

CHAPTER 3

Selling on the Web



Learning Objectives

In this chapter, you will learn about:

- What a revenue model is and how companies use various revenue models
- What characteristics identify specific revenue models
- How some companies experiment with alternative revenue models to achieve success
- About revenue strategy choices that companies face when selling online

Learning Objectives (cont'd.)

- How to create an effective business presence on the Web
- What factors enhance Web site usability
- How companies use the Web to connect with customers

Introduction

- Given the demand for photo and video storage, offering storage service would seem like an ideal online business
 - Decreasing cost of storage space and high-bandwidth Internet connections.
 - Many businesses do offer free or low-cost services
 - Digital storage and Internet connections are commodities, so it would be difficult for any of them to compete as the lowest-cost provider.
 - Competition will be on features offered, not cost.

Introduction (cont'd.)

- In 2015, Google launched Google Photos
 - Designed to provide the most wanted features
 - Google's developers combined technical capabilities with research on how customers interact with technology
 - By combining their technology with customer information, development team could enable the service to organize photos automatically

Revenue Models for Online Business

- Web business revenue-generating models
 - Web catalog
 - Digital content
 - Advertising-supported
 - Advertising-subscription mixed
 - Fee-based
- Same model can work for both sale types
 - Business-to-consumer (B2C)
 - Business-to-business (B2B)

Web Catalog Revenue Models

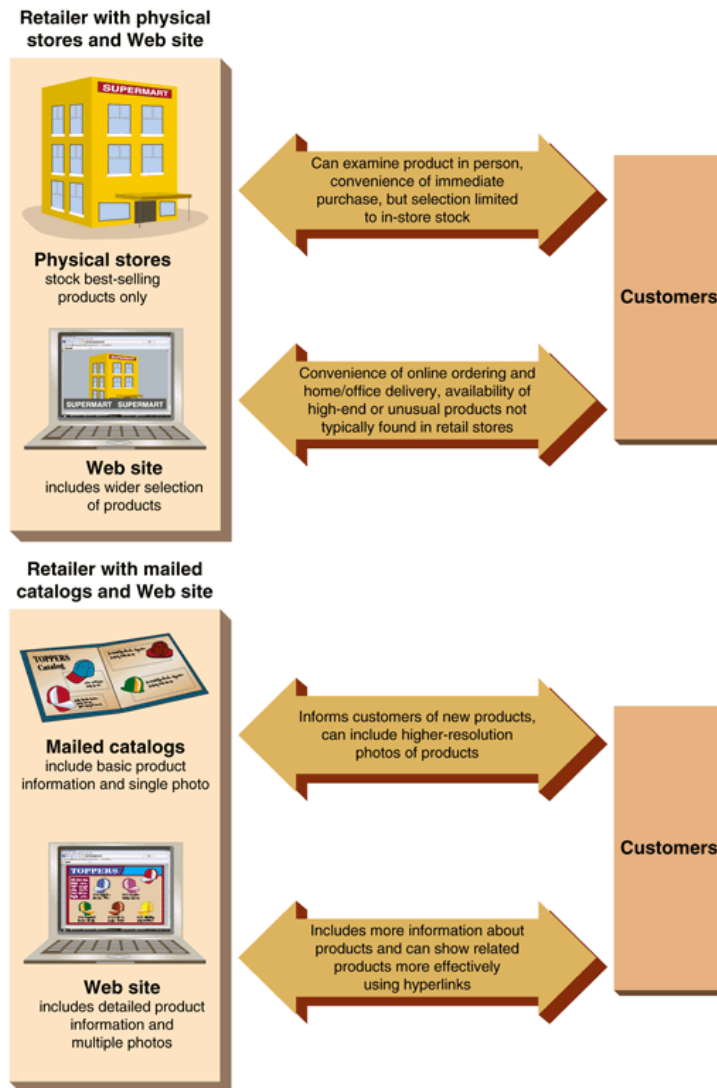
- Adapted from mail-order (catalog) model
 - Seller establishes brand image
 - Printed information mailed to prospective buyers
 - Orders placed by mail or phone
- Expands traditional model
 - Replaces or supplements print catalogs
 - Orders placed through Web site
 - Creates additional sales outlet for existing companies

Discount Retailers: Getting a Great Deal Online

- Some discounters began as retail operations online, e.g., Buy.com which is now Rakuten
 - Borrowed low-cost strategy used by traditional discount retailers
- Traditional retailers now using Web catalog revenue model: Costco, Kmart, and Walmart
 - All have found online sales to be important to overall revenues and profits

Using Multiple Marketing Channels

- Allows more customers to be reached at a lower cost
- Marketing channel examples
 - Physical stores
 - Web sites
 - Mailed catalogs or newspaper insert



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FIGURE 3-1 Combining marketing channels: Two retailer examples

Adding the Personal Touch

- Many adapted catalog sales model to Web
- Display clothing photos categorized by type
 - Prices, sizes, colors, and tailoring details
 - Want customers to examine clothing online and place orders through Web site
 - Lands' End online Web shopping assistance
 - Lands' End Live (1999)
 - Some sites offer text and video chat

Adding the Personal Touch (cont'd.)

