Chapter 2
Marketplace Analysis for E-Commerce

<u>Learning Outcomes</u>

- Complete an online marketplace analysis to assess competitor, customer and intermediary and competitor use of the Internet as part of strategy development

- Identify the main business and marketplace models for electronic communications and trading

- Evaluate the effectiveness of business and revenue models for online businesses.

<u>Management Issues</u>

- What are the implications of changes in marketplace structures for how we trade with customers and other partners?

- Which business models and revenue models should we consider in order to exploit the Internet?

- What will be the importance of online intermediaries and marketplace hubs to our business and what actions should we take to partner these intermediaries?
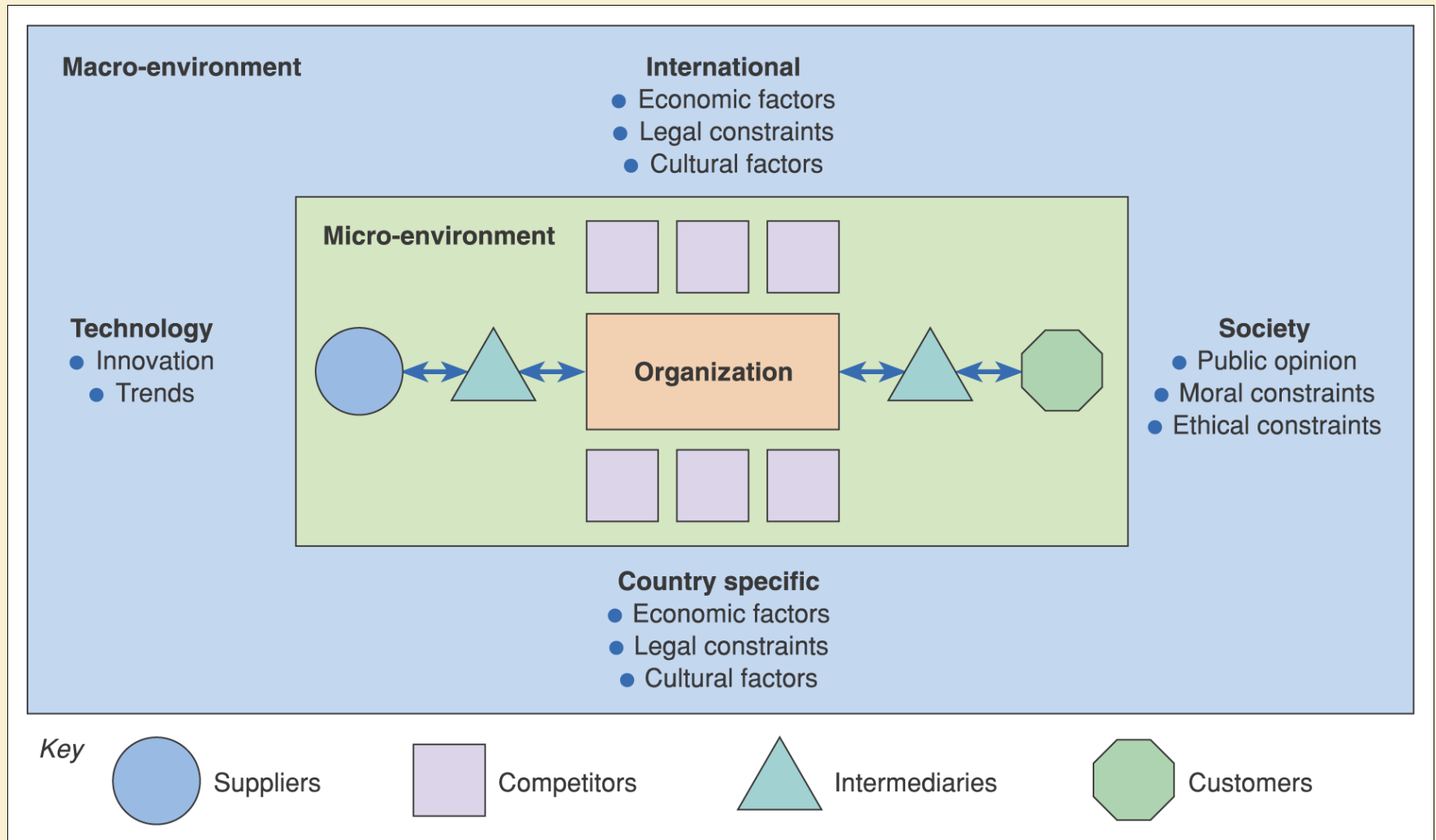
Macro-environment

International
- Economic factors
- Legal constraints
- Cultural factors

Micro-environment

Organization

Technology
- Innovation
- Trends

Society
- Public opinion
- Moral constraints
- Ethical constraints

Country specific
- Economic factors
- Legal constraints
- Cultural factors

Key
- Suppliers
- Competitors
- Intermediaries
- Customers

Figure 2.1 **The environment in which e-business services are provided**

Activity – The E-Commerce Environment

- For each of the environment influences shown in *Figure 2.1*, give examples of why it is important to monitor and respond in an e-business context. For example, the personalization mentioned in the text is part of why it is important to respond to technological innovation.

Environment Constraints and Opportunities

- *Customers* – which services are they offering via their web site that your organization could support them in?

- *Competitors* – need to be benchmarked in order to review the online services they are offering – do they have a competitive advantage?

