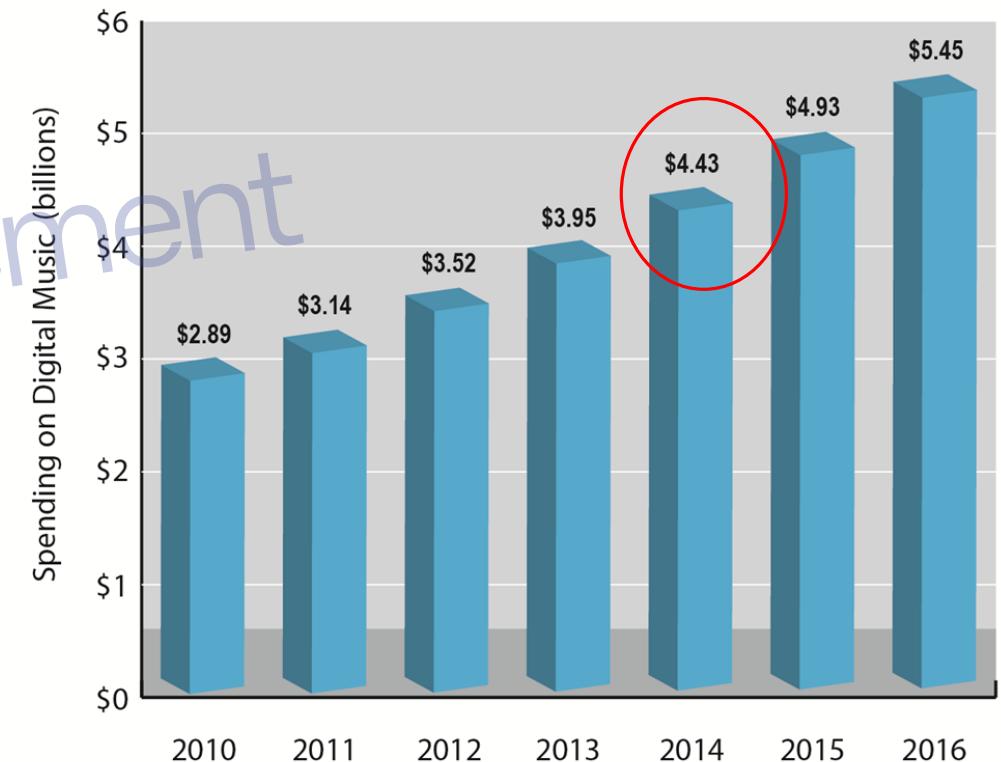
■ Most changed of content industries

- Move from physical to digital product
- Unbundling of single songs
- Distributor market dominated by Apple

■ Digital revenues account for more than half of all revenues

■ Two types of digital music services

- Digital download—90% of digital music revenue
- Streaming subscription services—fastest growing

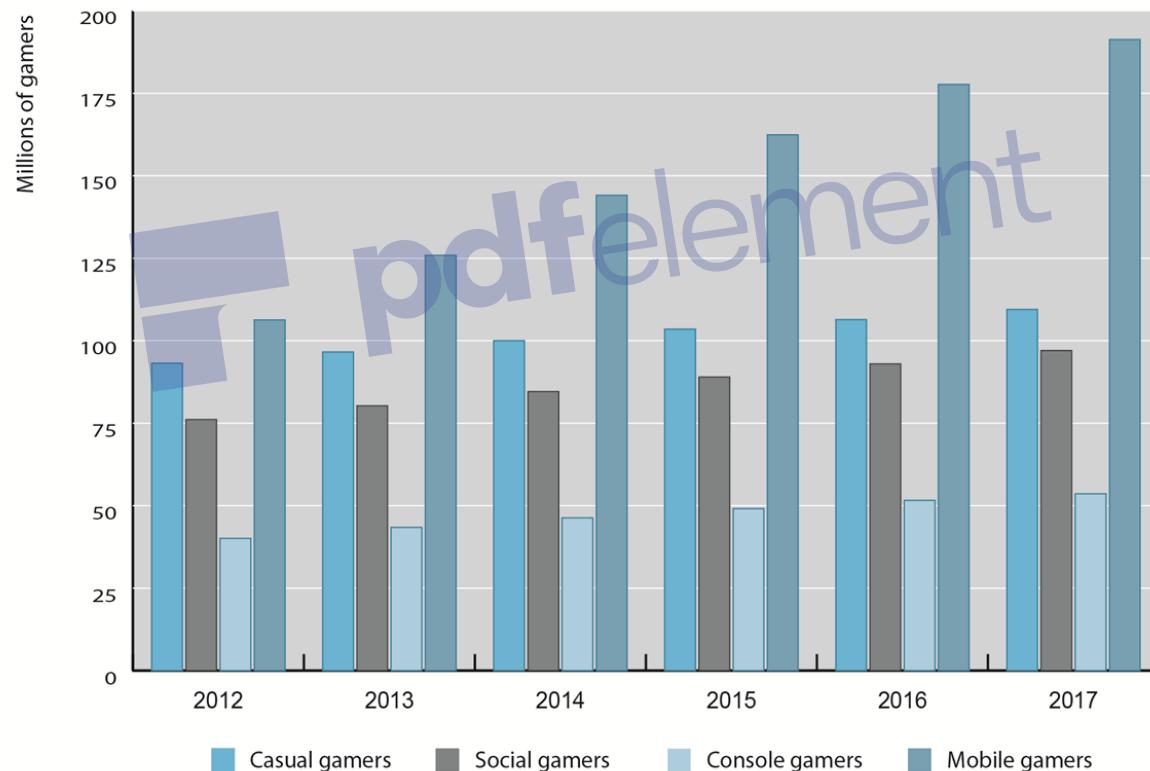


Games

- **Online gaming has had explosive growth**
- **Types of online gamers**
 - Casual
 - Social
 - Mobile—fastest growing market
 - Console
- **Business models in flux**
 - Most online/mobile games offered for free (or freemium)