- Personal shopper is an intelligent agent program that learns preferences and makes suggestions
- Virtual model
 - Graphic image built from customer measurements that allows customers to try clothes
 - Increased sales and decreased returns for companies that use virtual fitting rooms
- Problem with varying computer monitor color settings
 - Solutions: Send fabric swatch on request and/or offer generous return policies

Fee-for-Content Revenue Models

- Firms owning written information or information rights
 - Embrace the Web as a highly efficient distribution mechanism
 - Use the digital content revenue model
 - Sell rights to access information they own
- Legal, academic, business and technical content
 - LexisNexis: offers variety of information services for lawyers and law enforcement officials
 - Subscriptions and individual access rights to online academic journals and other publications

Fee-for-Content Revenue Models (cont'd)

- Academic information aggregation services
 - Purchase and resell rights in subscription packages to schools, libraries, companies, and not-for-profit institutions
- Electronic books are available from several providers in various formats
 - Sales grew rapidly starting in 2011 and have now declined to about 23% of total book sales in the U.S. but popularity growing in other countries
- Physical and electronic books will coexist for years to come

Online Music

- Recording industry slow to embrace
- Largest stores: Amazon MP3, Apple's iTunes, Google Play
- Subscription services to stream music
 - Pandora Internet Radio, Spotify, Rhapsody
- Early complications
 - No single store offers all music
 - Individual stores promote their own music file formats
 - Some artists/recording companies partner with specific store or boycott online sales altogether

Online Music (cont'd.)

- Digital Rights Management (DRM) software
 - Intended to curtail music piracy
- Amazon MP3 store
 - First to offer DRM-free MP3 format
- Music industry
 - Reports increased sales in 2013 for the first time in 14 years

Online Video

- Sold or rented and either downloaded or streamed
- Past limitations were file size, cannibalizing other sales and technological barriers
- Overcoming the issues
 - New technologies improving delivery
 - Companies incorporating online distribution into revenue strategy
 - Video delivery technologies becoming transparent
- Many pay and free providers including Netflix, Amazon, Hulu, HBO, Showtime and YouTube