- *Intermediaries* – are new or existing intermediaries offering products or services from your competitors while you are not represented?

Environment Constraints and Opportunities (Continued)

- *Suppliers* – are suppliers offering different methods of procurement to competitors that give them a competitive advantage?

- *Macro-environment*

- Society – what is the ethical and moral consensus on holding personal information?

- Country specific, international legal – what are the local and global legal constraints, for example, on holding personal information, or taxation rules on sale of goods?

Environment Constraints and Opportunities (Continued)

- Country specific, international economic – what are the economic constraints of operating within a country or global constraints?

- Technology – what new technologies are emerging by which to deliver online services such as interactive digital TV and mobile phone-based access?

Figure 2.2 Professor Donald Sull of London Business School talks about strategic agility
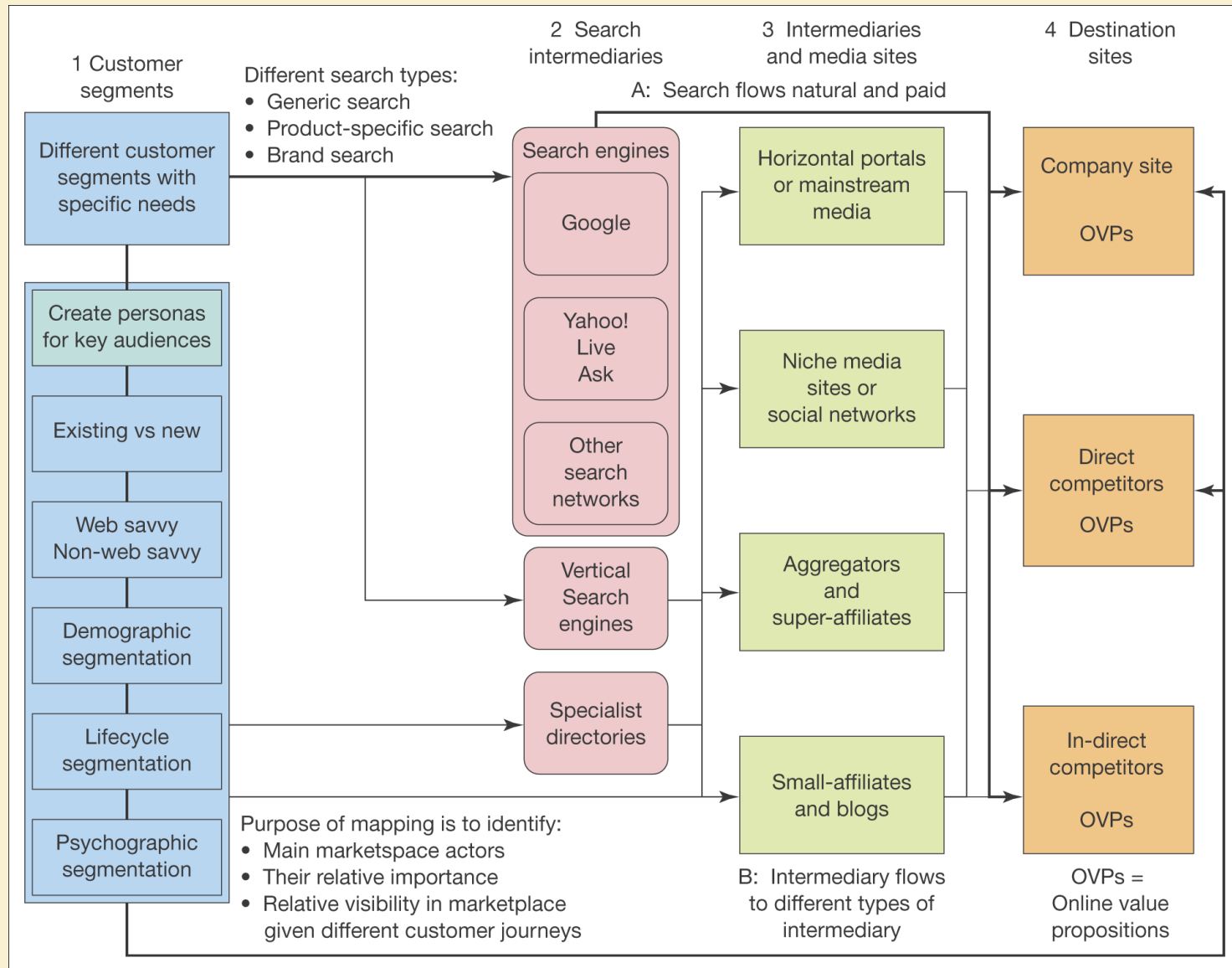
Source: www.ft.com
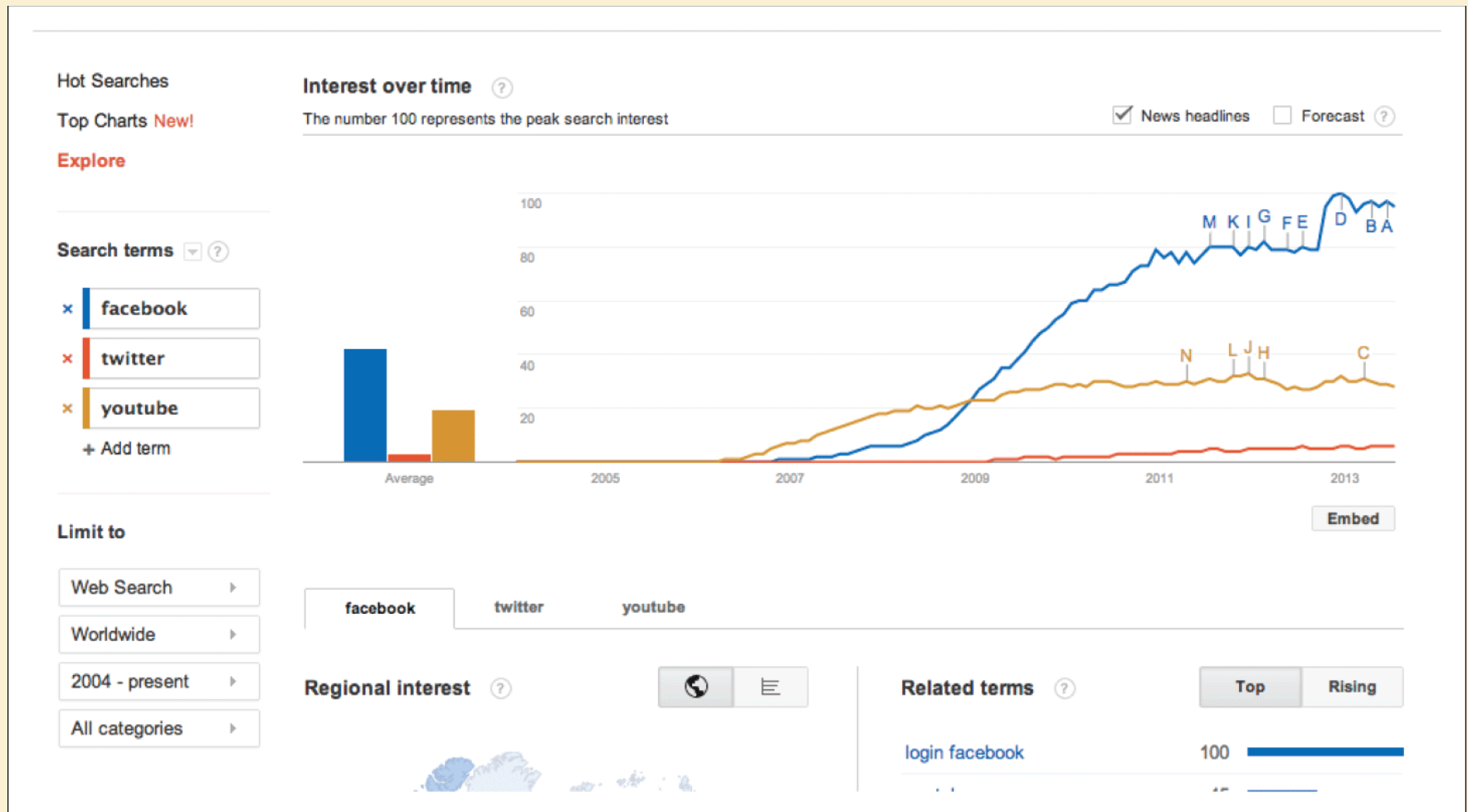
Figure 2.3 An online marketplace map

