

Chapter 2: Business Models for e-commerce

Chapter 2: Business Models for e-commerce	1
2.0 Introduction:	1
2.01 Business-to-Business (B2B)	1
2.02 Business-to-Consumer (B2C).....	1
2.03 Business-to-Government (B2G)	1
2.1 Developing a Business Model.....	1
2.20 Developing the e-commerce Business Model	2
2.21 Examples of e-commerce business models	2
2.22 Types of E-Commerce where the models can be used	3
2.30 THE BENEFITS OF ELECTRONIC COMMERCE	4
2.31 Benefits to Organizations.....	4
2.32 Benefits to consumers.....	4
2.33 Benefits to society.....	5
2.34 The Limitations of EC.....	5
Exercise.....	5

2.0 Introduction:

A business model describes an architecture for product, service and information flows, including a description of the various business actors and their roles.

In addition, it also describes the potential benefits for the various actors and the source of revenue. The section of a business model that describes how financial value is generated is called a **revenue model**. Business models are used to generate the following modes of e-commerce:

- Business-to-Business (B2B)
- Business-to-Consumer (B2C)
- Business-to-Government (B2G)

2.01 Business-to-Business (B2B)

- Refers to business transactions involving two or more businesses.
- Both businesses must provide a means for exchanging business documents.
- It is particularly common among large organizations
- Some of its aspects of B2B include:
 - Electronic funds transfer
 - Electronic payment fulfillment
 - Electronic tracking of transactions

2.02 Business-to-Consumer (B2C)

- Involves a seller (business) and consumers
- The business is the information source while the customer is the information seeker.

2.03 Business-to-Government (B2G)

- Involves government agencies/ departments and a business
- Could be operated like B2C or B2B

2.1 Developing a Business Model

A business model represents the activities of a business including:

- Activity models which describe what a business does
- Process models which describe how a business accomplishes what it does
- Data models which represent information structure of a business.

Based on the above activities a business model can be broken down into:

- Buy side and sell side i.e. the payment direction
 - With whom is commerce being conducted?
- Product or service type- refers to the basis of the transaction i.e. category, price, advertising, sales and delivery.

2.20 Developing the e-commerce Business Model

E-commerce strategies are best when driven by business strategy. They must be technically feasible & financially viable.

Developing the e-commerce Business Model requires one to dissect the buying/selling process

into elements & then, think about whether you can apply internet technology. It also requires one

to analyze how the other party's needs are changing from a business perspective, and thinking

whether you can address them.

2.21 Examples of e-commerce business models

a). E-shop (virtual Storefront):

This refers to web marketing of a company or a shop with the main goal being to sell goods and services. Other goals include promoting the company and cost reduction of business processes.

Revenue is realized from reduced costs, increased sales, affiliates, and advertising whereas the

main challenge is to develop strategies to increase demand.

Problems:

1. Current access speeds and hardware/software configurations make online shopping frustrating
2. Online shopping is not as immediate as real-world experiences.
3. Security and privacy are major issues.
4. Consumer behavior issues are relatively unknown e.g. marketing, getting repeat customers, using promotions and incentives effectively

b). Market aggregators

i). E-mall:

This is a collection of e-shops, under a common umbrella and may have the following characteristics:

- i). A common payment method (one shopping cart)
- ii). A single entry point to individual e-shops
- iii). Industry (or horizontal) marketplace. 'Stores' belong to an identified market segment
- iv). The main challenge for stores is to distinguish themselves

ii). Virtual communities:

The value of virtual communities comes from members' loyalty (customers or partners) and repeat visits. They add their information to a basic environment provided by the virtual community company. The membership fees and advertising are two main sources of revenue

A virtual community can also be an important add-on to other marketing operations. It can be used to build customer loyalty and receive customer feedback.

c). Market integrator

This is a company that brings buyers and sellers in a specific market sector together. It has the following characteristics:

1. The company provide the setting for business
2. The company is a disinterested third party
3. It generates revenue from transaction fees
4. Some charge sellers a listing fee as well
5. It can sell premium services (security, logistics)
6. Problem is achieving and sustaining critical mass

Comment [k1]:
Example Virtual software houses.

Comment [k2]:
Example Amazon.com Brings Authors together by helping them sell their books but it does not have its own authors.

d). E-Procurement

Refers to electronic tendering & procurement of goods/services

Benefits include:

- i). For buyer: wider choice of suppliers, better quality, improved delivery and reduced cost of procurement
- ii). For supplier: more tendering opportunities, lower cost of submission, potential collaborative tendering (i.e. for parts of tender)

e). The auction model

This is a site which provides the “virtual space” for an ongoing auction. People register with the site to participate. All types of digital and non-digital products are being sold. The site makes money by taking a commission on all sales. The main challenge is the development of trust which is essential to the success of this business model

f). Information Services

This model involves adding value to data e.g. information searches, customer profiling, investment advice, business opportunity brokerage, business intelligence services). Members may pay on subscription, or per use.