Online Gaming Audience

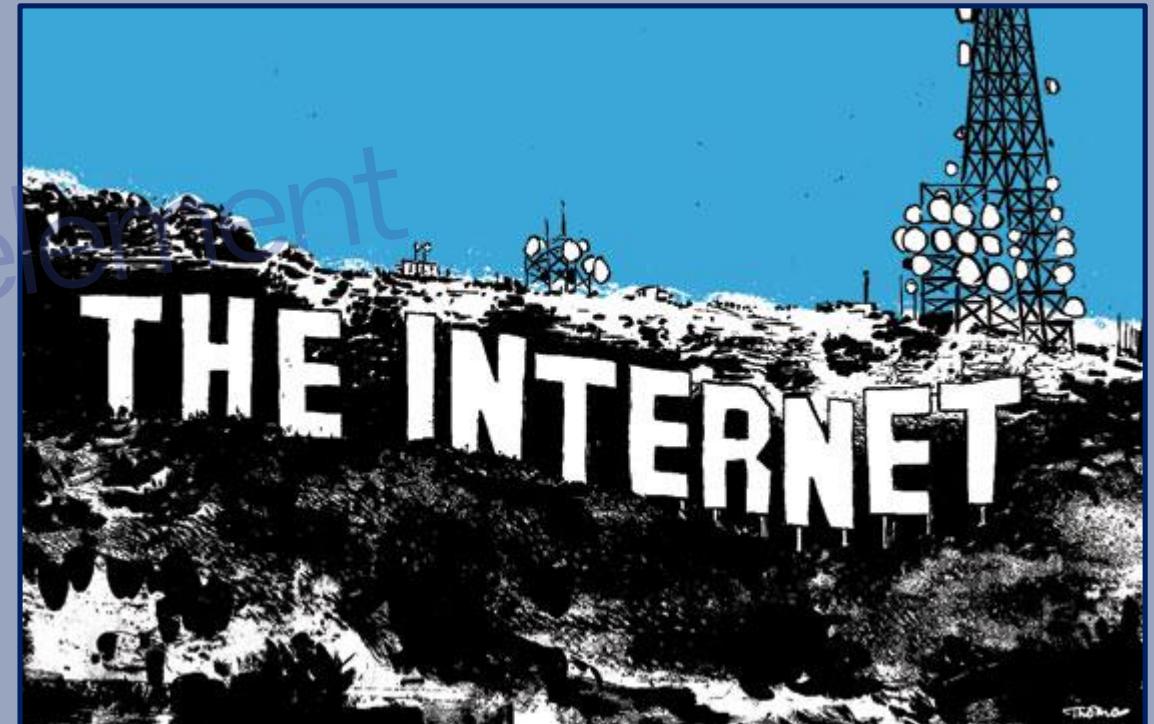


SOURCE: Based on data from eMarketer, Inc., 2013b

Think Note 2: Hollywood and the Internet

Questions –

- What challenges has the Internet posed to traditional Hollywood movie distribution? What is the biggest challenge?
- Do you think Hollywood is doing a better job of protecting its content than the music industry?
- What is the most realistic and profitable path forward for the Hollywood film industry?



Take Away: Media Convergence

■ Technological convergence

- ❖ Hybrid devices

■ Content convergence

- ❖ Three aspects: Design, production, distribution
- ❖ New tools for digital editing and processing

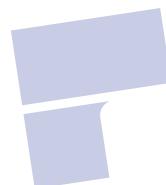
■ Industry convergence

- ❖ Merger of media enterprises into firms that create and cross-market content on different platforms

Next Class (Oct, 13)

➤ Project Presentation: Group 1 to 5

- ✓ Reditt
- ✓ Zillow
- ✓ E-Trade
- ✓ Warby Parker
- ✓ eBay



pdfelement



Course Recap

WEEK 8 -> CLASS 1 -> COURSE RECAP

PROBAL MOJUMDER

OCTOBER 20TH, 2014



Agenda

- Course Recap
- SRT forms
- Final Think Note



8 unique Features of E-Commerce

1. Ubiquity
2. Global Reach
3. Universal Standards
4. Information Richness
5. Interactivity
6. Information Density
7. Personalization
8. Social Technology



8 Key Elements

1. Value Proposition
2. Revenue Models
3. Market Opportunity
4. Competitive Environment
5. Competitive Advantage
6. Marketing Strategies
7. Organizational Development
8. Management Team

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pdfelement

Business-to-Consumer (B2C) Business Models

1. **E-Tailers:** They are online retail stores. (They operate mainly in the virtual world or as “bricks-and-clicks” stores.)
2. **Community Provider:** They are sites for like-minded people to meet and converse. (like Facebook, LinkedIn, Twitter, etc.)
3. **Content Provider:** They distribute information content over the web.
4. **Portal:** They offer web search tools, as well as content and services. (like Yahoo, MSN, AOL, etc.)
5. **Transaction Broker:** These sites process transactions for consumers. (like Monster.com)
6. **Market Creator:** They build a digital environment where buyer and sellers can transact. (like eBay)
7. **Service Provider:** They offer services online. (like photo sharing, video sharing, etc.; Example Youtube)

Role of Internet and Web toward E-Commerce

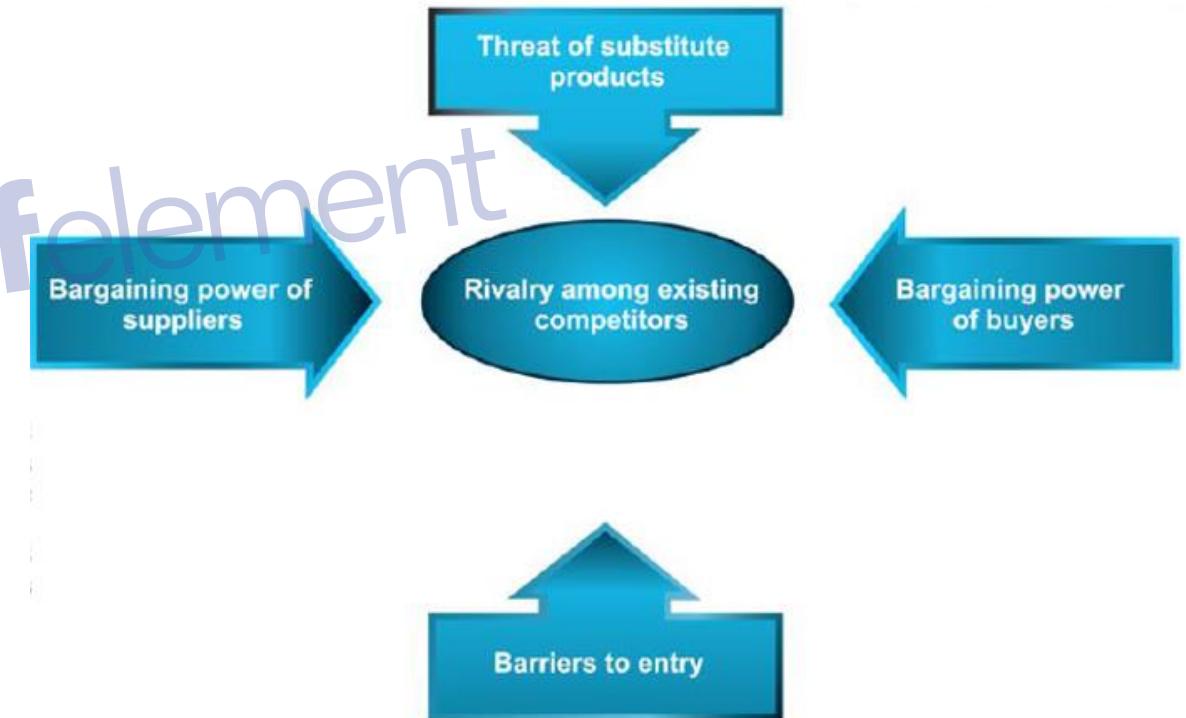
E-commerce changes industry structure.

