

# E-commerce 2014

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# Chapter 2

## E-commerce Business Models and Concepts

e Commerce Course :

Parts of Chapters

1.1 & 1.2,

5.1

8.1, 8.2 & 8.3

10.1

Complete Chapters

2, 3, 4, 6, 7 and 9



# Agenda

- E-commerce Business Models
- B2C Business Models
- B2B Business Models
- How E-commerce Changes Business?



# E-commerce Business Models

## ■ Business model

- ❖ Set of planned activities designed to result in a profit in a marketplace



# E-commerce Business Models

## ■ Business Models:

- ❖ The Add-On model
- ❖ The Advertising model
- ❖ The Affiliate model
- ❖ The Auction model
- ❖ The Bait and Hook model - razor blade analogy
- ❖ The Direct Sales model
- ❖ The Franchise model



# E-commerce Business Models

## ■ Business Models:

- ❖ The Pay as You Go model
- ❖ The Recurring Revenue model (Subscription model)
- ❖ The Freemium model
- ❖ The Internet Bubble model





# E-commerce Business Models

## ■ Business Models: The Low-Cost model

- ❖ Bank card charges
- ❖ Advertising on seats
- ❖ Lottery ticket sales
- ❖ Flight insurance
- ❖ Selling train tickets
- ❖ Priority seating
- ❖ Extortionate charges for excess baggage, reprinting a boarding pass, etc.
- ❖ 'Preferred car hire rates'

# Five Primary Revenue Models

**TABLE 5.2**

**FIVE PRIMARY REVENUE MODELS**

REVENUE MODEL	EXAMPLES	REVENUE SOURCE
Advertising	Yahoo	Fees from advertisers in exchange for advertisements
Subscription	eHarmony Consumer Reports Online Netflix	Fees from subscribers in exchange for access to content or services
Transaction Fee	eBay E*Trade	Fees (commissions) for enabling or executing a transaction
Sales	Amazon L.L.Bean Birchbox iTunes	Sales of goods, information, or services
Affiliate	MyPoints	Fees for business referrals



# Examples of Subscription Services

TABLE 5.1	EXAMPLES OF SUBSCRIPTION SERVICES
NAME	DESCRIPTION
eHarmony.co.uk (dating)	<ul style="list-style-type: none"><li>• Free: Create profile and view profiles of matches</li><li>• Basic (see photos, send and receive messages): £44.95 for 1 month; £65.85 for 3 months; £113.7 for 6 months; £119.4 for 12 months</li><li>• Total Connect (Basic plus additional services): £44.95 for 1 month; £68.85 for 3 months; £119.7 for 6 months; £155.4 for 12 months</li></ul>
Ancestry.co.uk (genealogical research)	<ul style="list-style-type: none"><li>• Essentials (UK census, birth, marriage, and death records): £10.99 for 1 month; £95.99 for 12 months</li><li>• Premium (unlimited access to entire library): £13.99 for 1 month; £119.99 for 12 months</li></ul>
Kindle Unlimited UK	<ul style="list-style-type: none"><li>• Unlimited books for £7.99/month (over 1 million books from which to choose)</li></ul>
Spotify (music)	<ul style="list-style-type: none"><li>• Many different permutations, depending on device (mobile, tablet, or desktop) and plan chosen (Free, Unlimited, or Premium)</li></ul>



# E-commerce Business Models

## ■ E-commerce business model-

Uses/leverages unique qualities of Internet and Web

- ❖ Business - to - Business (B2B)
- ❖ Business - to - Consumer (B2C)
- ❖ Consumer - to - Consumer (C2C)
- ❖ Consumer - to - Business (C2B)
- ❖ Business - to - Government (B2G)
- ❖ Government - to - Business (G2B)
- ❖ Government - to - Citizen (G2C)



# E-commerce Business Models

- **Business plan:** Describes a firm's business model
  1. **Company Summary**
  2. **Services**
  3. **Market Analysis Summary**
  4. **Strategy and Implementation Summary - Sales Forecast, Milestones**
  5. **Management Summary**
  6. **Financial Plan - Start-up Funding, Projected Profit and Loss**



# Eight Key Elements of a Business Model

**TABLE 5.3**

**KEY ELEMENTS OF A BUSINESS MODEL**

COMPONENTS	KEY QUESTIONS
Value proposition	Why should the customer buy from you?
Revenue model	How will you earn money?
Market opportunity	What marketplace do you intend to serve, and what is its size?
Competitive environment	Who else occupies your intended marketplace?
Competitive advantage	What special advantages does your firm bring to the marketplace?
Market strategy	How do you plan to promote your products or services to attract your target audience?
Organizational development	What types of organizational structures within the firm are necessary to carry out the business plan?
Management team	What kinds of experiences and background are important for the company's leaders to have?



