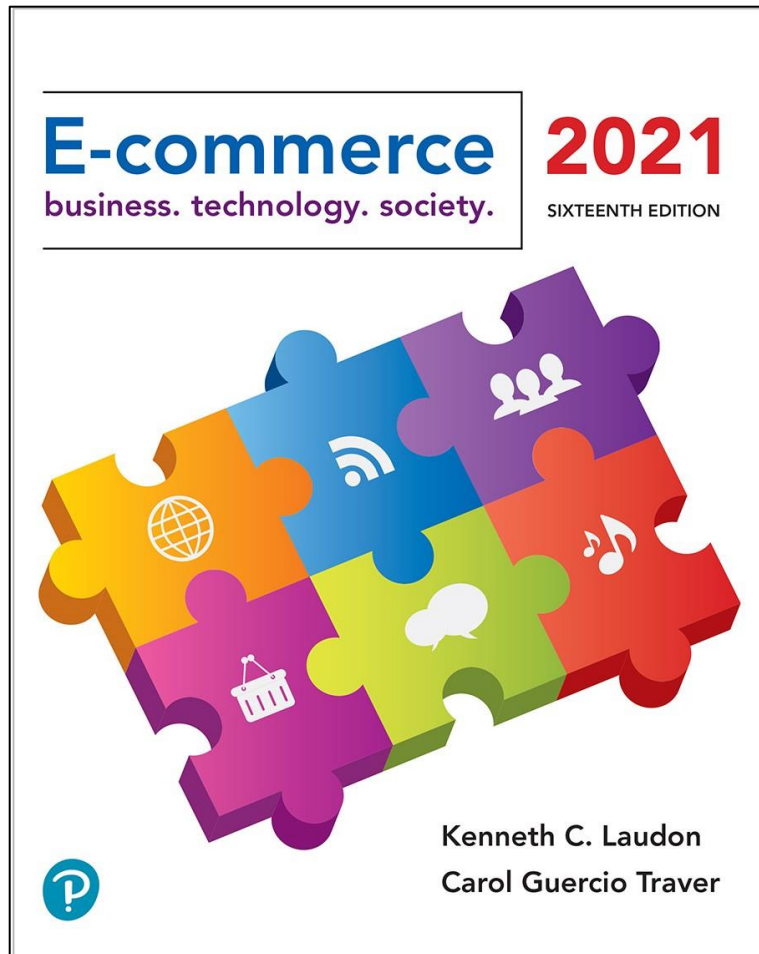


E-commerce 2021: Business. Technology. Society.

Sixteenth Edition



Chapter 2

E-commerce Business
Models and Concepts

Learning Objectives

- 2.1** Identify the key components of e-commerce business models.
- 2.2** Describe the major B2C business models.
- 2.3** Describe the major B2B business models.
- 2.4** Understand key business concepts and strategies applicable to e-commerce.

Coping with a Pandemic: Small Businesses Reinvent with E-commerce

- Class Discussion
 - Prior to the pandemic, did you physically shop at small businesses in your community?
 - What steps have small businesses with which you are familiar taken to continue operating during the pandemic?
 - How likely are you to continue new consumer behaviors instituted during the pandemic after it is over? For instance, if you ordered groceries online, will you continue to do so?

E-commerce Business Models

- Business model
 - Set of planned activities designed to result in a profit in a marketplace
- Business plan
 - Describes a firm's business model
- E-commerce business model
 - Uses/leverages unique qualities of Internet and Web

Eight Key Elements of a Business Model

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

1. Value Proposition

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

2. Revenue Model

- “How will you earn money?”
- Major types of revenue models:
 - Advertising revenue model
 - Subscription revenue model
 - Freemium strategy
 - Transaction fee revenue model
 - Sales revenue model
 - Affiliate revenue model

Insight on Society: Foursquare's Evolving Business Model: Leveraging Your Location

- Class discussion:
 - Why has the shift in Foursquare's business model been the key to success for Foursquare?
 - How comfortable are you with the ability of Foursquare to characterize behavior into various personas?
 - What is your opinion of Foursquare's characterization of itself as one of the “good guys” in the location data industry?
 - How is Foursquare attempting to cope with a more privacy-conscious business environment?