(Industry structure is the general business environment in the industry)

Key Pillars:

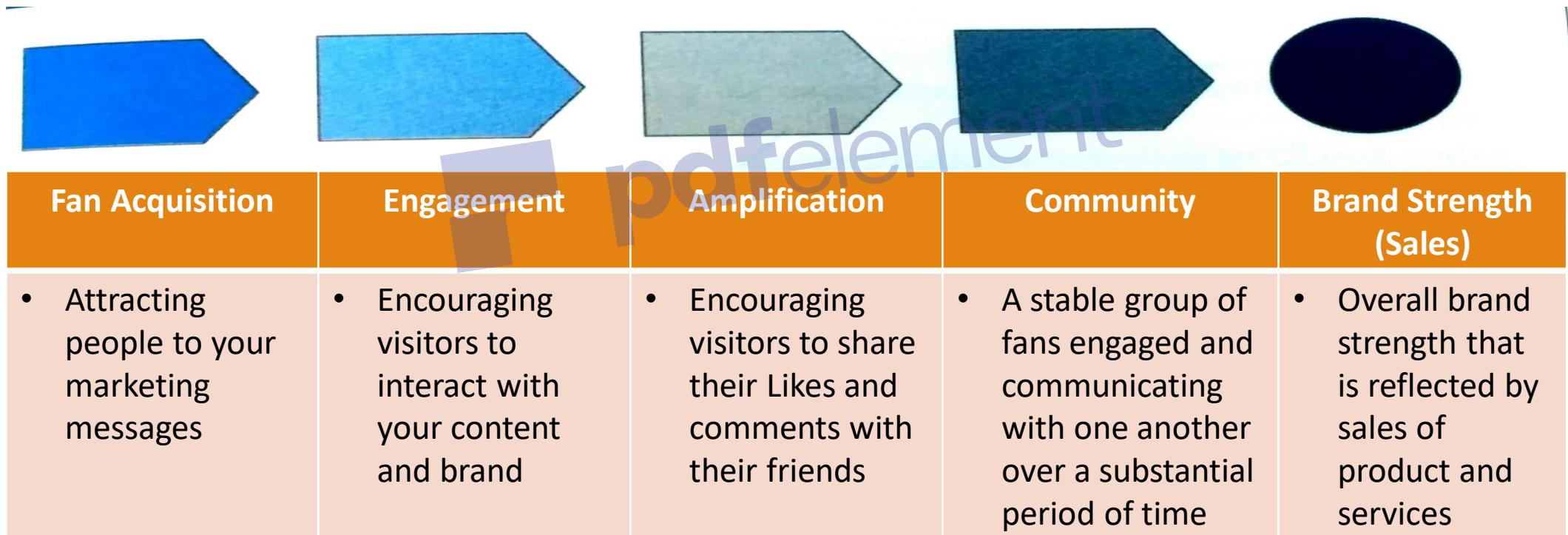
1. Price Competition
2. Barrier to Entry
3. Bargaining Power (Seller Side)
4. Bargaining Power (Buyer Side)
5. Product Substitution