# 1. Value Proposition

- **How does the product or service fulfill customer needs**
- **E-commerce value propositions:**
  - ❖ Personalization/customization
  - ❖ Convenience
  - ❖ Price/No shipping cost
  - ❖ Quick delivery
  - ❖ Unparalleled Selection
  - ❖ Product/service quality



## 2. Revenue Model

- **How will the company earn money**
- **Major types of revenue models:**
  - ❖ Advertising revenue model- Facebook
  - ❖ Subscription revenue model – Anti virus, Consumer Reports, Wall Street News Subscription, Online Dating
  - ❖ Transaction fee revenue model- ebay, E-trade, Credit cards
  - ❖ Sales revenue model – AmazonMP3, Amazon, Gap
  - ❖ Affiliate revenue model – airlines/car rentals/hotels





## 3. Market Opportunity

- **The intended Marketspace of the company**
  - ❖ 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
  - ❖ New entrants into market, substitute products, and power of consumers and suppliers (**nature of competition**)
  - ❖ 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

### ■ The special advantages of a firm

- ❖ Superior or cheaper product than competitors
- ❖ What makes a product superior?

### ■ Important concepts:

- ❖ Asymmetries exist when one competitor has more resources or differential access to them compared to other competitors
- ❖ First-mover advantage
- ❖ Unfair competitive advantage results from factors of production that are hard to duplicate or acquire (brands, natural resources, capital investments)
- ❖ Leverage using vast resources to move in other markets – leveraging a large customer base, or lots of money (Apple car)
- ❖ Perfect markets do not allow for competitive advantage as all firms have equal access to all factors of production



## 6. Market Strategy

- **How do you plan to promote your products or services to attract the 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 -  
IBM OS 2



## 7. Organizational Development

- **The types of organizational structures within the firm necessary to carry out the business plan**
- **Describes how firm will organize work**
  - ❖ Typically, divided into functional departments, some organize around products, combination of both (auto manufacturers)
  - ❖ As company grows, hiring moves from generalists to specialists



## 8. Management Team

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





# Raising Capital

- **Seed capital** personal funds used to start business
- **Traditional sources**
  - ❖ Incubators provide small amount of funding and provide services to start-ups
  - ❖ Commercial banks
  - ❖ Angel investors wealthy investors who invest money in exchange for equity share of the business
  - ❖ Venture capital firms invest funds they manage for other investors
  - ❖ Strategic partners
- **Crowdfunding**
  - ❖ Using internet to allow individuals to contribute to new ventures



# Elevator Pitch

**TABLE 5.4**

**KEY ELEMENTS OF AN ELEVATOR PITCH**

**ELEMENT**

**DESCRIPTION**

Introduction

Your name and position; your company's name, and a tagline in which you compare what your company does to a well-known company. Example: "My name is X, I am the founder of Y, and we are the Uber/Amazon of Z."

Background

The origin of your idea and the problem you are trying to solve.

Industry size/market opportunity

Brief facts about the (hopefully very large) size of the market.

Revenue model/numbers/growth metrics

Insight into your company's revenue model and results thus far, how fast it is growing, and early adopters, if there are any.

Funding

The amount of funds you are seeking and what it will help you achieve.

Exit strategy

How your investors will achieve a return on their investment.