Advertising-Supported Revenue Models

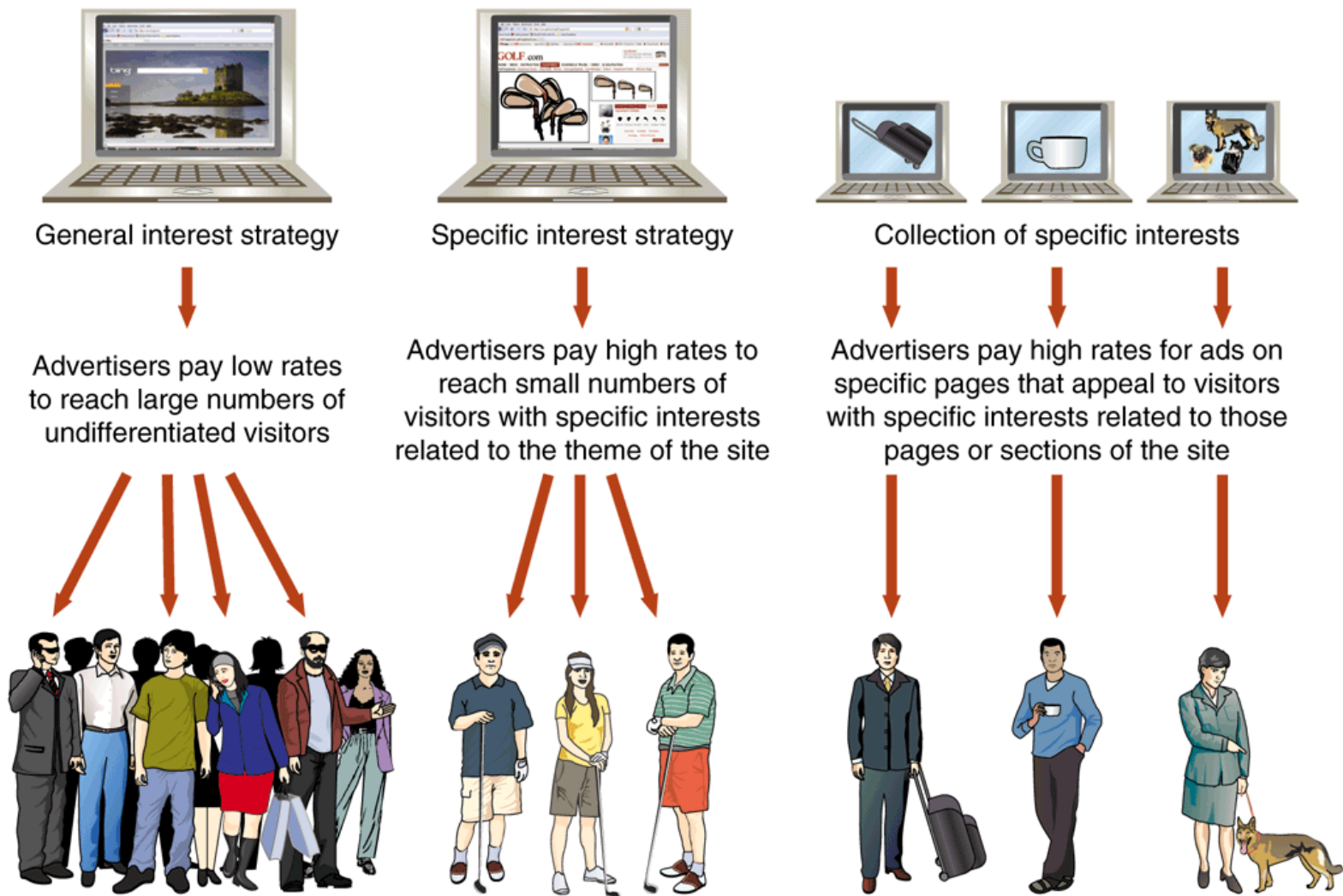
- Used by United States broadcast network television
 - Provides free programming and advertising messages
 - Supports network operations sufficiently
- Online advertising challenges
 - Difficulty measuring and charging site visitor views
 - Keeping visitors at site and attracting repeat visitors (stickiness) to expose to them to more advertising
 - Obtaining large advertiser interest
 - Requires demographic information collection
 - Characteristics set used to group visitors

Advertising-Supported Revenue Models (cont'd.)

- Can obtain large advertiser interest by:
 - Using a specialized information Web site
 - Draw a specialized audience advertisers want to reach
 - Examples: The Huffington Post, the Drudge Report and HowStuffWorks
- Web portal (portal) is a site used as a launching point to enter the Web
 - Almost always includes a Web directory or search engine and often includes other features
- Web directory is a list of hyperlinks to Web pages

Advertising-Supported Revenue Models (cont'd.)

- General interest strategy
 - Examples: Yahoo!, Google, Bing
 - Presents search term-triggered advertising on each page
- Specific knowledge domain
 - Examples: C-NET and Kayak
 - Targeted advertising



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FIGURE 3-2 Three strategies for an advertising-supported revenue model

Advertising-Supported Newspapers

- Newspapers or magazines publish online version of print content
 - Sell advertising to cover Web site costs
 - Newspaper's Web presence
 - Provides greater exposure and advertising audience
 - Can divert sales from the print edition
- Mixed-revenue model
 - Some content free, other content for purchase
 - Paywall is the point at which fees begin

Advertising-Supported Online Classified Ad Sites

- Targeted classified advertising sites can command higher rates than general advertising
- Growth of classified advertising Web sites such as Craigslist has been very bad for newspapers
- Web employment sites have been the most successful targeted classified advertising category
 - Examples: CareerBuilder.com, and Monster.com
- Used vehicle sites such as AutoTrader.com
 - Similar sites take paid advertising from individuals and companies to sell cars, motorcycles and boats

Advertising-Subscription Mixed Revenue Models

- Subscribers pay fee and accept limited advertising
 - Varying levels of success
 - Examples: Wall Street Journal and New York Times
- ESPN leverages brand name from cable TV
 - Sells advertising; offers free information and also collects subscription revenue for its Insider service
- Consumers Union (ConsumerReports.org)
 - Subscription-supported site with no advertising
 - Provides some free information to attract subscribers and fulfill mission