How E-commerce Influences Industry Structure



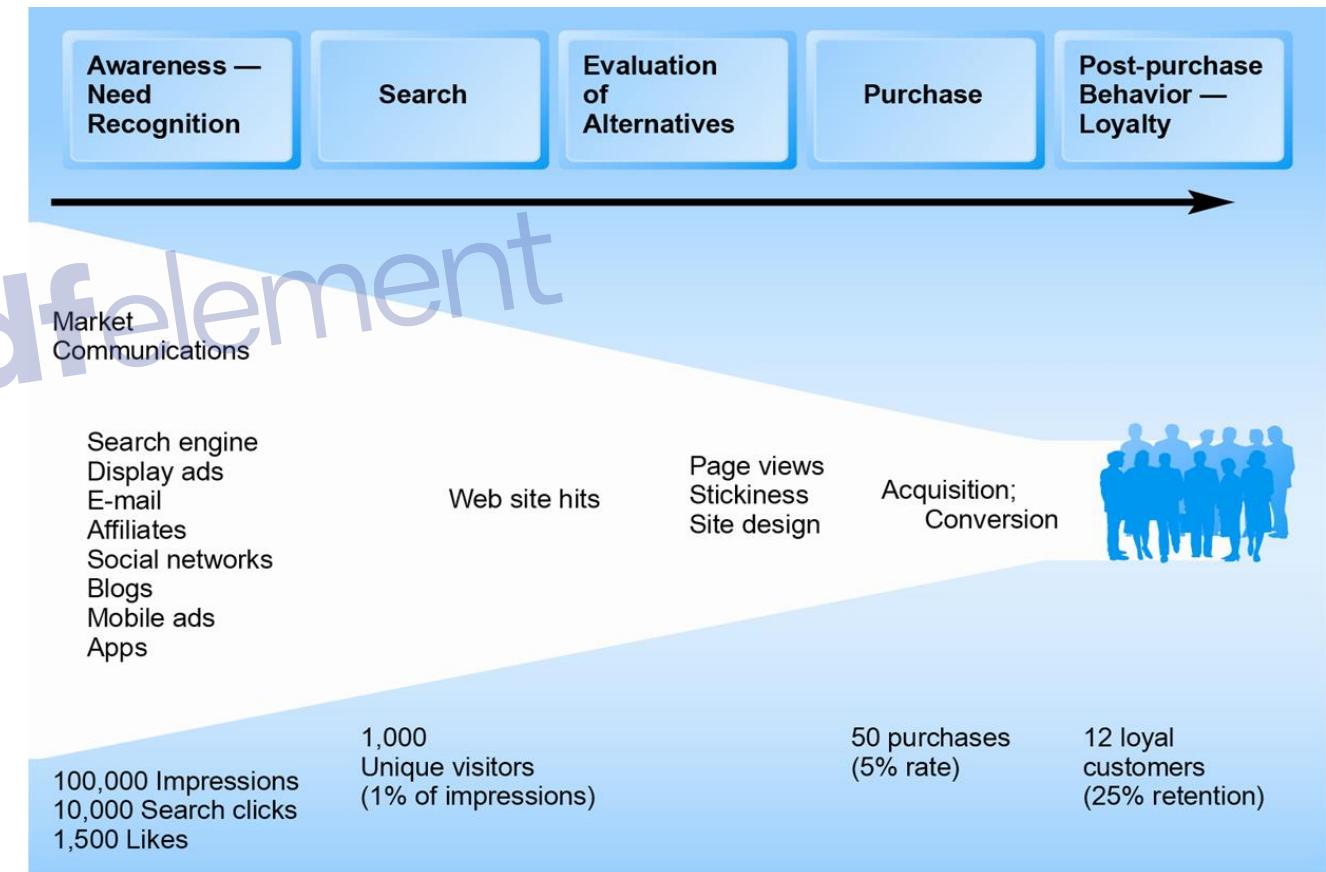
Social Marketing Process

Five Step Process

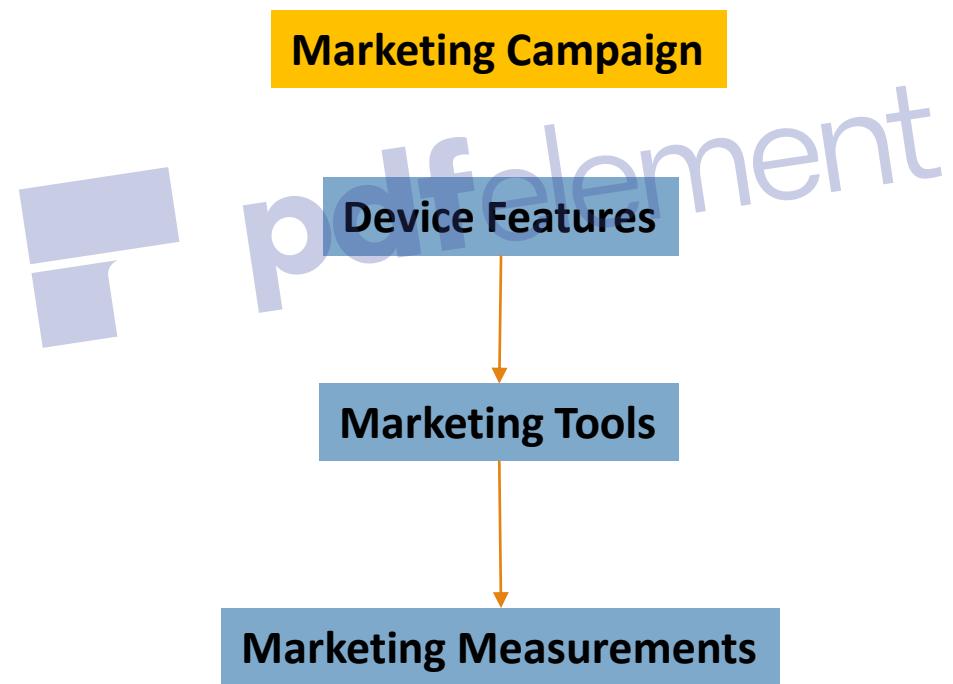


Online Consumer Purchasing Model

There is a lengthy path from simple online ad impressions, Web site visits, and page views to the purchase of a product and the company making a profit.



Marketing Campaign



Online Advertisements

1. Display ads (banners & pop-ups)
2. Rich media ads
3. Video ads
4. Search engine ads
5. Mobile and local ads
6. Social network ads: social networks, blogs, and games
7. Sponsorships
8. Referrals (affiliate relationship marketing)
9. E-mail marketing



Effectiveness Measure

Main Advantage: Online sales can generally be directly correlated with online marketing efforts.

Effectiveness Measure:

$$ROI = \frac{\text{Additional Revenue Received due to the ad campaign}}{\text{Cost of the ad campaign}}$$

$$\text{or, } ROI = \frac{\text{Profit}}{\text{Cost}}$$

If ROI is greater than 1, then the ad campaign is successful.

Revenue Model: Free or Fee (or Freemium)

- Early years: Internet audience expected free content but willing to accept advertising
 - ❖ Early content was **low quality**
- With advent of **high-quality** content, fee models successful
 - ❖ iTunes
 - ❖ 80 million buy from legal music sites
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Digital Rights Management (DRM)

- DRM: Technical and legal means to protect digital content from unlimited reproduction and distribution
- Issue often cast as moral contest
- Telecommunications and device industries benefit from increased traffic
 - ❖ 23% of global Internet traffic is stolen material

Disruptive Technologies

- **Newspapers: A classic case of disruptive technology?**
- **Industry still in flux**
 - ❖ Newspapers have significant assets:
 - Content
 - Readership
 - Local advertising
 - Audience (wealthier, older, better educated)
 - ❖ Online audience will continue to grow in numbers and sophistication

Media Convergence

■ Technological convergence

- ❖ Hybrid devices

■ Content convergence

- ❖ Three aspects: Design, production, distribution
- ❖ New tools for digital editing and processing

■ Industry convergence

- ❖ Merger of media enterprises into firms that create and cross-market content on different platforms

Homework Cases

Case 1



Case 2



Case 3



Group Presentations

Day 1



3:45 pm – 4:05 pm



4:05 pm – 4:25 pm



4:25 pm – 4:45 pm

WARBY PARKER
eyewear



4:45 pm – 5:05 pm



5:05 pm – 5:25 pm

Day 2



3:45 pm – 4:05 pm



4:05 pm – 4:25 pm



4:25 pm – 4:45 pm



4:45 pm – 5:05 pm



5:05 pm – 5:25 pm

Think Notes

Multi-Sided Markets

WORKING KNOWLEDGE

New Research Explores Multi-Sided Markets

Q&A with Andrei Hagiu
Published: March 13, 2006
Author: Sean Silverstein

Andrei Hagiu is on the vanguard of a new field of business research that explores the dynamics of *multi-sided markets*. Although these markets have been around a long time, they have not really been recognized as entities unique from other markets: research into multi-sided markets only began a few years ago.

Most markets are *one-sided* in nature—customers interested in buying movie tickets, for example. But a number of markets are *two-sided* or *multi-sided*. These markets are also *interdependent*. Hagiu, an assistant professor at Harvard Business School, defines these multi-sided markets as platforms that serve two or more distinct groups of customers who value each other's participation. Examples include eBay, which connects buyers and sellers of used goods; malls that are both men and women shopping malls serve both retailers and shoppers; and operating system companies need end-users and application developers. Increasingly, markets in large part to technology are the latest incarnation of multi-sided markets.

But how do they work? What are effective strategies for players in these markets? Below, Hagiu discusses his research into this emerging field and its implications for executives.

Q: Can you think of examples of M2P?

Groupon

UNDRESSING Groupon
An Analysis of the Groupon Business Model

Ahmadali Arabshahi
December 16, 2010

Most markets are *one-sided* in nature—customers interested in buying movie tickets, for example. But a number of markets are *two-sided* or *multi-sided*. These markets are also *interdependent*. Hagiu, an assistant professor at Harvard Business School, defines these multi-sided markets as platforms that serve two or more distinct groups of customers who value each other's participation. Examples include eBay, which connects buyers and sellers of used goods; malls that are both men and women shopping malls serve both retailers and shoppers; and operating system companies need end-users and application developers. Increasingly, markets in large part to technology are the latest incarnation of multi-sided markets.

Facebook



Zappos



Alibaba vs. Amazon



Netflix & YouTube



Virtual Worlds

Economics 2.0? A business primer on virtual worlds

By G. Negus
Published October 7, 2007 9:29 p.m. | Updated October 7, 2007 10:19 p.m.

On August 2007, the digital world experienced a first: a certain run on a bank located on the "virtual" island of Second Life. The bank, which had been established by the company Ginkgo Financial, their practitioners drew much attention. But far from identifying it as a anomaly, many commentators & confirmed the faithfulness of the computer simulation after all, the real world.

But one can also see this collapse as a test of the economic reality behind the beginning "Web 2.0": the newly but vaguely defined set of digital operations centered on interactive and collaborative activities. Web 2.0 has brought a new lease on life to the gold rush vein of the digital economy, but it has also brought with it a new set of challenges, technological, aesthetic, and cultural. But are they, this time around, also a business?

Resource: Web 2.0 is such a vague and sprawling concept, let's focus on one of its tangible, virtual worlds. One consulting group optimistically forecast that 50 per cent of internet users by 2010 will be active participants in virtual worlds. That's a lot of people, and a lot of them. Second life, on their cover, nobody, it seemed, wanted to be left behind in the new first world. Reuters established a news bureau on it. The Swedish government built an embassy there.