## **Crowdfunding Takes Off**

- **What types of projects and companies might be able to most successfully use crowdfunding?**
- **Are there any negative aspects to crowdfunding?**
- **What obstacles are presented in the use of crowdfunding as a method to fund start-ups?**

# 5.6 B2C Business Models

**TABLE 5.6**

**B2C BUSINESS MODELS**

BUSINESS MODEL	VARIATIONS	EXAMPLES	DESCRIPTION	REVENUE MODELS
E-tailer	Virtual Merchant	Amazon Blue Nile Bluefly	Online version of retail store, where customers can shop at any hour of the day or night without leaving their home or office	Sales of goods
	Bricks-and-Clicks	Walmart Sears	Online distribution channel for a company that also has physical stores	Sales of goods
	Catalog Merchant	L.L.Bean LillianVernon	Online version of direct mail catalog	Sales of goods
	Manufacturer-Direct	Dell Mattel	Manufacturer uses online channel to sell direct to customer	Sales of goods
Community Provider		Facebook LinkedIn Twitter Pinterest	Sites where individuals with particular interests, hobbies, common experiences, or social networks can come together and "meet" online	Advertising, subscription, affiliate referral fees
Content Provider		Wall Street Journal CNN ESPN Netflix Apple Music	Offers customers newspapers, magazines, books, film, television, music, games, and other forms of online content	Advertising, subscription fees, sales of digital goods

# 5.6 B2C Business Models

Portal	Horizontal/ General	Yahoo AOL MSN Facebook	Offers an integrated package of content, search, and social network services: news, e-mail, chat, music downloads, video streaming, calendars, etc. Seeks to be a user's home base	Advertising, subscription fees, transaction fees
	Vertical/ Specialized (Vortal)	Sailnet	Offers services and products to specialized marketplace	Advertising, subscription fees, transaction fees
	Search	Google Bing Ask	Focuses primarily on offering search services	Advertising, affiliate referral
Transaction Broker		E*Trade Expedia Monster Travelocity Orbitz	Processors of online sales transactions, such as stockbrokers and travel agents, that increase customers' productivity by helping them get things done faster and more cheaply	Transaction fees
Market Creator		eBay Etsy Amazon Priceline	Businesses that use Internet technology to create markets that bring buyers and sellers together	Transaction fees
Service Provider		VisaNow Wave RocketLawyer	Companies that make money by selling users a service, rather than a product	Sales of services





## B2C Business Models

- E-tailer
- Community providers create communities for like minded people (social networks)
- Content provider disseminate info
- Portal enable searching to provide info
- Transaction broker (financial, travel, entertainment)
- Market creator creates market spaces
- 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:

- ❖ Subscription; pay per download (micropayment); advertising; affiliate referral

## ■ Variations:

- ❖ Syndication- firm does not own material just distributes it
- ❖ Web aggregators (shopping.com, Travelocity, Priceline) aggregate info and add value to it



# B2C Business Models: Portal

- **Searching capability plus an integrated package of content and services**
- **Revenue models:**
  - ❖ Advertising, referral fees, transaction fees, subscriptions
- **Variations:**
  - ❖ Horizontal/general includes all internet users
  - ❖ Vertical/specialized (vortal) focus around a market segment niche of subject matter
  - ❖ Searching capabilities



# B2C Models: Transaction Broker

- **Process online transactions for consumers**
  - ❖ Primary value proposition—saving time and money, and enabling online transactions (stocks, credit card and PayPal payments)
- **Revenue model:**
  - ❖ Transaction fees
- **Industries using this model:**
  - ❖ Financial services
  - ❖ Travel services and entertainment
  - ❖ Job placement services



# B2C Models: Market Creator

- **Create digital environments where buyers and sellers can meet and transact business**
- **Examples:**
  - ❖ Priceline
  - ❖ eBay
  - ❖ E\*trade
- **Revenue model:**
  - ❖ Transaction fees, fees to merchants for access





# B2C Models: Service Provider

## ■ Online services

- ❖ Example: 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

# 5.7 B2B Business Models

**TABLE 5.7**

**B2B BUSINESS MODELS**

BUSINESS MODEL	EXAMPLES	DESCRIPTION	REVENUE MODEL
<i>(1) NET MARKETPLACE</i>			
E-distributor	Grainger Amazon Business	Single-firm online version of retail and wholesale store; supply maintenance, repair, operation goods; indirect inputs	Sales of goods
E-procurement	Ariba Supplier Network PerfectCommerce	Single firm creating digital markets where sellers and buyers transact for indirect inputs	Fees for market-making services, supply chain management, and fulfillment services
Exchange	Go2Paper	Independently owned vertical digital marketplace for direct inputs	Fees and commissions on transactions
Industry Consortium	TheSeam SupplyOn	Industry-owned vertical digital market open to select suppliers	Fees and commissions on transactions
<i>(2) PRIVATE INDUSTRIAL NETWORK</i>			
	Walmart Procter & Gamble	Company-owned network that coordinates supply chains with a limited set of partners	Cost absorbed by network owner and recovered through production and distribution efficiencies