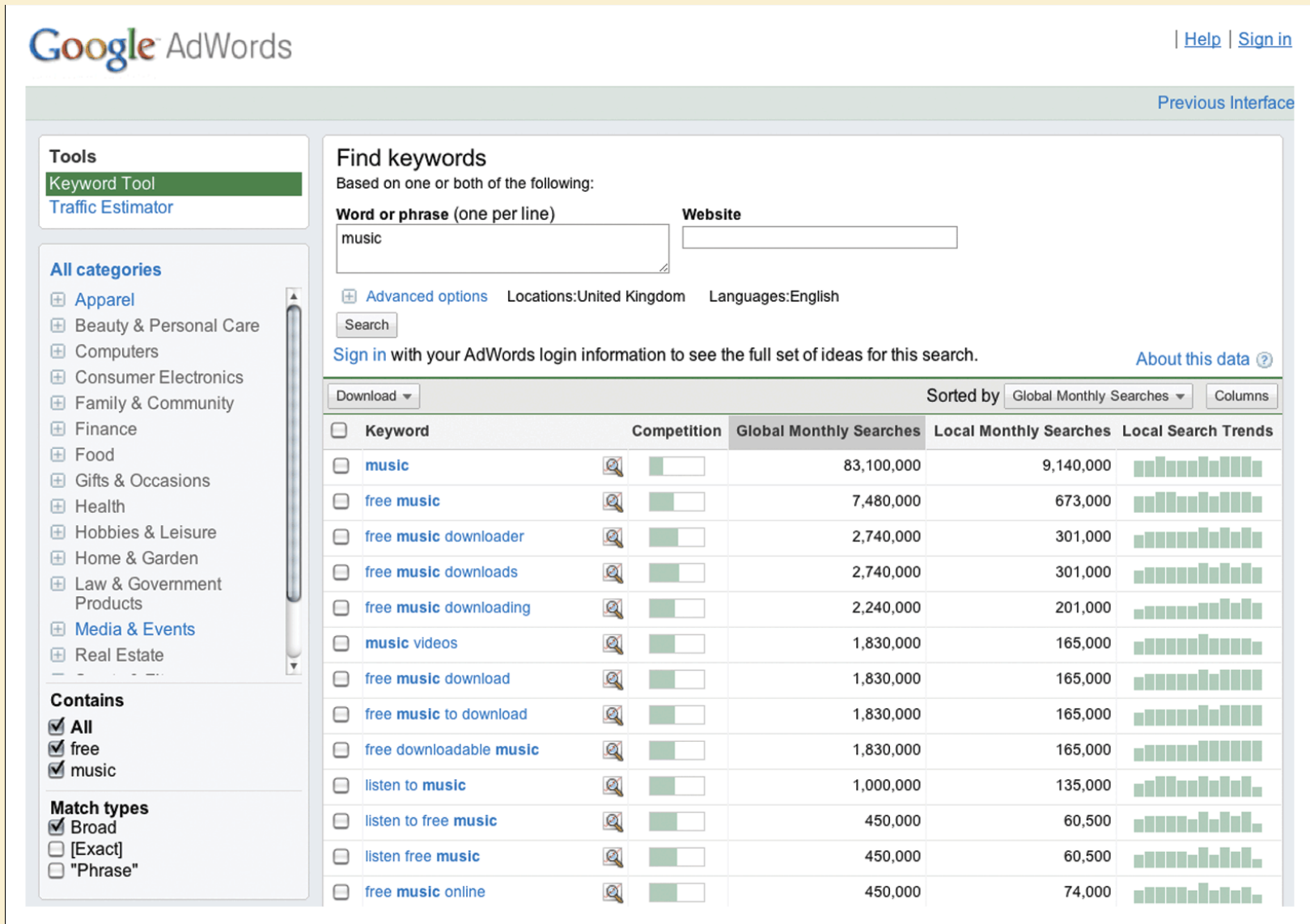Figure 2.4 Google Trends -- useful for consumer interest in products
Source: http://trends.google.com/websites