But can the virtual world sustain itself economically? Or is it fundamentally a high-soap Ponzi scheme in which early participants reap the benefits of later arrivals? There are at least seven business models in a virtual world.

Q: Are virtual worlds still in game?

—Any new examples?

Pandora

Pandora freemium model

Free services:
• Free ad-supported radio listening
Premium service(s):
• Premium plan without ads

QR Code



Ad-blocking



ZipCar



Hollywood & Internet



Final Think Note: Dark Side of E-Commerce

We will have a debate on this case:

- 1. Group 1: For E-commerce** – You can highlight ways in which E-commerce bolsters business.
- 2. Group 2: Against E-commerce** – You can highlight fundamental flaws in E-commerce business models.





New Research Explores Multi-Sided Markets

Q&A with: Andrei Hagiu

Published: March 13, 2006

Author: *Sean Silverthorne*

Andrei Hagiu is on the vanguard of a new field of business research that explores the dynamics of multi-sided markets. Although these markets have been around a long time, they have not really been recognized as entities unique from other markets; research into multi-sided markets only began a few years ago.

Most markets are one-sided in nature—customers interested in buying running shoes, for example. But a multi-sided market involves more players—and each has its own interests to be served. Multi-sided markets are also interdependent. Hagiu, an assistant professor at Harvard Business School, defines these multi-sided markets as platforms that serve two or more distinct groups of customers who value each other's participation. Examples: eBay provides markets for both buyers and sellers, dating club clients are both men and women, shopping malls serve both retailers and shoppers, and operating system companies need both end-users and application developers. Increasingly, thanks in large part to technology and the Internet, multi-sided markets are becoming more common.

But how do they work? What are effective strategies for players in these markets? Below, Hagiu discusses his research into this emerging field and its implications for executives.

Q : Can you think of examples of MSB ?

Economics 2.0? A business primer on virtual worlds

[Print](#)

By Eli Noam

Published: October 2 2007 16:22 | Last updated: October 2 2007 16:22

In August 2007, the digital world experienced a first: a genuine **run on a bank** located on the **“virtual world”** Second Life. As depositors rushed to withdraw their funds from the shadowy Ginko Financial, their predicament drew much attention. But far from identifying it as a calamity, to many commentators it confirmed the faithfulness of the computer simulation: after all, the real world had long experienced insolvencies, too.

But one can also see this collapse as a test of the economic reality behind the booming **“Web 2.0”**, the trendy but vaguely defined set of digital operations centred on interactive and collaborative activities. Web 2.0 has brought a new lease on life to the gold rush wing of the digital economy. It is easy to accept that the new activities are exciting sociologically, aesthetically, and culturally. But are they, this time around, also a business?

Because Web 2.0 is such a vague and sprawling concept, let's focus on one of its flagships, virtual worlds. One consulting group optimistically forecast that 80 per cent of internet users by 2011 will spend time in a virtual world. After major business magazines featured the largest of them, Second Life, on their cover, nobody, it seemed, wanted to **be left behind** in the old first world. Reuters established a news bureau on the site. The Swedish government built an **embassy**. **Congressmen** gave virtual speeches.

But can this virtual world sustain itself economically? Or is it fundamentally a high-tech Ponzi scheme in which early participants reap the benefits from later arrivals? There are at least seven business models in a virtual world:

Q: Are virtual worlds still in game?

— Any new examples?

UNDRESSING Groupon

An Analysis of the Groupon Business Model

Ahmadali Arabshahi
December 16, 2010

Introduction

Groupon is fascinating. How can a two-year old startup employing simple technologies (e.g. email and a website) generate hundreds of millions of dollars in economic value? Where is the value coming from? In this essay, I try to provide an answer and uncover the business model's underlying principles. I find, and think that you will agree, that the model has many subtle intricacies.

From a simple perspective, Groupon is a mediation platform that connects people seeking bargains with merchants who are willing to provide them. From another perspective, it is an online couponing system. But neither description does the model justice. A better way to gain insight is to think of Groupon as a monetization strategy. The company has a very large number of email subscribers and has figured out how to monetize them in a self-reinforcing virtuous cycle. They do it by providing something of value to merchants. Our analysis begins by examining this something of value.

Before that, we take a quick look at the subscribers:

The Subscriber Base

Groupon's massive subscribers base – 40 million according to news reports – is an email distribution list segmented on the basis of geographical boundaries and a key factor in the company's ability to mobilize customers.

Email is both the mechanism for reaching subscribers and the basis of the connection's persistence. But more importantly, it is cheap – something that can be appreciated by contrasting it with the practices of advertising in newspapers or slipping flyers under doors. With traditional methods, marginal costs increase with greater geographic coverage. But with email, the cost of sending a promotion is the same regardless of location.

Because of this property, Groupon can target the maximum relevant geographic area when promoting a local merchant. Each deal region – usually a densely populated urban area described as an "expanded local" – is large enough to cover any subscriber with the potential to participate. The harvesting of the maximum geographic area maximizes Groupon's ability to generate customers for merchants.

Value to Merchants

Merchants benefit from a Groupon transaction most obviously because of a large influx of customers over a short period of time. In the long term, a merchant can also benefit from repeat customers and referrals. We assume rational managers, so a Groupon transaction presumably leads to greater immediate profit, greater future profit, or both (i.e. not sacrificing one for the other).

In a nutshell, Groupon delivers customers using a combination of a promotional service, a price discrimination service and a supporting prepayment service. What is special is the massive scale of the business – by virtue of the large subscriber base, the “expanded local” size of each region, and the numerous markets, both domestic and international.

Q: Groupon has an unique business model
that uses email technology to inform
customers about deals.

Do you think Groupon's business model
is robust and capable of generating
profit?

Think Note 2: Pandora Case

FREEMIUM.ORG

Pandora

Pandora is personalized radio service that plays music based on every user's individual taste. Most companies that mix Freemium and advertising, make the largest share of the revenue from Premium products. Pandora is interesting because the lion share of their revenue comes from advertising.

Pandora freemium model



Free service(s):

- Free ad-supported radio listening

Premium service(s):

- Premium plan without ads

Facts & figures:

- 51.9 million users, 53% increase year-over-year.
- Last quarter Pandora reported total revenue of \$80.8 million, a 58% increase year-over-year.
 - \$70.6 million came from advertising revenue (62% increase year-over-year)
 - \$10.2 million from subscription revenue (28% increase).

Freemium takeaway(s):

- Pandora started with full freemium model by offering 10 hours per month of free radio listening, but soon decided to switch to ad-supported model due to low conversion rates. This proved as a good call since they become profitable last year. Now they offer premium service, but just to complement the advertising revenue (as revenue figures clearly show)
- Pandora faced the problem that users loved the service, but weren't convinced to upgrade so they had to find alternative model in order to be able to pay royalties and use freemium only as additional revenue stream.
- "We want the free version of Pandora to be a really exceptional service. We don't want the consumer's conception to be: 'It's not very good, and if I just gave them \$36, it'd be great.' We want them to feel like they've got this great service, and that if they subscribe they get a specialized set of features that appeals to the particular kind of market niche that they're in." (Tom Conrad, Pandora CTO)

Questions:

- Compare Pandora's original business model with its current business model. Why did it shifted from full freemium to ad-supported model?
- What needs to be considered to make freemium work?
- Also, can you think of a better revenue model to improve Pandora's profits and customer base?