Advertising-Supported		Advertising-Subscription Mixed Supported	
Most or All Content Free to All Visitors		Substantial Content Free to All Visitors	Most Content Available Only to Subscribers
<i>The Boston Globe</i> <i>Cleveland Plain Dealer</i> <i>Financial Times</i> <i>Newsweek</i> <i>InStyle</i> <i>PC Magazine</i> <i>San Francisco Chronicle</i> <i>Smithsonian</i> <i>Time</i>		<i>BusinessWeek</i> <i>Chronicle of Higher Education</i> <i>Forbes</i> <i>Inc. Magazine</i> <i>The Los Angeles Times</i> <i>The New York Times</i> <i>The Washington Post</i>	<i>The Economist</i> <i>Foreign Affairs</i> <i>Harvard Business Review</i> <i>National Geographic</i> <i>Nature</i> <i>Scientific American</i> <i>Sports Illustrated</i> <i>Technology Review</i> <i>The Times</i> <i>The Wall Street Journal</i>

FIGURE 3-3 Revenue models used by online editions of newspapers and magazines

Fee-for-Transaction Revenue Models

- Service fee charged based on transaction number or size
- Web site offers visitor transaction information and services formerly provided by a human agent
- Disintermediation occurs when an intermediary (human agent) is removed from the value chain
- Reintermediation is the introduction of a new intermediary (fee-for-transaction Web site) into a value chain

Stock Brokerage Firms: Two Rounds of Disintermediation

- Original full-line brokers charged relatively high commissions and provided free advice
- 1970s: Deregulation resulted in discount brokers
 - Fast trades, low commissions, no advice
- 1990s: New online firms took business from discount brokers
 - Firms such as Etrade offered advice and fast, low cost trade execution
- Brokerage firms that survived the 2008 financial crisis and remain today do most of their business online

Insurance Brokers

- Quotesmith began business in 1984 as a policy-quoting service for independent brokers
 - Begin offering Internet policy price quotes directly to public (1996) and disintermediated independent insurance agents
- The General (General Automobile Insurance Services) Web site provides options for those who have trouble getting insured
 - Successful in this niche of the market
- Most major companies offer information and policies for sale on their websites

Event Tickets

- Web allows event promoters to sell tickets from one virtual location to customers worldwide
 - Established agencies like Ticketmaster earn a fee on every ticket sold
- Web created secondary ticket market (StubHub)
 - Brokers connecting ticket owners with buyers
 - Earn fees on tickets resold for others, buy ticket blocks
 - Easy-to-find central marketplace, facilitating buyer-seller negotiations

Online Banking and Financial Services

- No physical product so easy to offer on Web
 - Slow to take off due to concerns about security
 - Trust has increased and 84% of U.S. households use online banking services
- Existing banks started offering services online and new online banks started that had no bank affiliation
 - Less costly to provide services online
- Features offered online
 - Bill presentment service
 - Account aggregation tools

Travel

- Traditional travel agency revenue model was receive fee for facilitating a transaction
- Online travel sites generate revenue through
 - Commissions, buying and selling airline seats and hotel rooms, and advertising
 - Traditional travel agents squeezed out
- Surviving smaller travel agency strategies
 - Specialize in cruises with very successful websites
 - Reintermediation strategy focuses on specific groups of travelers

Automobile Sales

- Firms such as Edmunds.com provide information service to car buyers
 - Customer selects specific car, site determines price and finds local dealer willing to sell OR
 - Firm locates local dealers willing to sell car at a small premium over dealer's nominal cost
- Buyer purchases car without negotiating with salesperson
 - Firms are disintermediating individual salespeople and reducing transaction costs
 - Web site: new intermediary (reintermediation)

Real Estate and Mortgage Loans

- Brokerage firms and individual real estate brokers use Web sites to solicit business
 - Most real estate brokers have strong online presence including information on properties
 - National Association of Realtors site (Realtor.com)
 - No online transactions but joins buyers with sellers
- 2008 financial crisis dramatically reduced number of mortgage brokers in business
 - Several continue to do business online
 - Industry is resistant to disintermediation caused by online technologies

Fee-for-Service Revenue Models

- Increasing variety of fee-based Web services
 - Fee based on service value and range from games and entertainment to financial advice and professional services
- Growing number of online game sites that relied on advertising in the past now have premium games
 - Sold and downloaded or subscription fee
 - “Hook and pay” strategy offers limited game for free and small fee for additional game play
 - Fastest growing segment is development of games to be played as apps on mobile devices

Fee-for-Service Revenue Models – Professional Services

- State laws prohibit some practices on the Web
- Patients or clients may set appointments online and some professionals do online consultations
 - Patient/client privacy concerns
- Law on the Web offers legal consultations to United Kingdom residents
- CPA and lawyer directories available online in U.S.
- Many Websites provide general health information and some now offer online mental health services
 - Some conditions easier to treat online