# B2B Business Models

- **B2B relies on EDI** (electronic data interchange)
- **Net marketplaces**
  - ❖ E-distributor
  - ❖ E-procurement
  - ❖ Exchange
  - ❖ Industry consortium
- **Private industrial network**



## B2B Models: E-distributor

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



# B2B Models: E-procurement

- **Creates and sells access to digital markets where participants transact for indirect goods**
  - ❖ B2B service providers, application service providers (ASPs)
- **Revenue model:**
  - ❖ Service fees, supply-chain management, fulfillment services
- **Example: Ariba-** <http://www.ariba.com/about/our-story>



# B2B Models: Exchanges

- **Independently owned vertical digital marketplace where hundreds of suppliers meet a small number of large commercial purchasers**
- **Revenue model: Transaction, commission fees**
- **Create powerful competition between suppliers**
- **Tend to force suppliers into powerful price competition; number of exchanges has dropped dramatically**





## 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: Exostar used by defense industry** - <http://www.exostar.com/Mission/>



# Private Industrial Networks

- Digital network used to coordinate among firms engaged in business together
- **Represents 75% of B2B business by large firms**
- Often owned by a large network firm
- **Example:** Walmart's network for suppliers
- **Cost absorbed by network owner and recovered through production and distribution efficiencies**