Figure 2.10 Number of searches through the Google Keyword Tool
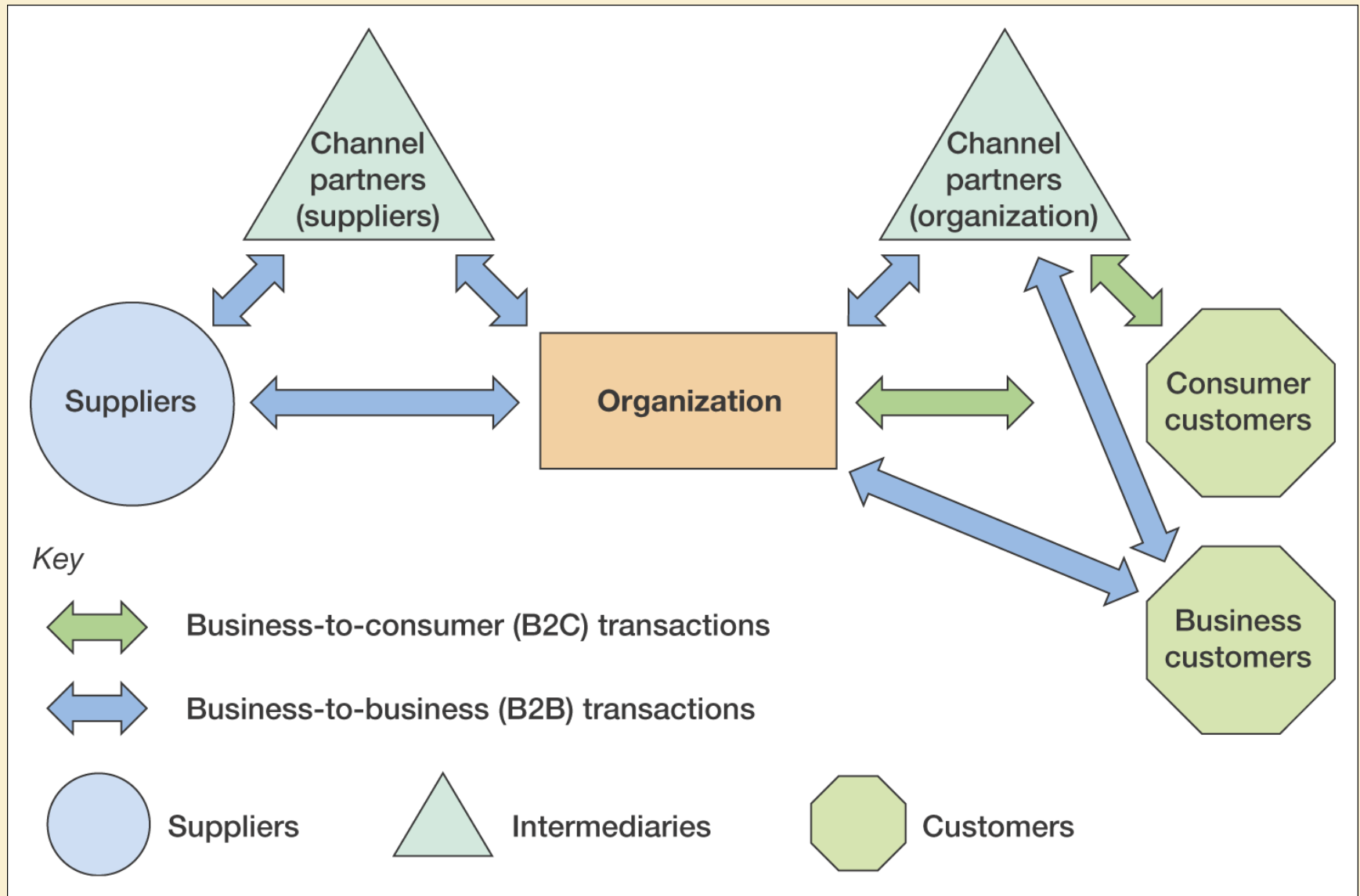*Source*: Google https://adwords.google.com/select/KeywordTool