Free for Many, Fee for a Few

- Economics of manufacturing
 - Different for physical and digital products
 - Unit cost high percentage of physical products
 - Unit cost very small for digital products
- Leads to a different revenue model
 - Offer basic product to many for free
 - Charge a fee to some for differentiated products
 - Examples: Yahoo e-mail accounts
 - Inverse logic applied to physical products: free samples to entice sales (cookie samples)

Changing Strategies: Revenue Models in Transition

- Companies must change revenue model to meet needs of new and changing Web users
- Some companies created e-commerce Web sites
 - Needed many years to grow large enough to become profitable (CNN and ESPN)
- Some companies changed model or went out of business
- Case studies of strategies that evolved from experience and adaptations to change

Subscription to Advertising-Supported Model

- *Slate* magazine started as an upscale news and current events site
- Success expectations were high
 - Experienced writers and editors
- Begin charging an annual subscription fee after a limited free introductory period
 - Subscription fees did not cover operating costs
 - Now an advertising-supported site and part of the Bing portal
 - Likely value to Microsoft is increase to the portal's stickiness

Advertising-Supported to Advertising-Subscription Mixed Model

- *Salon.com*
 - Acclaimed for innovative content
- Initially operated as an advertising-supported site
 - Needed additional money to continue operations
- Now offers optional subscription version
 - Annual fee for Salon Core (premium)
 - Free of advertising
 - Additional content
 - Downloadable content

Advertising-Supported to Subscription Model

- Northern Light search engine includes a database
 - Results include Web site links and abstracts of its owned content
- Initial revenue source advertising-supported model plus a fee-based information access service
 - Advertising revenue was insufficient to cover service
- Converted to new subscription-supported revenue model with subscriptions to large corporate clients
 - Main products today include Business News, Discovery, SinglePoint and MI Analyst Text Analytics

Multiple Changes to Revenue Models

- Encyclopedia Britannica initial Web offerings (1994)
 - Britannica Internet Guide was free
 - Encyclopedia Britannica Online has a subscription fee or was offered as part of the CD package but subscription fees were low
- Converted to free advertiser-supported site (1999)
 - Advertising revenues insufficient to generate profit
- Returned to mixed model in 2001
 - Subscriptions are the major revenue source with additional revenue from online product store sales

Multiple Changes to Revenue Models (cont'd.)

- New York Times Web site started as the mid 1990's as purely advertising supported
 - Subscription fee for premium crosswords, chess column and archived articles
- 2005: Additional content required subscription
- 2007: Return to advertising-supported free access
- 2011: Complex mixed revenue model
- 2012: Announced apparent success of new model
 - Hope mixed revenue model will provide acceptable balance between print and online to keep the newspaper operating

Channel Conflict and Cannibalization

- Concerns that Web sales activities will take away sales from existing outlets and networks
- In 2000 Levi stopped selling products online because of channel conflict and cannibalization
 - Have started online sales again due to agreement that Web sales are insignificant
 - Provides Store Links for those who prefer to shop in person
- Maytag stopped online sales and now provides information and links to retailers

Channel Conflict and Cannibalization (cont'd.)

- Eddie Bauer was selling through catalogs and retail stores when it started selling on the Web
 - Online purchases returnable at retail stores
 - Required manager compensation and bonus plans adjustments to support Web site
 - Retail managers credited for each Web site returned
 - Catalog managers credited for existing customers who purchased through Web site
- Overall sales increased through the coordinated efforts
 - Channel cooperation made it successful

Strategic Alliances

- Two or more companies join forces to undertake an activity over long time period
 - Relationship Levi's created with retail partners
- Amazon.com has formed several strategic alliances
 - Target to sell clothing
 - CDnow to sell music CDs
 - Many smaller companies to offer their products for sale on the Amazon Web site

Luxury Goods Strategies

- Products can be difficult to sell online
 - Customers want to see product in person or touch
 - Brands hesitated selling online for fear of alienating upscale physical stores that sold products
- Some sites limit online offerings
 - Chanel only offers fragrance and skincare only
 - Calvin Klein only sells ready-to-wear on Web site
- Jewelry sales have grown rapidly in recent years
 - Blue Nile, Ice.com, and Costco are successful due to availability of independent appraisal certificates and “No questions asked” return policies

