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Chapter 2

E-commerce Business Models and Concepts



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'



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**



8 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 (**Shark tank** 😞)
 - ❖ Venture capital firms invest funds they manage for other investors
 - ❖ Strategic partners
- **Crowdfunding**
 - ❖ Using internet to allow individuals to contribute to new ventures



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?**



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



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



Thank You!