Figure 2.5 B2B and B2C interactions between an organization, its suppliers and its customers

B2B and B2C Characteristics

| Characteristic	B2C	B2B
Complexity of buying decisions	Relatively simple – individual and influencers	More complex – buying process involves users, specifiers, buyers, etc.
Channel	Relatively simple – direct or from retailer	More complex, direct or via wholesaler, agent or distributor
Purchasing characteristics	Low value, high volume or high value, low volume. May be high involvement	Similar volume/value. May be high involvement. Repeat orders (rebuys) more common
Product characteristic	Often standardized items	Standardized items or bespoke for sale
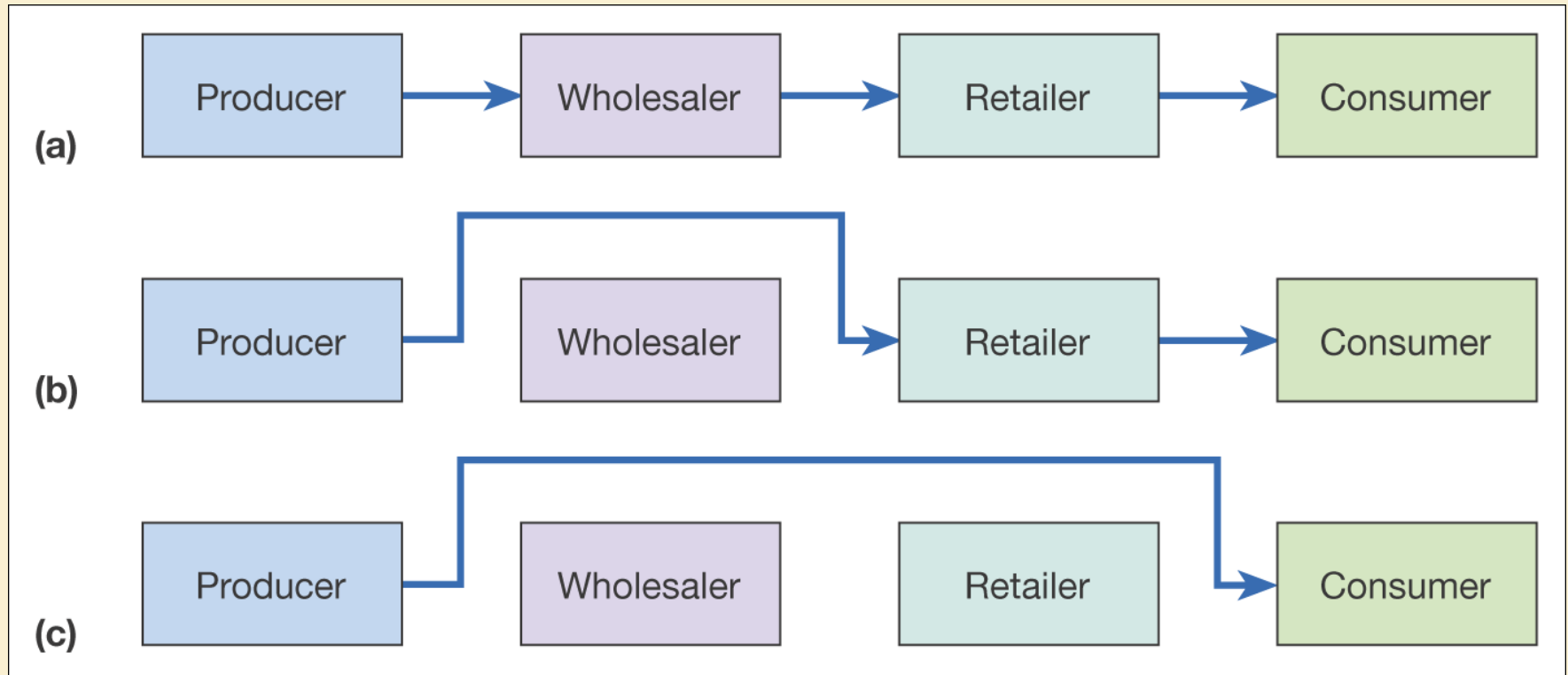
Figure 2.6 Disintermediation of a consumer distribution channel showing (a) the original situation, (b) disintermediation omitting the wholesaler, and (c) disintermediation omitting both wholesaler and retailer
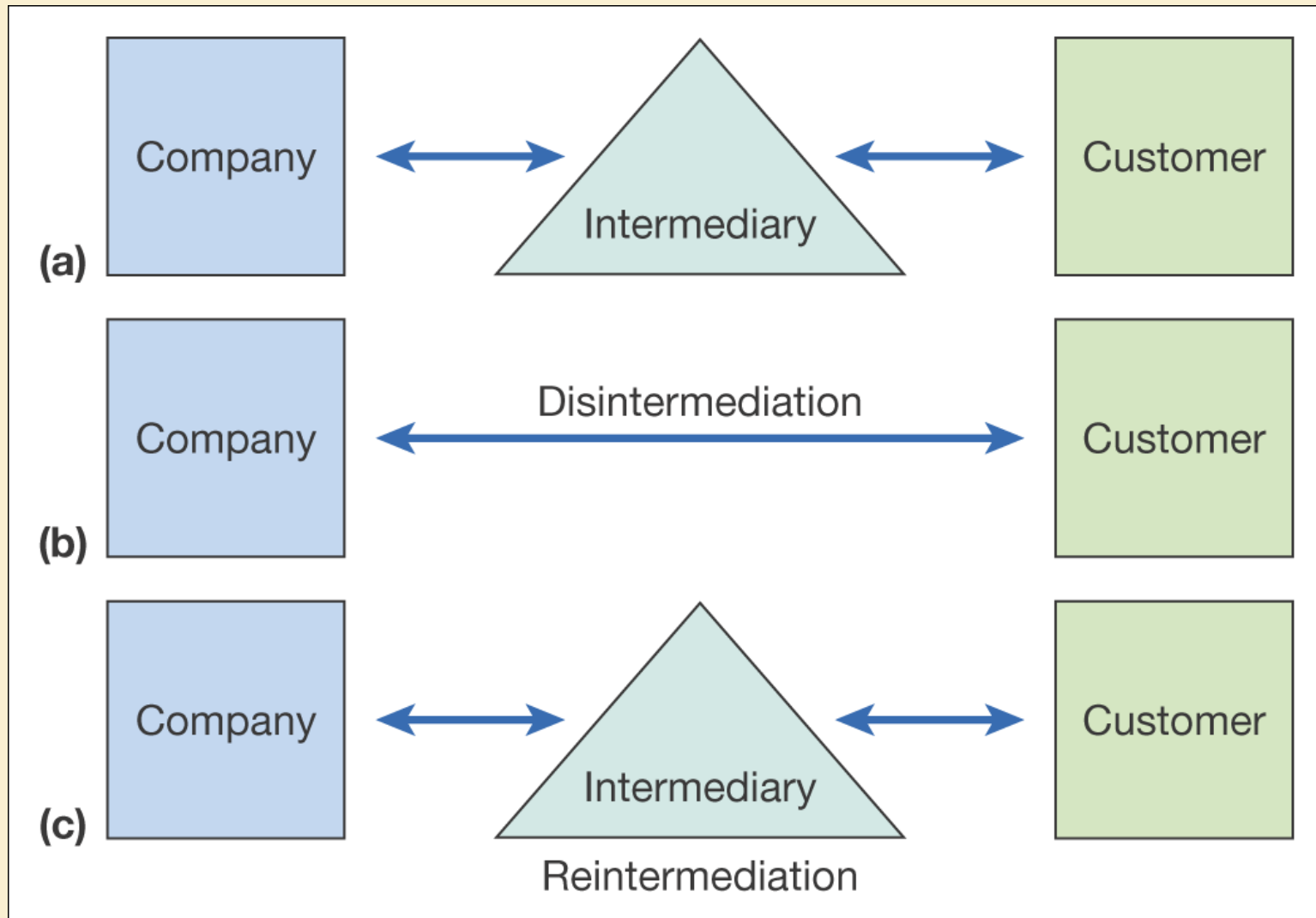
Figure 2.7 From original situation (a) to disintermediation (b) and reintermediation (c)