3. Market Opportunity

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

4. Competitive Environment

- “Who else occupies your intended marketspace?”
 - Other companies selling similar products in the same marketspace
 - Includes both direct and indirect competitors
- Influenced by:
 - Number and size of active competitors
 - Each competitor’s market share
 - Competitors’ profitability
 - Competitors’ pricing

5. Competitive Advantage

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

6. Market Strategy

- “How do you plan to promote your products or services to attract your target audience?”
 - Details how a company intends to enter market and attract customers
 - Best business concepts will fail if not properly marketed to potential customers

7. Organizational Development

- “What types of organizational structures within the firm are necessary to carry out the business plan?”
- Describes how firm will organize work
 - Typically, divided into functional departments
 - As company grows, hiring moves from generalists to specialists

8. Management Team

- “What kind of backgrounds should the company’s leaders have?”
- A strong management team:
 - Can make the business model work
 - Can give credibility to outside investors
 - Has market-specific knowledge
 - Has experience in implementing business plans

Raising Capital

- Seed capital
- Elevator pitch
- Traditional sources
 - Incubators, angel investors
 - Commercial banks, venture capital firms
 - Strategic partners
- Equity crowdfunding
 - JOBS Act

Insight on Business: Startups Turn to Crowdfunding

- Class Discussion
 - Would you feel comfortable investing in a startup that raises capital using equity crowdfunding? Why or why not?
 - Why is it important to democratize access to capital?
 - What obstacles are presented in the use of crowdfunding as a method to fund startups?

Categorizing E-commerce Business Models

- No one correct way to categorize
- Text categorizes according to:
 - E-commerce sector (e.g., B2B)
 - E-commerce technology (e.g., m-commerce)
- Similar models appear in different sectors
- Companies may use multiple business models (e.g., eBay)
- E-commerce enablers

B2C Business Models

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

B2C Models: E-Tailer

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

B2C Models: Community Provider

- Provide online environment (social network) where people with similar interests can transact, share content, and communicate
 - Examples: Facebook, LinkedIn, Twitter, Pinterest
- Revenue models:
 - Typically hybrid, combining advertising, subscriptions, sales, transaction fees, and so on

B2C Models: Content Provider

- Digital content on the Web:
 - News, music, video, text, artwork
- Revenue models:
 - Use variety of models, including advertising, subscription; sales of digital goods
 - Key to success is typically owning the content
- Variations:
 - Syndication
 - Aggregators

Insight on Technology: Connected Cars and the Future of E-commerce

- Class Discussion
 - How are new connected car technologies also creating new business models?
 - What is the potential impact on different forms of e-commerce, such as the content industry?
 - Why are tech companies so interested in the connected car platform?
 - Are there any issues with respect to “connected” cars?

B2C Business Models: Portal

- Search plus an integrated package of content and services
- Revenue models:
 - Advertising, referral fees, transaction fees, subscriptions for premium services
- Variations:
 - Horizontal/general (examples: Yahoo, AOL, MSN)
 - Vertical/specialized (vortal) (example: Sailnet)
 - Search (examples: Google, Bing)

B2C Models: Transaction Broker

- Process online transactions for consumers
 - Primary value proposition-saving time and money
- Revenue model:
 - Transaction fees
- Industries using this model:
 - Financial services
 - Travel services
 - Job placement services

B2C Models: Market Creator

- Create digital environment where buyers and sellers can meet and transact
 - Examples: Priceline, eBay
 - Revenue model: Transaction fees, fees to merchants for access
- On-demand service companies (sharing economy): platforms that allow people to sell services
 - Examples: Uber, Airbnb

B2C Models: Service Provider

- Online services
 - Examples: Google
 - Google Maps, Gmail, and so on
- Value proposition
 - Valuable, convenient, time-saving, low-cost alternatives to traditional service providers
- Revenue models:
 - Sales of services, subscription fees, advertising, sales of marketing data

B2B Business Models

- Net marketplaces
 - E-distributor
 - E-procurement
 - Exchange
 - Industry consortium
- Private industrial network

B2B Models: E-distributor

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

B2B Models: E-procurement

- Creates digital markets where participants transact for indirect goods
 - B2B service providers, SaaS and PaaS providers
 - Scale economies
- Revenue model:
 - Service fees, supply-chain management, fulfillment services
- Example: Ariba

B2B Models: Exchanges

- Independently owned vertical digital marketplace for direct inputs
- Revenue model: Transaction, commission fees
- Create powerful competition between suppliers
- Tend to force suppliers into powerful price competition; number of exchanges has dropped dramatically
- Example: Go2Paper

B2B Models: Industry Consortia

- Industry-owned vertical digital marketplace open to select suppliers
- More successful than exchanges
 - Sponsored by powerful industry players
 - Strengthen traditional purchasing behavior
- Revenue model: Transaction, commission fees
- Example: SupplyOn

B2B Models: Private Industrial Networks

- Digital network used to coordinate among firms engaged in business together
- Typically evolve out of large company's internal enterprise system
 - Key, trusted, long-term suppliers invited to network
- Example: Walmart's network for suppliers