Think Note 1: Facebook Case



Overcoming Challenges in Your Facebook Marketing

Facebook Marketing allows businesses to reach their potential customers, connect with their target audience, drive website traffic, boost sales and meet business goals. To be as successful as possible in your Facebook Marketing efforts, it's best to strategize and plan according to your business objectives. However, even with a plan and strategy, unforeseen marketing challenges can arise.

Unfortunately, sometimes these challenges affect our efforts and our Facebook Marketing plan doesn't perform as well as expected. While developing a Facebook Marketing plan is important, recognizing when and how to improve your Facebook Marketing plan is crucial.

Since each brand has a Facebook Marketing strategy that is unique to its business, it is difficult to determine a single way for all brands to measure the success of their efforts. However, there are a few general Facebook Marketing goals that all brands share.

General Facebook Marketing Goals:

- Brand Awareness
- Audience Reach
- Audience Engagement
- Support of Business Objectives

In order to determine whether or not your business is achieving its Facebook Marketing goals, you must first define them. Setting clear Facebook Marketing objectives will ensure that everyone involved in your Facebook Marketing efforts is on the same page, and will also allow for regular reviews of whether or not you are on track to achieve the goals that you have set.

Fact:

- Despite having the largest online social audience in the world, and its recent success in mobile display ads, it remains unclear if Facebook can monetize its user base, and businesses can usefully leverage Facebook marketing.

Question:

- Using which strategies can make social marketing on Facebook work for marketers? Give examples.

Think Note 2: QR Code Campaigns

BIG WILD QR CODE CAMPAIGN DROPS ACROSS CANADA

CANADIAN PRESS, SEPTEMBER 01, 2010



Conservation group **The Big Wild** is using QR codes on outdoor posters to raise awareness for a petition to protect the Flathead River Valley in British Columbia and the Restigouche Watershed in Quebec and New Brunswick.

Darren Barefoot of The Big Wild, a group founded by **Mountain Equipment Co-Op** and the **Canadian Parks and Wilderness Society**, said The Big Wild is the first environmental group in Canada to try out the codes, which he hopes will pique interest by using what is still a rarely used technology in Canada.

"It's intentionally mysterious, and the hope is that people will sign the petition but they also might think it's cool and tweet about it and blog about it and post photos of it to Facebook and that kind of thing," said Barefoot. "I would see this as like a first date with people who sign the petition, because they can opt into our newsletter list, where we can e-mail them more information. This is like a little teaser, a way to get them in the door."

Posters in Vancouver, Edmonton and Calgary will take users to a web page focused on the Flathead River Valley, a large swath of wilderness in southeastern B.C.

Conservation groups such as The Big Wild are urging Ottawa to place stronger, permanent protections on the area.

In Toronto, Ottawa, Montreal and Quebec City, the codes will bring people to a page dedicated to the Restigouche Watershed, which straddles the Quebec and New Brunswick border. The group wants the governments of those two provinces to protect the region from logging and mining.

Barefoot notes QR codes have yet to see widespread use in Canada, unlike countries such as Japan where the patterns have been used for years to connect customers to additional information about the products or food they buy or even make purchases.



Questions: How can mobile marketing campaigns leverage QR codes? What challenges and opportunities does QR code campaigning provides?

Think Note 1: Zappos Case

How Zappos is personalizing the consumer ad experience



Image Credit: WordStream

July 22, 2014 11:55 AM
VentureBeat Staff



E-commerce websites like Zappos rely heavily on advertising to engage and re-engage shoppers online.

In today's atmosphere of banner-blindness, top performers are increasingly leveraging programmatic media buying. It enables them to dynamically focus either on acquiring new customers or on optimizing their marketing spend and ROI.

Think Note 1: Zappos Case

Session Speakers:



Lisa Archambault, Head of Demand Generation, Zappos



Eric Bosco, CEO, ChoiceStream

Our upcoming [GrowthBeat](#) event, August 5-6, is featuring a never-before-seen case study with Zappos head of demand generation and the CEO of programmatic media buying platform [ChoiceStream](#).

NOTE: GrowthBeat tickets are very limited, and the price shoots up \$200 this Friday, July 25, at 5 p.m. Pacific. [Reserve your spot now!](#)

They'll be going into depth on how programmatic has enabled Zappos to run personalized, interactive ads (including weather forecasts) to entice users and align its user acquisition tactics with its legendary focus on customer service. They'll also dive into details of how they plan campaigns, monitor performance, and optimize the outcome.

pdflement

This is just one of many great sessions at GrowthBeat, where we're exploring the data, apps, and science of successful marketing. We're gathering a monster group of marketing-tech visionaries to declutter the landscape,

simplify the functions, clarify the goals, and point out the way to success.

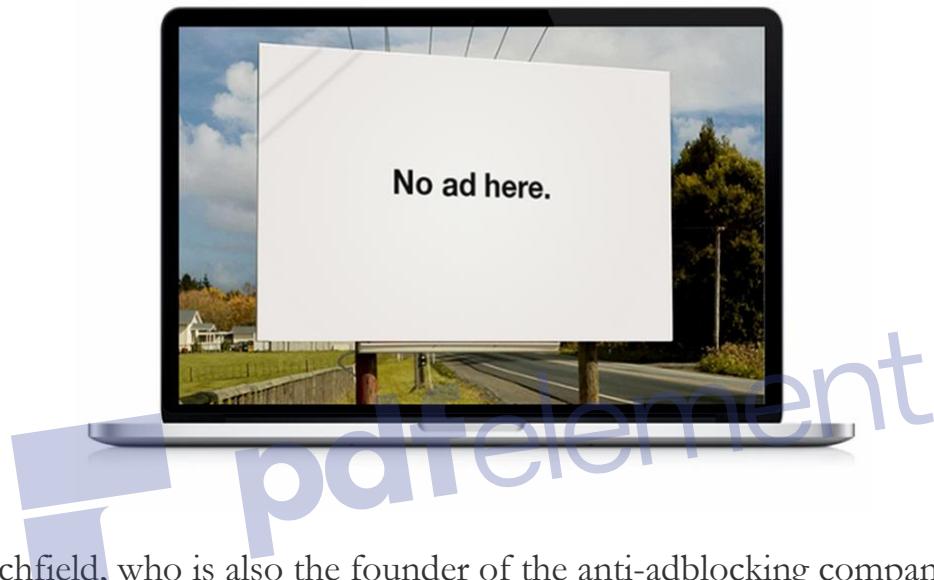
Questions:

1. How is Zappos focusing on marketing communications?
2. What is the role of video ads?

Think Note 2 – Ad-blocking Software

Ad-blocking software is ‘the Napster of the advertising industry’

Blocking adverts on the internet is the equivalent of theft, according to the chief executive of PageFair.



Sean Blanchfield, who is also the founder of the anti-adblocking company, described adblockers as “like the Napster of the advertising industry”.