Overstock Sales Strategies

- Selling overstock items as clearance specials on Web sites have allowed retailers like Lands' End to close some of its physical outlet stores
- Many retail Web sites include link to separate sections for overstock or clearance items
- Online store reaches more people than a physical store with frequent updates possible
- Websites such as Overstock.com are devoted entirely to the sale of overstocked items purchased from other retailers

Creating an Effective Business Presence Online

- Public image conveyed to stakeholders
 - Stakeholders include customers, suppliers, employees, stockholders, neighbors, and general public
 - Most companies not concerned about image until they grow to a significant size
- Effective Web presence critical even for smallest and newest Web operating firms

Identifying Web Presence Goals

- Business physical space focuses on very specific objectives
 - Not image driven
 - Must satisfy many business needs
 - Often fails to convey a good presence
- Web business sites intentionally create distinctive presences
 - Good Web site design provides effective image-creation/ image-enhancing features

Objectives	Strategies
Attracting visitors to the Web site	Include links to the Web site (or specific pages) in marketing e-mails
Making the site interesting enough that visitors stay and explore	Product reviews, comparison features, advice on how to use a product or service
Convincing visitors to follow the site's links to obtain information	Clearly labeled links that include a hint of the information to be obtained by following them
Creating an impression consistent with the organization's desired image	Using established branding elements such as logos, characters used in other advertising media, slogans, or catchphrases
Building a trusting relationship with visitors	Ensuring the validity and objectivity of information presented on the site
Reinforcing positive images that the visitor might already have about the organization	Presenting testimonials, information about awards, links to external reviews or articles about the organization or its products and services
Encouraging visitors to return to the site	Featuring current information about the organization or its products and services that is regularly updated

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FIGURE 3-5 Web presence objectives and strategies

Making Web Presence Consistent with Brand Image

- Different firms, even within the same industry, establish different Web presence goals
 - Coca Cola Web site pages usually include trusted corporate image (Coke bottle)
 - Pepsi Web site pages contain hyperlinks to activities and product-related promotions
- Web presence conveys image company wants to present
- Most auto manufacturers' Web sites convey a consistent brand image

Not-For-Profit Organizations

- Web sites' key goals is information dissemination
- Successful site key elements
 - Integrate information dissemination with fund-raising
 - Provide two-way contact channel
- American Civil Liberties Union (ACLU)
 - Serves many different constituencies
- Web sites used to stay in touch with existing stakeholders and identify new opportunities for serving them

Web Site Usability

- Few businesses accomplish all goals with current Web presences
 - Most fail to provide visitors sufficient interactive contact opportunities
- Can improve Web presence by making sites accessible to more people and easier to use
- Web sites needs to encourage visitors' trust and foster feelings of loyalty toward the organization

How the Web is Different

- Simple mid-1990s Web sites conveyed basic business information
 - No market research conducted to determine what visitors wanted or infrastructure needs
- Failure to understand how Web differs from other presence-building media continues as a reason why businesses do not achieve Web objectives
- Web sites designed to create an organization's presence include links to standard information set
 - Success dependent on how this information offered

Varied Motivations of Web Site Visitors

- Visitors arrive for many different reasons including
 - Learning about company products or services
 - Buying products or services
 - Obtaining warranty, service, and repair policy information
 - Obtaining general company information
 - Obtaining financial information
 - Identifying people and obtaining contact information
 - Following a link for related information
- Addressing needs helps convert visitors into customers

Making Web Sites Accessible

- Need to build interface flexibility options
 - W3C Accessibility Initiative site offers useful links regarding disabilities
- Good site design lets visitors choose among information attributes
- Controversial Web site design issues
 - Adobe Flash software use which cannot be rendered in HTML and do not work on Apple iPhones/iPads
 - Some specific tasks do lend themselves to animated Web pages