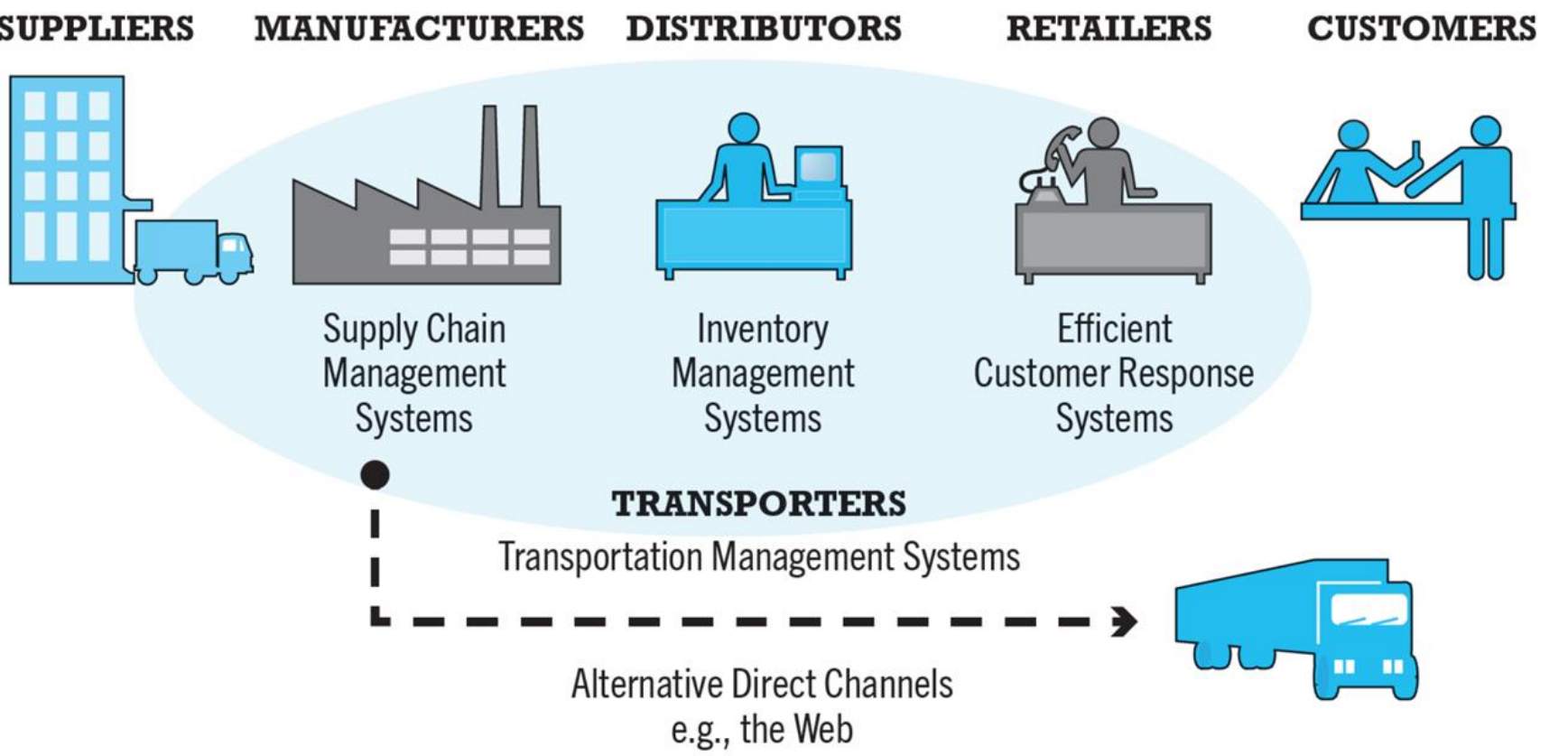
How E-commerce Changes Business

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

Industry Value Chains

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

Figure 2.4 E-commerce and Industry Value Chains



Firm Value Chains

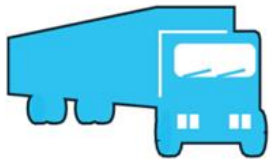
- Activities that a firm engages in to create final products from raw inputs
- Each step adds value
- Effect of Internet:
 - Increases operational efficiency
 - Enables product differentiation
 - Enables precise coordination of steps in chain

Figure 2.5 E-commerce and Firm Value Chains

Administration
Human Resources
Information Systems
Procurement
Finance/Accounting