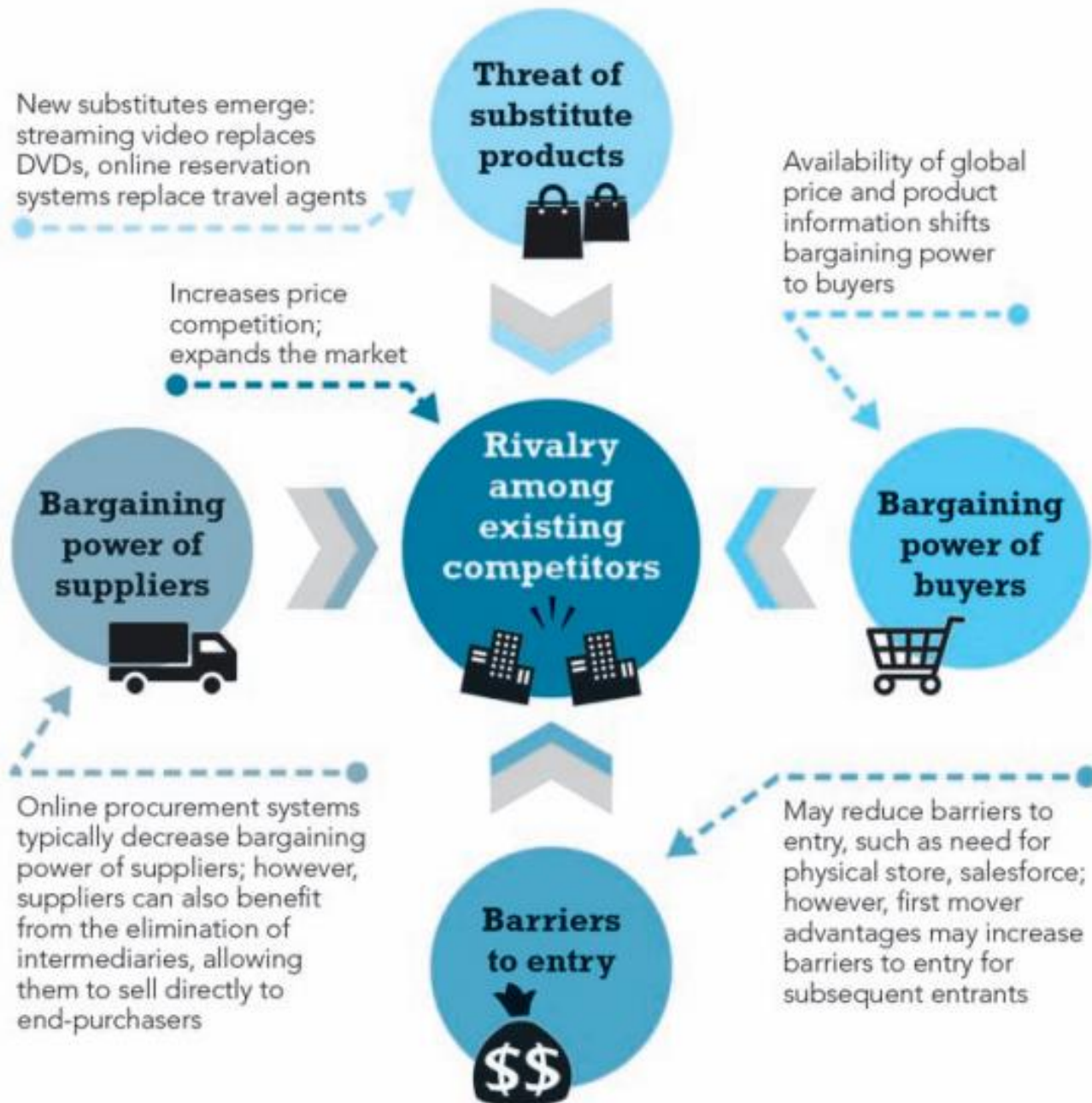


# How E-commerce Changes Business

- **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

**FIGURE 5.3**

**HOW E-COMMERCE INFLUENCES INDUSTRY STRUCTURE**



# E-Commerce Enablers

**TABLE 5.5**

**E-COMMERCE ENABLERS**

**INFRASTRUCTURE**

**PLAYERS**

Hardware: Web Servers

HP • Dell • Lenovo

Software: Web Server Software

Microsoft • IBM • Red Hat Linux (Apache) • Oracle

Cloud Providers

Amazon Web Services • Google • IBM • Rackspace

Hosting Services

Rackspace • WebIntellects • 1&1 • HostGator • Hostway

Domain Name Registration

GoDaddy • Network Solutions • Dotster

Content Delivery Networks

Akamai • Limelight

Site Design

Weebly • Wix • Squarespace

E-commerce Platform Providers

Magento • IBM • Oracle • Salesforce

Mobile Commerce Hardware Platform

Apple • Samsung • LG

Mobile Commerce Software Platform

Apple • Google • Adobe • Usablenet • Unbound Commerce

Streaming, Rich Media, Online Video

Adobe • Apple • Webcollage

Security and Encryption

VeriSign • Check Point • GeoTrust • Entrust • Thawte • Intel Security

Payment Systems

PayPal • Authorize.net • Chase Paymentech • Cybersource

Web Performance Management

Compuware • SmartBear • Keynote

Comparison Engine Feeds/Marketplace Management

ChannelAdvisor • CommerceHub • CPC Strategy

Customer Relationship Management

Oracle • SAP • Salesforce • Microsoft Dynamics





# E-Commerce Enablers

Order Management	JDA Software • Jagged Peak • Monsoon Commerce
Fulfillment	JDA Software • Jagged Peak • CommerceHub
Social Marketing	Buffer • HootSuite • SocialFlow
Search Engine Marketing	iProspect • ChannelAdvisor • Merkle
E-mail Marketing	Constant Contact • Experian CheetahMail • Bronto Software • MailChimp
Affiliate Marketing	CJ Affiliate • Rakuten LinkShare
Customer Reviews and Forums	Bazaarvoice • PowerReviews • BizRate
Live Chat/Click-to-Call	LivePerson • BoldChat • Oracle
Web Analytics	Google Analytics • Adobe Analytics • IBM Digital Analytics • Webtrends





# 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
  - ❖ Customer intimacy

**TABLE 5.9****BUSINESS STRATEGIES**

STRATEGY	DESCRIPTION	EXAMPLE
Differentiation	Making products and services unique and different in order to distinguish them from those of competitors	Warby Parker (vintage-inspired prescription eyeglasses)
Cost competition	Offering products and services at a lower cost than competitors	Walmart
Scope	Competing in all markets around the globe, rather than merely in local, regional, or national markets	Apple iDevices
Focus/market niche	Competing within a narrow market or product segment	Bonobos (men's clothing)
Customer intimacy	Developing strong ties with customers	Amazon; Netflix



**Thank You!**