Other information services include certification authorities (e.g. eTrust, Verisign) which offer services of authentication, verification

2.22 Types of E-Commerce where the models can be used

- ☐ Electronic Data Exchange
- ☐ Brochureware
- ☐ Help Desk and Support
- ☐ Electronic Transactions
- ☐ Consumer Purchases
- ☐ Advertising
- ☐ Application Service Providers (ASPs)

a. Electronic Data Exchange

This occurs in Business-to-Business E-commerce. It involves the use of messages based on standards such as:

- ☐ ANSI X.12
- ☐ UN EDIFACT

It uses Industry Based Schemas. The transport Mechanisms applied includes private network/brokers or direct via internet

One of the areas of interest in its application is procurement

b. Brochureware

This type of E-Commerce involves sites whose main aim is to provide product service information. It includes:

- i). Electronic Catalogues
- ii). Indexes and Search Engines
- iii). Distribution Methods such as CD-ROMs, Dial-Up Networking and Internet Web Sites.
- iv). Distribution Formats such as HTML and PDF Documents.

c. Help Desk and Support

It covers the following areas:

- a) Product or Service Documentation provided via CD-ROMs, Downloadable PDFs and On-Line Web Sites
- b) Knowledgebase and FAQs

c) Message Boards and News Groups

d) Problem Submission

d. Electronic Transactions

It includes fields such as:

- a) Electronic Funds Transfers (EFT) done by financial institutions via private networks
- b) Bill Payments
- c) Credit card payments which involve consumers, merchants, processors and financial institutions.

e. Consumer Purchases

It includes:

- a). Direct Delivery Services of Hard and/or Soft Goods
- b). Intellectual property which mainly involves downloadable files and subscriptions.

f. Advertising

Covers areas such as:

- a. Web Banner Ads
- b. SPAM
- c. Trial Offers and Coupons
- d. Trial Use Intellectual Property

g. ASPs-Application service providers

Covers businesses such as web hosting services

2.30 THE BENEFITS OF ELECTRONIC COMMERCE

2.31 Benefits to Organizations

1. Expands the marketplace to national and international markets
2. Decreases the cost of creating, processing, distributing, storing and retrieving paper-based information
3. Allows reduced inventories and overhead by facilitating pull-type supply chain management
4. The pull-type processing allows for customization of products and services which provides competitive advantage to its implementers
5. Reduces the time between the outlay of capital and the receipt of products and services
6. Supports business processes reengineering (BPR) efforts
7. Lowers telecommunications cost - the Internet is much cheaper than value added networks (VANs)

2.32 Benefits to consumers

1. Enables consumers to shop or do other transactions 24 hours a day, all year round from almost any location
2. Provides consumers with more choices
3. Provides consumers with less expensive products and services by allowing them to shop in many places and conduct quick comparisons
4. Allows quick delivery of products and services (in some cases) especially with digitized products
5. Consumers can receive relevant and detailed information in seconds, rather than in days or weeks
6. Makes it possible to participate in virtual auctions
7. Allows consumers to interact with other consumers in electronic communities and exchange ideas as well as compare experiences
8. Facilitates competition, which results in substantial discounts

2.33 Benefits to society

1. Enables more individuals to work at home, and to do less traveling for shopping, resulting
in less traffic on the roads, and lower air pollution
2. Allows some merchandise to be sold at lower prices, benefiting less affluent people
3. Enables people in Third World countries (e.g. Kenya) and rural areas to enjoy products and
services which otherwise are not available to them
4. Facilitates delivery of public services at a reduced cost, increases effectiveness, and/or
improves quality

2.34 The Limitations of EC

The limitations of E-commerce are mainly technical and include:

1. Lack of universally accepted standards for quality, security, and reliability
2. The telecommunications bandwidth is insufficient
3. Software development tools are still evolving
4. Difficulties in integrating the Internet and EC software with some existing (especially legacy) applications and databases.
5. Special Web servers in addition to the network servers are needed (added cost).
6. Internet accessibility is still expensive and/or inconvenient

Exercise

1. What is a business model?
2. Describe the following modes of e-commerce
 - a. B2B
 - b. B2C
 - c. B2G
3. List five examples of E-commerce business models
4. Briefly describe five types of E-commerce where the models can be used.
5. Explain each of the following terms:
 - a. E-Commerce
 - b. E-marketing
 - c. Electronic catalog
 - d. E-market place
 - e. Shopping cart
6. Discuss the benefits and limitations of E-commerce.