Counter-Mediation

- Creation of a new intermediary

- Example:

  – B&Q *www.diy.com*

  – Opodo *www.opodo.com*

  – Boots *www.wellbeing.com www.handbag.com*

  – Ford, Daimler (*www.covisint.com*)

- Partnering with existing intermediary – Mortgage broker Charcol and Freeserve.
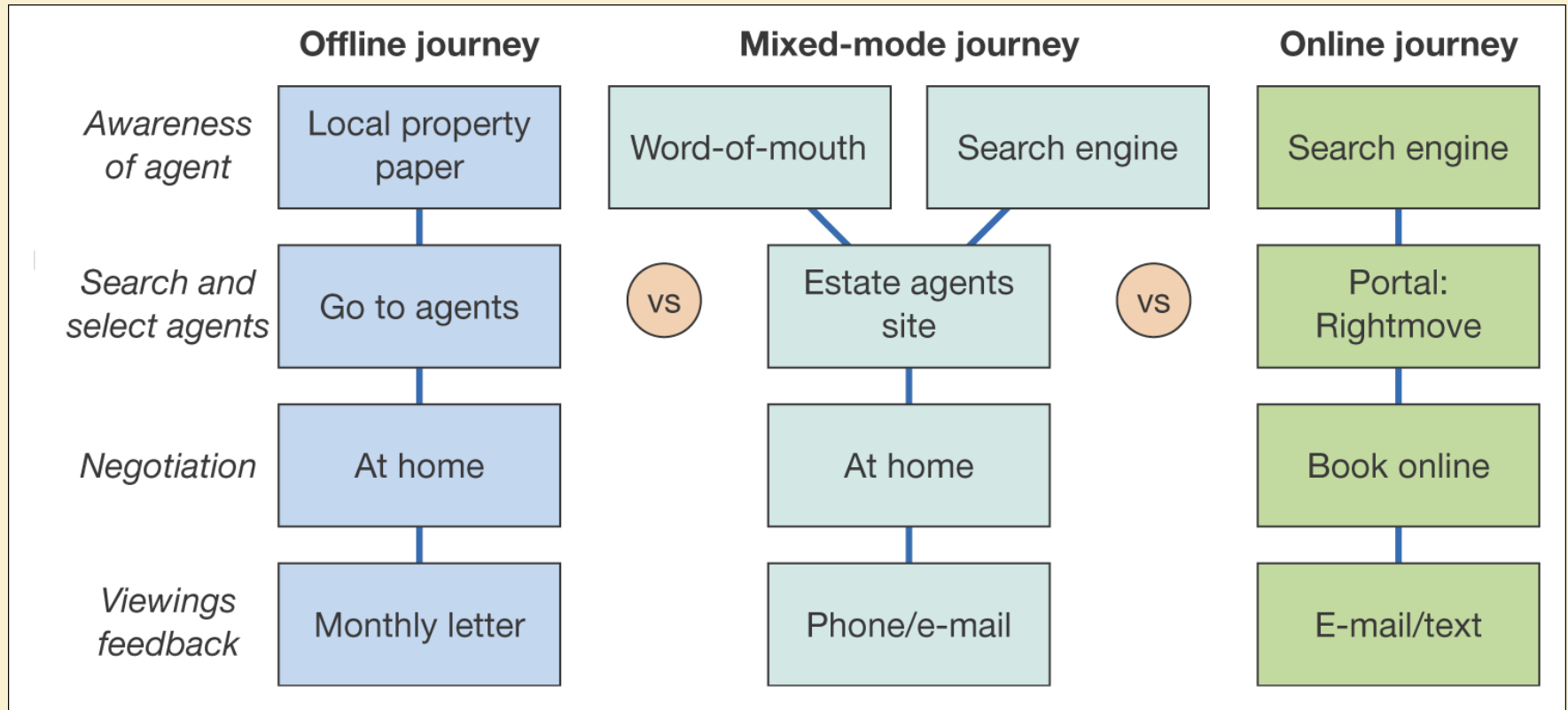
Figure 2.8 Example channel chain map for consumers selecting an estate agent to sell their property

Interactive Activity – Portals

Q1. Define portal

Q2. Is a search engine the same as a portal? Yes, No

Q3. Is a search engine the same as a directory? Yes, No