SECONDARY ACTIVITIES

PRIMARY ACTIVITIES



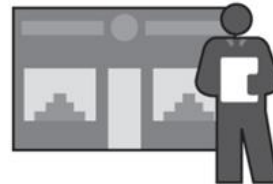
Inbound
Logistics



Operations



Outbound
Logistics



Sales and
Marketing

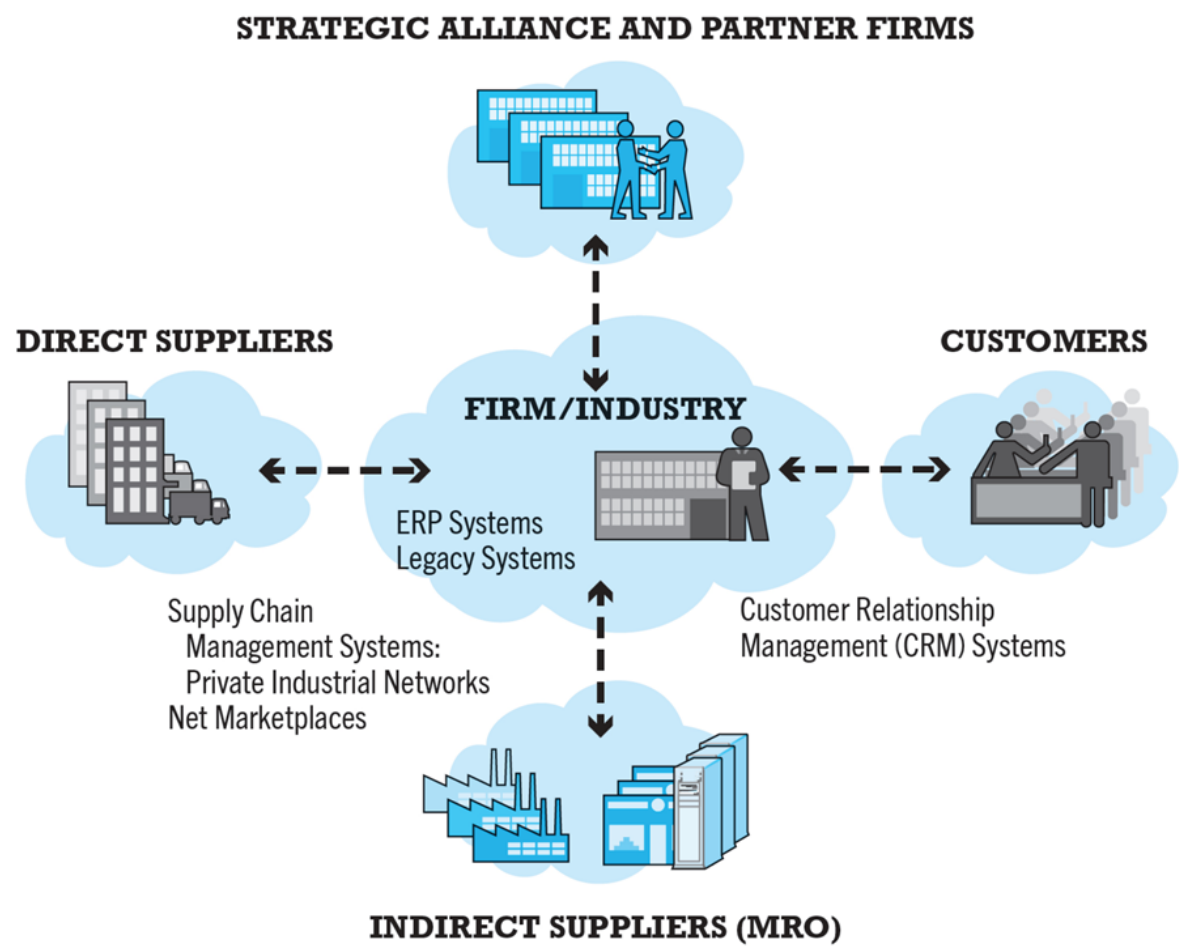


After Sales
Service

Firm Value Webs

- Networked business ecosystem
- Uses Internet technology to coordinate the value chains of business partners
- Coordinates a firm's suppliers with its own production needs using an Internet-based supply chain management system

Figure 2.6 Internet-Enabled Value Web



Business Strategy

- Plan for achieving superior long-term returns on capital invested: that is, profit
- Five generic strategies
 - Product/service differentiation
 - Cost competition
 - Scope
 - Focus/market niche
 - Customer intimacy

E-commerce Technology and Business Model Disruption

- Disruptive technologies
- Digital disruption
- Sustaining technology
- Stages
 - Disruptors introduce new products of lower quality
 - Disruptors improve products
 - New products become superior to existing products
 - Incumbent companies lose market share

Careers in E-commerce

- Position: Assistant Manager of E-business
- Qualification/Skills
- Preparing for the Interview
- Possible Interview Questions

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