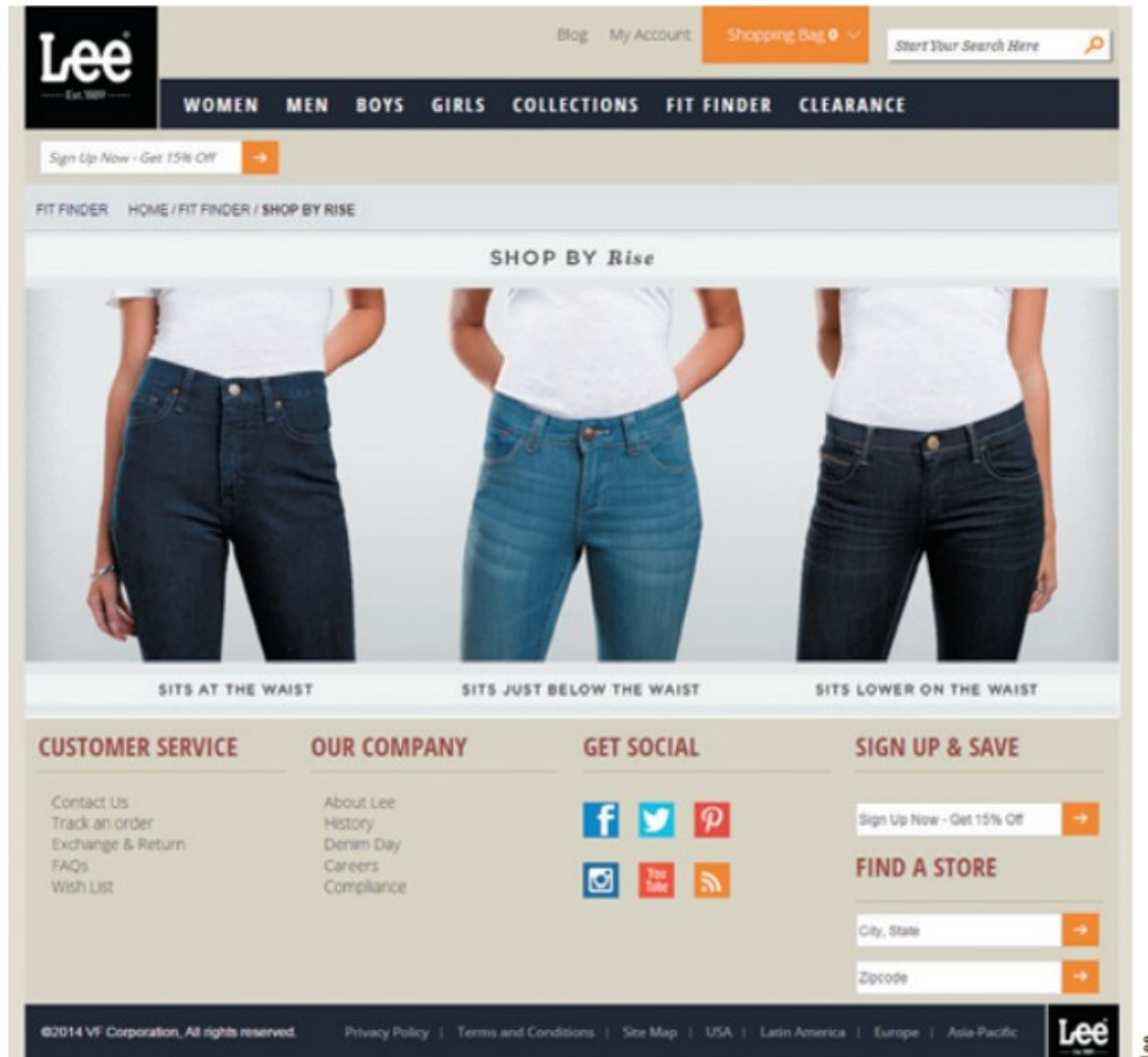


FIGURE 3-6 Lee® Jeans FitFinder Flash animation

Business Web sites need to:

- Offer easily accessible facts about the organization
- Allow visitors to experience the site in different ways and at different levels
- Provide visitors with a meaningful, two-way (interactive) communication link with the organization
- Sustain visitor attention and encourage return visits
- Offer easily accessible information about products and services and how to use them

FIGURE 3-7 Accessibility goals for business Web sites

Trust and Loyalty

- 5% increase in customer loyalty can yield profit increases of 25% to 80%
- Service element can be a powerful differentiating factor customers will pay extra for
 - Delivery, order handling, help selecting product, and after-sale support
 - Repeated satisfactory service builds customer loyalty
- Customer service weaknesses
 - No integration between call centers and Web sites
 - Growing disappointment in e-mail responsiveness

Usability Testing

- Testing/evaluation of Web site to ensure ease of use by visitors
 - Avoids Web site frustration (difficulty and confusion) where customers leave site without buying anything
- Simple site usability changes can increase customer satisfaction and sales
 - Contact information and call center staffing
- Focus groups provide info about customer needs
- Usability testing cost is low compared to Web site design costs

Customer-Centric Web Site Design

- Important part of successful electronic business operation
- Focus on meeting all site visitors' needs
- Guidelines for site design and access
 - Makes visitors' Web experiences more efficient, effective, memorable
- Special considerations for mobile devices
- Web designers should create sites focused on customer buying process rather than company's perspective

