

How Online Business Models Generate Revenue

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E-commerce business model

- A general e-commerce business, regardless of the specific product, typically relies on a combination of different revenue models to generate income.
- The choice of model largely depends on whether the business is selling its own products or acting as a platform for others.

The Sales Revenue Model (Retail and Direct-to-Consumer)

How it Works:

- The business either manufactures its own products (a Direct-to-Consumer, or D2C, brand like a clothing line) or purchases products in bulk from suppliers and resells them at a higher price (a retail model).
- The transaction occurs on the business's own website, and they are responsible for the entire customer journey, including fulfillment, customer service, and returns

The Sales Revenue Model (Retail and Direct-to-Consumer)

How They Make a Profit :

- Profit is the markup the difference between the price at which the product is sold and the total cost of goods sold (COGS), which includes the cost of the product itself, packaging, and shipping.

The Transaction Fee Model (Marketplace)

How it Works:

- The platform (the marketplace) provides the technology, user base, and trust for sellers to list their products.
- When a customer buys a product, the marketplace charges the seller a commission or a transaction fee, which is a percentage of the total sales value.
- Example: Airbnb connects hosts with guests. They don't own the properties. Instead, they charge a service fee to both parties involved in a transaction.

The Transaction Fee Model (Marketplace)

How They Make a Profit :

- The profit comes from the sheer volume of transactions.
- While the commission on a single sale might be low (e.g., 5-15%), the marketplace handles millions of transactions, which generates a significant revenue base.
- The business's main costs are platform development, customer acquisition (through marketing), and building a logistics network

The Subscription Model: (Membership Fees)

How it Works:

- Customers pay a recurring fee to receive a box of products.
- The business can also offer exclusive content or access to a community as part of the subscription
- Example: Panda pro

The Subscription Model: (Membership Fees)

How They Make a Profit :

- Profit is made from the predictable revenue stream and the potential for a high customer lifetime value.
- While customer acquisition costs can be high, the recurring revenue from a loyal customer over several years can far outweigh the initial cost.

The Advertising and Sponsorship Model

How it Works:

- The business builds a large, engaged audience through content (e.g., product reviews, articles, videos).
- It then sells advertising space on its platform to other businesses who want to reach that audience.
- This can include banner ads, sponsored articles, or sponsored product placements.
- Example: Tripadvisor sells advertising space to hotels, restaurants, airlines, and other businesses. They have "Cost-Per-Click" (CPC) partnerships where a hotel pays Tripadvisor every time a user clicks on a link to their booking page. They also offer "Sponsored Placements" where a hotel can pay to have its listing appear at the top of search results.

The Advertising and Sponsorship Model

How They Make a Profit :

- The revenue is a direct result of the traffic and engagement the platform generates.
- The cost of running the platform (content creation, website maintenance) is relatively fixed, so every dollar earned from advertising is highly profitable.
- This is often a secondary revenue stream for marketplaces (like Daraz, which sells sponsored placements to sellers) but can be a primary model for content-driven e-commerce sites.

Case Studies

Airbnb: The Transaction Fee Model

- **Case Study:** Airbnb pioneered the peer-to-peer transaction model, creating a two-sided marketplace.
- **Revenue:** In 2023, Airbnb's revenue was **\$9.9 billion**. Their primary revenue stream is the service fees charged to both guests and hosts for each booking. Guests typically pay a fee of 5-15%, while hosts pay a fee of around 3%.
- **How They Make a Profit:** Airbnb's profitability soared because it does not own any of the physical assets (houses, apartments) it sells. Its main costs are technology, marketing, and customer support. The fees they collect are pure revenue from facilitating a connection.

GoZayaan: The Commission Model

- GoZayaan is the major player in Bangladesh's travel-tech space, which has focused heavily on a tech-first approach and a strong focus on innovation.
- **Revenue Model (Commission Model):** GoZayaan's foundation is built on commissions from flight, hotel, and holiday package bookings. They partner directly with local and international suppliers to offer a wide selection to customers.
- **How They Make a Profit:** GoZayaan's profitability comes from its ability to use technology to lower costs and create new revenue streams. By building their platform from the ground up, they have been able to automate processes and reduce the need for a large offline sales force.

Daraz (A hybrid Marketplace)

Daraz is the leading e-commerce platform in Bangladesh, owned by Alibaba Group.

Business Model:

Marketplace Model: Daraz connects millions of sellers with customers. Sellers list their products on the platform, and when a sale is made, Daraz takes a commission (typically 5-15%, depending on the product category).

Direct-to-Consumer (D2C) Model: Daraz also sells a limited number of high-demand products directly. In this case, it buys products wholesale and sells them at a markup, similar to a traditional retailer.

E-commerce scam

- **Evaly:** It was a classic "Ponzi-like" scheme. They lured customers with incredibly low prices. The system became unsustainable as the number of new customers could not keep pace with the mounting debt to existing customers and merchants.
- **FlightExpert:** This is a key recent example that moved beyond the general e-commerce space into the tourism sector. This case is notable because it was not based on a Ponzi-like discount model but rather on the outright theft of funds from a high-volume, high-trust business.

Thank you