“[Adblocking] is really concentrated on exactly the kind of people that advertisers are targeting – millennials,” he said.

“You can basically see a large cohort of adblockers growing up – as adblockers. And this isn’t good news for the advertising industry, or publishers.”

About 144 million browsers have some form of adblocker installed, [according to research carried out by PageFair and Adobe](#).

The research found that the majority of adblockers are plug-ins for either Google’s Chrome or Mozilla’s Firefox browser, and that 41 per cent of American internet users aged between 18 and 29 used adblocking software.

Think Note 2 – Ad-blocking Software

In Poland, Sweden, Denmark and Greece, Adblock has now been installed in just under a quarter of every computer, while countries including Japan and China are installing it on machines at a growth rate of 134 per cent in the space of a year.

“The thing about advertising is that the end user isn’t part of that contract; the contract is between the publisher and the advertiser, Blanchfield said.

“And the end user who installs Adblock really isn’t mindful of the fact that they’re impacting the revenue of the publisher.”

Here’s some advice for the internet advertising industry – tone it down a bit. Maybe less people would block your ads if they weren’t so intrusive?

Ads that popup, take-over and block the page you are trying to read, video ads that autoplay when you open a page – all these things do is drive potential customers away.

Task –

- 2 groups - For and Against
- Choose a side.
- Each group comes up with 5 points.
- We have a debate!

Alibaba vs. Amazon: Who Will Win the Global E-Commerce War?

[+ Comment Now](#)

This article is by Mohanbir Sawhney, professor, and Sanjay Khosla, senior fellow, at Kellogg School of Management. They are the authors of Fewer, Bigger, Bolder: From Mindless Expansion to Focused Growth.

Move over Amazon. There's a new e-commerce leader in town. With its triumphant \$21.8 billion initial public offering, Alibaba has eclipsed Amazon as the largest and most valuable e-commerce company in the world. In fact, based on the first day of trading, Alibaba is more valuable than Amazon and eBay combined. Alibaba's vast e-commerce empire encompasses wholesale, retail, group buying, and payments. It has also been aggressively investing in startup firms, shelling out \$8 billion just in the past six months. Alibaba's charismatic founder, Jack Ma, has made no secret of its global ambitions. Alibaba is knocking on Amazon's doorstep in the United States and [Europe](#). Meanwhile, Amazon is making efforts to expand its small presence in the lucrative Chinese e-commerce market.

As these two titans of e-commerce cross borders, who will win the global e-commerce war? Will Alibaba become a viable competitor for Amazon in the West? Will Amazon be able to compete on Alibaba's home turf? The battle is just beginning, but we can make some predictions about how it may play out by looking at the similarities and differences between Amazon and Alibaba.



Jack Ma, Founder of Alibaba Group (Photo credit: Wikipedia)

STUDENTS RENT ZIPCARS TO DRIVE OFF CAMPUSPosted on September 30, 2014 by Southern News [Leave a comment](#)**Jessica Pellegrino - General Assignment Reporter**

Between parking, car payments, and New Haven traffic, having a full-time car on campus can be inconvenient. Southern Connecticut State University offers a program called ZipCar.

Here is how it works. The program supplies fully functional cars, with gas included for students to use for a fee. You can use the car for an hour or the whole day. It is up to the student. The ZipCar service is great for getting students to fieldwork, jobs, or anything they would need a car on campus for.

First, the student will go on the ZipCar [website](#) and make a reservation. During this process, the student will put in their payment information and they will get a confirmation number. Then, students are encouraged to check the car out for dents and scrapes. If they find any, they have you contact ZipCar and report the damage, to avoid being blamed for it later.

Once you get to the car, simply swipe your ZipCard until you hear the beep, and you are on the clock. Your ZipCard is how you lock and unlock your car. Simply wave your card over the sensor.

So what are the benefits of using the ZipCar? First of all, ZipCars make life easy for students. Students now no longer need to have a car on campus. They can just rent out a ZipCar whenever they need to go somewhere.

Also, ZipCars are great for economic and environmental purposes. With traffic and lack of parking being real problem at Southern, ZipCars help to alleviate some of the stress.

So let's get down to business. How much does using the ZipCar service actually cost the student? Rates vary depending on the time of week the student plans to use the ZipCar.

Monday through Thursday, students can rent a ZipCar for \$8.50 an hour, or for \$69 the student can rent the car for the whole twenty four hour period. Friday through Sunday the rates increase slightly to \$9.50 an hour or \$75 for the day.

These prices include up to 180 miles and after those miles, increased fees will be applied. The fees start at \$0.45 extra per mile. That can really add up if the student is not careful.

Questions:

- **Would you prefer to use Zipcars or have your own car?**
- **What are the advantages and disadvantages of using Zipcar?**
- **Do you think that their revenue model is sensible? What other revenue model can you suggest?**



Netflix and YouTube: Kings of Content Viewing

By Paresh Dave. Updated September 30, 2014 9:51AM

Netflix pushed out 7 billion hours of content from April through June, spread over the 50.05 million subscribers Netflix Said it had as of June. That's nearly 92 minutes of viewing per day per subscriber, according to a new research report from The Diffusion Group.



The average Netflix subscriber, accordingly, could have snacked on about two episodes of "Breaking Bad" a day and wrapped up the entire series in 31 days.

But the research doesn't reveal who is watching what, specifically. Netflix doesn't break out those numbers, nor does it publicize hours spent by age range. Subscribers also sometimes share their account log-ins with friends and family members including children, who in some families spend many hours being babysat by Netflix cartoons and family movies.

Still, the Diffusion report is the latest to confirm that online viewing is chomping away at the time people spend watching traditional TV, which for now remains the most-viewed medium among U.S. adults.

The report found that Netflix streaming in the U.S. has tripled since the end of 2011 and grown tenfold internationally.

Paul Verna, a senior analyst at EMarketer, said Netflix's original programming such as "House of Cards" is driving growth, along with an expanding library of streaming movies.

Netflix has also made itself available on a wide variety of popular streaming TV boxes to the point that "it's become so seamless, like changing the channel," Verna said.

Within the online video industry, Netflix remains dwarfed by YouTube. The Google-owned video website last reported in May 2013 that it streams about 6 billion hours of video each month, a figure that had risen from 4 billion in a few months.

Analysts at Jefferies recently pegged YouTube's value, separate from Google, at close to \$40 billion on the back of nearly \$6 billion in annual ad sales. Netflix Inc., which doesn't show ads, has a market capitalization of about \$27 billion on what's approaching \$4.4 billion in annual revenue from online subscriptions.

YouTube slightly edged out Netflix as the most popular destination to watch TV shows online in a survey released this week by Frank N. Magid Associates, though Netflix beat YouTube as top movie destination.