Q4. List search engines/portals you use and explain why.

Portal

'A gateway to information resources and services'

Search engines

Directories

News aggregators

Comparers

Exchanges

<u>Business Model</u>

Timmers (1999) defines a 'business model' as:

An architecture for product, service and information flows, including a description of the various business actors and their roles; and a description of the potential benefits for the various business actors; and a description of the sources of revenue.
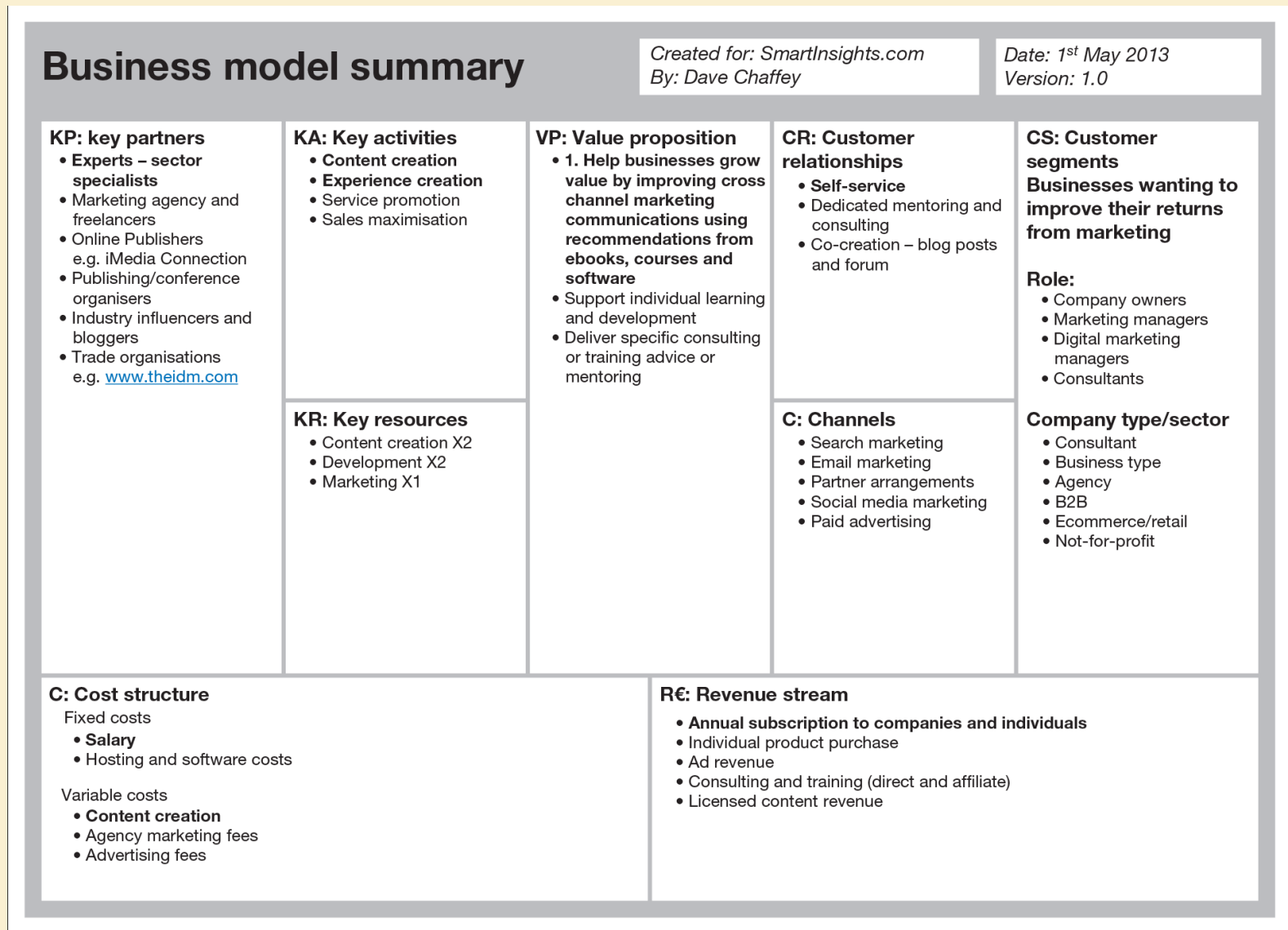
Business model summary