The Nature of Communication on the Web

- Communication modes
 - Personal contact (prospecting) model
 - Employees individually search for, qualify, and contact potential customers
 - Mass media delivers messages by broadcasting them to potential customers
- Addressable media are advertising efforts directed to known addressee
- Internet occupies a central space in the continuum of media choices

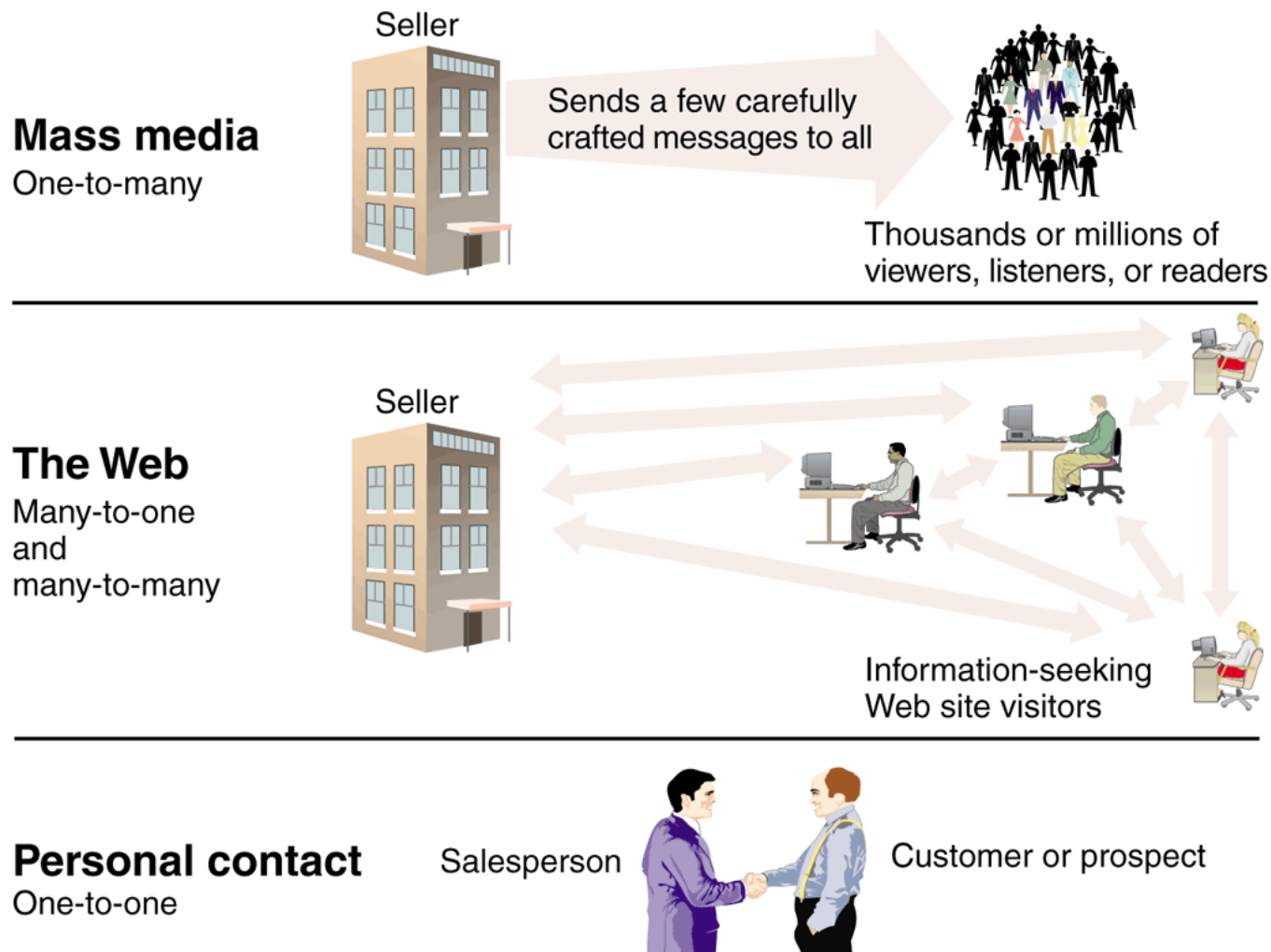


FIGURE 3-9 Business communication modes

The Nature of Communication on the Web (cont'd.)

- Characteristics of communication modes
 - Mass media: one-to-many communication model
 - Seller is active; buyer is passive
 - Personal contact: one-to-one communication model
 - Interchange in framework of existing trust relationship
 - The Web: one-to-one, many-to-one, and many-to-many communication models
 - Buyer as active participant in determining length, depth, and scope of search