CHAP 2: E-COMMERCE BUSINESS MODELS AND CONCEPTS

# K E Y C O N C E P T S

## Identify the key components of e-commerce business models.

A successful business model effectively addresses eight key elements:  
• *Value proposition*—how a company’s product or service fulfills the needs of customers. Typical e-commerce value propositions include personalization, customization, convenience, and reduction of product search and price delivery costs.  
• *Revenue model*—how the company plans to make money from its operations. Major e-commerce revenue models include the advertising model, subscription model, transaction fee model, sales model, and affiliate model.  
• *Market opportunity*—the revenue potential within a company’s intended marketspace.  
• *Competitive environment*—the direct and indirect competitors doing business in the same marketspace, including how many there are and how profitable they are.  
• *Competitive advantage*—the factors that differentiate the business from its competition, enabling it to provide a superior product at a lower cost.  
• *Market strategy*—the plan a company develops that outlines how it will enter a market and attract customers.  
• *Organizational development*—the process of defining all the functions within a business and the skills necessary to perform each job, as well as the process of recruiting and hiring strong employees.  
• *Management team*—the group of individuals retained to guide the company’s growth and expansion.

## Describe the major B2C business models.

There are a number of different business models being used in the B2C e-commerce arena. The major models include the following:  
• *Portal*—offers powerful search tools plus an integrated package of content and services; typically utilizes a  
combined subscription/advertising revenue/transaction fee model; may be general or specialized (vortal).  
• *E-tailer*—online version of traditional retailer; includes virtual merchants (online retail store only), bricksand-clicks e-tailers (online distribution channel for a company that also has physical stores), catalog merchants (online version of direct mail catalog), and manufacturers selling directly to the consumer.  
• *Content provider*—information and entertainment companies that provide digital content; typically utilizes an advertising, subscription, or affiliate referral fee revenue model.  
• *Transaction broker*—processes online sales transactions; typically utilizes a transaction fee revenue model.  
• *Market creator*—uses Internet technology to create markets that bring buyers and sellers together; typically utilizes a transaction fee revenue model.  
• *Service provider*—offers services online.  
• *Community provider*—provides an online community of like-minded individuals for networking and information sharing; revenue is generated by advertising, referral fees, and subscriptions.

## Describe the major B2B business models.

The major business models used to date in the B2B arena include:  
• *E-distributor*—supplies products directly to individual businesses.  
• *E-procurement*—single firms create digital markets for thousands of sellers and buyers.  
• *Exchange*—independently owned digital marketplace for direct inputs, usually for a vertical industry group.  
• *Industry consortium*—industry-owned vertical digital market.  
• *Private industrial network*—industry-owned private industrial network that coordinates supply chains with a limited set of partners.

## Understand key business concepts and strategies applicable to e-commerce.

E-commerce has had a major impact on the business environment in the last decade, and have affected:  
• *Industry structure*—the nature of players in an industry and their relative bargaining power by changing the basis of competition among rivals, the barriers to entry, the threat of new substitute products, the strength of suppliers, and the bargaining power of buyers.  
• *Industry value chains*—the set of activities performed in an industry by suppliers, manufacturers, transporters, distributors, and retailers that transforms raw inputs into final products and services by reducing the cost of information and other transaction costs.  
• *Firm value chains*—the set of activities performed within an individual firm to create final products from raw inputs by increasing operational efficiency.  
• *Business strategy*—a set of plans for achieving superior long-term returns on the capital invested in a firm by offering unique ways to differentiate products, obtain cost advantages, compete globally, or compete in a narrow market or product segment.

# Q U E S T I O N S

1. What is a business model? How does it differ from a business plan?  
2. What are the eight key components of an effective business model?  
3. What are Amazon’s primary customer value propositions?  
4. Describe the five primary revenue models used by e-commerce firms.  
5. Why is targeting a market niche generally smarter for a community provider than targeting a large market segment?  
6. Would you say that Amazon and eBay are direct or indirect competitors? (You may have to visit the websites or apps to answer.)  
7. What are some of the specific ways that a company can obtain a competitive advantage?  
8. Besides advertising and product sampling, what are some other market strategies a company might pursue?  
9. How do venture capitalists differ from angel investors?  
10. Why is it difficult to categorize e-commerce business models?  
11. Besides the examples given in the chapter, what are some other examples of vertical and horizontal portals in existence today?  
12. What are the major differences between virtual storefronts, such as Bluefly, and bricks-and-clicks operations, such as Walmart? What are the advantages and disadvantages of each?  
13. Besides news and articles, what other forms of information or content do content providers offer?  
14. What is a reverse auction? What company is an example of this type of business?  
15. What are the key success factors for exchanges? How are they different from portals?  
16. How have the unique features of e-commerce technology changed industry structure in the travel business?  
17. Who are the major players in an industry value chain and how are they impacted by e-commerce technology?  
18. What are five generic business strategies for achieving a profitable business?  
19. What is the difference between a market opportunity and a marketspace?  
20. What is crowdfunding and how does it help e-commerce companies raise capital?