Created for: SmartInsights.com
By: Dave Chaffey

Date: 1st May 2013
Version: 1.0

KP: key partners
- **Experts – sector specialists**
- Marketing agency and freelancers
- Online Publishers e.g. iMedia Connection
- Publishing/conference organisers
- Industry influencers and bloggers
- Trade organisations e.g. www.theidm.com

KA: Key activities
- **Content creation**
- **Experience creation**
- Service promotion
- Sales maximisation

KR: Key resources
- Content creation X2
- Development X2
- Marketing X1

VP: Value proposition
- **1. Help businesses grow value by improving cross channel marketing communications using recommendations from ebooks, courses and software**
- Support individual learning and development
- Deliver specific consulting or training advice or mentoring

CR: Customer relationships
- **Self-service**
- Dedicated mentoring and consulting
- Co-creation – blog posts and forum

C: Channels
- Search marketing
- Email marketing
- Partner arrangements
- Social media marketing
- Paid advertising

CS: Customer segments
Businesses wanting to improve their returns from marketing

Role:
- Company owners
- Marketing managers
- Digital marketing managers
- Consultants

Company type/sector
- Consultant
- Business type
- Agency
- B2B
- Ecommerce/retail
- Not-for-profit

C: Cost structure
Fixed costs
- **Salary**
- Hosting and software costs

Variable costs
- **Content creation**
- Agency marketing fees
- Advertising fees

R€: Revenue stream
- **Annual subscription to companies and individuals**
- Individual product purchase
- Ad revenue
- Consulting and training (direct and affiliate)
- Licensed content revenue

Figure 2.10 Business Model Canvas example
Source: Smart Insights. With permission.

David Chaffey, *E-Business & E-Commerce Management*, 5th Edition, © Marketing Insights Limited 2012

Slide 2.24

Figure 2.11 Alternative perspectives on business models

Revenue Models – Publisher Example

- Subscription access to content

- Pay per view content access

- CPM display advertising

- CPC advertising on site

- Sponsorship of sections, content or widgets

- Affiliate revenue (CPA or CPC)

- Subscriber data for e-mail marketing

- Transaction fee revenue.

Ad revenue option	Measure	Site
	Pages served	**100,000**
Display advertising (CPM)	CPM (Cost Per Thousand)	£2
	% Inventory served	40%
	Avg. Clickthrough (CTR %)	0.10%
	Ad units served per page	2
	Clicks – CPM ads	80
	Revenue – display ads	**£160**
	Earnings per 100 clicks (EPC)	**£200.0**
	eCPM – display ads	**£1.60**
Fixed Run-of-site Sponsorship	% Inventory served	100%
	Avg. Clickthrough (CTR %)	0.30%
	Ad units served 1	1
	Clicks – fixed	300
	Revenue – fixed sponsorship	**£3,000**
	Earnings per 100 clicks (EPC)	**£1,000.0**
	eCPM – fixed	**£30.00**
Text ad advertising (CPC)	% Inventory served	100%
	Avg. Clickthrough (CTR %)	1.00%
	Avg. Cost Per Click	£0.30
	Ad units served per page	1
	Clicks – CPC ads	1,000
	Revenue – CPC ads	**£300**
	Earnings per 100 clicks (EPC)	**£30.0**
	eCPM – CPC ads	**£3**

Figure 2.12 Example spreadsheet for calculating a site revenue model
Note: Available for download at www.smartinsights.com/conversion-model-spreadsheets/

Affiliate Commission	% Inventory served	100%
	Avg. Clickthrough (CTR %)	0.50%
	Ad units served per page	1
	Clicks – Affiliates	500
	Desination conversion rate (%)	3%
	Average order value	£100
	Commission %	10%
	Revenue – affiliates	**£150**
	Earnings per 100 clicks (EPC)	**£30.0**
	eCPM – affiliates	**£1.50**
Overall metrics for site	**Clicks – total**	**1,880**
	Revenue – total	**£3,610**
	Earnings per 100 clicks (EPC) – total	**£192.02**
	eCPM – total	**£36.10**

Blue cells = input variables – vary these for 'what-if' analysis

Orange cells = Output variables (calculated – **do not overtype**)

Figure 2.12 Example spreadsheet for calculating a site revenue model (Continued)
Note: Available for download at www.smartinsights.com/conversion-model-spreadsheets/