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Questions –

- 1. Who will dominate online video industry in future?**
- 2. In what ways Netflix & YouTube are different and similar?
(Suggest business strategies.)**

CHAPTER 7

Internet Distribution, Downloads, and On-demand Streaming— A New Paradigm

The years 2006–2008 will be viewed historically as revolutionizing how consumers watched, accessed, and paid for video-based content. The explosion of video on the Web came about suddenly, fulfilling the promise of what many envisioned almost a decade earlier before the .com bust. Much of the change was enabled by technology, such as widely adopted DRM solutions, increased broadband penetration, and the advent of video-capable iPods and then iPhones. For the technology to take hold, however, other adoption accelerants as well as conducive legal and economic platforms were needed. All of these factors came together in a period of not much more than a year and pointed toward a radical shift in the landscape. The confluence of several factors, a number of which are discussed in the following sections, ushered in the digital revolution that threatens to upset and cannibalize traditional TV and video distribution:

- The Googleization of the world and proving the Web can be monetized
- The YouTube and Hulu generation, instant streaming, and the emergence of free video-on-demand (VOD)

- The introduction of the video iPod and then the iPhone
- Implementation of reliable, flexible digital rights management (DRM) technology
- Traditional distributors, not pirates, legally making the market
- Mass market adoption of high-speed Internet access (fixed and wireless), together with the adoption of common standards

Initially, the quick pace of change and related murky legal waters cast fear among traditional distributors that the lifeblood of their business may be snatched away before they could even respond (with some arguing via illegal means). The crisis in the music industry, which was first paralyzed by online piracy and then rescued in part by iTunes, was threatening to similarly upend visual media as peer-to-peer services enabled file sharing of movies. Long form video content, which previously had been thought to be somewhat immune given the inherent barriers of hour plus stories and correspondingly large file sizes (i.e., a film cannot be divided into independent consumptive elements, like a record can be split into songs) was suddenly vulnerable. Whether melodramatic or not, the fate of media was literally perceived to be in the balance—and to many it still is.¹

Source: Chapter 7, “The Business of Media Distribution: Monetizing Film, TV, and Video Content,” by Jeff Ulin.

Questions –

1. What challenges has the Internet posed to traditional Hollywood movie distribution? What is the biggest challenge?
2. Do you think Hollywood is doing a better job of protecting its content than the music industry?
3. What is the most realistic and profitable path forward for the Hollywood film industry?

Final Think Note: Dark Side of E-Commerce

5 Terrifying Ecommerce Trends (And What You Can Do About Them)

Posted on Tuesday, October 30th, 2012.

Written by Matt Winn

- See more at: <http://onlinebusiness.volusion.com/articles/5-terrifying-ecommerce-trends-and-what-you-can-do-about-them/#sthash.f1mwBgAJ.dpuf>

Despite its glory, there's a dark side to the ecommerce industry, namely how consumers are shopping online these days.

From abandoned carts to a dependency on coupons, online shoppers are becoming more nimble and savvy than ever, which means your ecommerce site needs to be prepared. Of course, decent preparation requires a bit of knowledge, which is what you'll get from today's bone-chilling edition of Two Minute Tuesday. Enjoy!

Happy selling! -Matt Winn, Volusion

Here's the transcript if you'd like to read along:

Hi, everybody! My name's Matt, and I'm the Social Media Manager here at Volusion. Welcome to Two Minute Tuesdays, where we give you two minutes of ecommerce advice to bolster your online success. As you well know, online selling is always changing and evolving, but some of the trends you encounter may be a little scary. So in the spirit of Halloween, I bring you five terrifying ecommerce trends and, more importantly, what you can do about them.

Our first terrifying trend has to do with online shoppers and their dependency on free shipping. In fact, 62% of online shoppers in 2011 were somewhat likely to cancel their order if free shipping wasn't involved. To combat this, you need to make sure that: 1) if you're offering free shipping, promote it heavily across your site, and 2) before you even make that offer, do the math and make sure that you can offer free shipping without losing your proverbial shirt.

Our next scary ecommerce trend has to do with online fraud and fraudulent orders. In 2011, U.S. e-tailers lost over \$3.4 billion in fraudulent orders. To protect yourself, it's really, really easy. All you have to do is use some common sense. Make sure the billing and shipping addresses on your orders match, and that they both match the location of the IP address. If you see anything shady, don't be afraid to email or call, and you'll be free from fraud.

Our third trend, high rates of abandoned carts, really isn't too much of a trend, but it's still terrifying because it hasn't shown any signs of stopping. Last year, about 66% of all orders ended up in abandoned carts, and that's never good. Do your best to overcome this trend by putting third party validation on your site and using your SSL seals. Make sure that people don't have shipping sticker shock, as they call it, and do all that you can to make sure that you get your customers into actually checking out.

Final Think Note: Dark Side of E-Commerce

Fourth on our list is a continued and increased reliance upon coupons and discounts. I'm going to put it to you straight: Your customers have essentially been trained to expect coupons before even thinking about making a purchase. This puts you in a little bit of a dilemma, so you're going to have to make sure that your coupon strategy is always sound, you're always doing the math before you launch a coupon campaign and you're always protecting your margins. Do that, and you'll be in good shape while still meeting customer expectations.

Fifth on our terrifying list of trends is the increase of dependence on consumer reviews. Consumer reviews are usually a good thing. I encourage you to pursue them, but be aware that negative reviews can get to your potential customers. Surveys shows that reading between two and three negative product reviews deter about two-thirds of shoppers from making a purchase. To combat this, always reach out to your promoters, make sure that your customer service and your product offering are excellent, and you'll have nothing to worry about.

While these trends may seem terrifying, don't worry. It's just another piece of ecommerce cake. Keep your head up, make sure you're wowing your customers and always have good business strategies on hand. You'll overcome these consumer behavior trends, and you'll always keep your head above water. If you have any questions, just leave me a comment in the box below. I'll be happy to get right back to you.

From me to you, happy selling!



About Matt Winn

Matt Winn is [Volusion](#)'s Senior Marketing Communications Manager, where he helps oversee the organization's branding and communications efforts. Matt has created hundreds of articles, videos and seminars on all things ecommerce, ranging from online marketing to web design and customer experience. Beyond being a certified nerd, Matt is an avid college football fan, enthusiastic home cook and a self-admitted reality TV junkie.

We will have a debate on this case:

1. **Group 1: For E-commerce** – You can highlight ways in which E-commerce bolsters business.
2. **Group 2: Against E-commerce** – You can highlight fundamental flaws in E-commerce business models.



What do Alibaba do in China?

-- help small business with IT.

Jing Fan
Oct 20, 2014

What do Alibaba do?

- **B2B: Alibaba**
 - Started in 1999.
 - Encouraged small business to use Internet.
- **C2C: Taobao**
 - Started in 2003 during SARS period.
 - Free for sellers and buyers until now.
 - Succeeded in the competition with ebay.com.
 - More than 90% market share in China.
- **B2B2C: Tmall**
 - Started in 2011, registration fee for sellers.
 - Research showed that it has higher trust than Taobao.
 - 40% market share in China.



What do Alibaba do?

- **Online payment:** [Alipay](#)
 - Started in 2003, third-party payment escrow.
 - You have to use it when you buy and sell.
- **Online investment for buyers:** [Yu'ebao](#)
 - Started in 2013, help buyers to invest.
 - Higher interests than banks.
 - Start with 1 Yuan.
 - Get your money back at any time.
- **Online investment for sellers:** [Ali mini-finance](#)
 - Started in 2002, lend money to sellers (small business).
 - Try to do things that banks are doing.

