

## ECM 210

### Chapter 2 - E-commerce Business Models and Concepts

#### E-commerce Business Models

- Business model
  - ❖ Set of planned activities designed to result in a profit in a marketplace
- Business plan
  - ❖ Describes a firm's business model
- E-commerce business model
  - ❖ Uses/leverages unique qualities of Internet and Web

#### Eight Key Elements of a Business Model

- Value proposition
- Revenue model
- Market opportunity
- Competitive environment
- Competitive advantage
- Market strategy
- Organizational development
- Management team

#### 1. Value Proposition

- "Why should the customer buy from you?"
- Successful e-commerce value propositions:
  - ❖ Personalization/customization
  - ❖ Reduction of product search, price discovery costs
  - ❖ Facilitation of transactions by managing product delivery

#### 2. Revenue Model

- "How will the firm earn revenue, generate profits, and produce a superior return on invested capital?"
- Major types:
  - ❖ Advertising revenue model
  - ❖ Subscription revenue model
  - ❖ Transaction fee revenue model
  - ❖ Sales revenue model
  - ❖ Affiliate revenue model

#### 3. Market Opportunity

- "What marketplace do you intend to serve and what is its size?"

- ❖ 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
  - ❖ 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**

- “What special advantages does your firm bring to the marketspace?”
  - ❖ Is your product superior to or cheaper to produce than your competitors’?
- Important concepts:
  - ❖ Asymmetries
  - ❖ First-mover advantage, complementary resources
  - ❖ Unfair competitive advantage
  - ❖ Leverage
  - ❖ Perfect markets

#### **6. Market Strategy**

- “How do you plan to promote your products or services to attract your 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

#### **7. Organizational Development**

- “What types of organizational structures within the firm are necessary to carry out the business plan?”
- Describes how firm will organize work
  - ❖ Typically, divided into functional departments
  - ❖ As company grows, hiring moves from generalists to specialists

#### **8. Management Team**

- “What kind of backgrounds should the company’s leaders have?”
- A strong management team:
  - ❖ Can make the business model work
  - ❖ Can give credibility to outside investors

- ❖ Has market-specific knowledge
- ❖ Has experience in implementing business plans

### **Major B2C Business Models**

- E-tailer
- Community provider (social network)
- Content provider
- Portal
- Transaction broker
- Market creator
- 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
  - ❖ e.g.: Facebook, LinkedIn, Twitter, Pinterest
- Revenue models
  - ❖ Typically hybrid, combining advertising, subscriptions, sales, transaction fees, affiliate fees

### **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
  - ❖ Web aggregators

### **Battle of the Titans: Music in the Cloud**

- Have you purchased music online or subscribed to a music service? What was your experience?
- What revenue models do cloud music services use?

- Do cloud music services provide a clear advantage over download and subscription services?
- Of the cloud services from Google, Amazon, and Apple, which would you prefer to use, and why?

### **B2C Business Models: Portal**

- Search plus an integrated package of content and services
- Revenue models
  - ❖ Advertising, referral fees, transaction fees, subscriptions
- Variations
  - ❖ Horizontal/General
  - ❖ Vertical/Specialized (Vortal)
  - ❖ Search

### **B2C Models: Transaction Broker**

- Process online transactions for consumers
  - ❖ Primary value proposition—saving time and money
  - ❖ Revenue model - Transaction fees
- Industries using this model
  - ❖ Financial services
  - ❖ Travel services
  - ❖ Job placement services

### **B2C Models: Market Creator**

- Create digital environment where buyers and sellers can meet and transact
  - ❖ e.g.: Priceline, eBay
- Revenue model
  - ❖ Transaction fees

### **B2C Models: Service Provider**

- Online services
  - ❖ e.g.: Google—Google Maps, Gmail, etc.
- 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**

- Net marketplaces
  - ❖ E-distributor
  - ❖ E-procurement
  - ❖ Exchange

- ❖ Industry consortium
- Private industrial network

#### **B2B Models: E-distributor**

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

#### **B2B Models: E-procurement**

- Creates digital markets where participants transact for indirect goods
  - ❖ B2B service providers, application service providers (ASPs)
  - ❖ e.g.: Ariba
- Revenue model
  - ❖ Service fees, supply-chain management, fulfillment services

#### **B2B Models: Exchanges**

- Independently owned vertical digital marketplace for direct inputs
- 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
  - ❖ E.g.: Exostar
- More successful than exchanges
  - ❖ Sponsored by powerful industry players
  - ❖ Strengthen traditional purchasing behavior
- Revenue model
  - ❖ Transaction, commission fees

#### **Private Industrial Networks**

- Digital network
- Used to coordinate communication among firms engaged in business together
- Typically evolve out of company's internal enterprise system
- e.g.: Walmart's network for suppliers

#### **E-commerce Enablers: The Gold Rush Model**

- E-commerce infrastructure companies have profited the most:

- ❖ Hardware, software, networking, security
- ❖ E-commerce software systems, payment systems
- ❖ Media solutions, performance enhancement
- ❖ CRM software
- ❖ Databases
- ❖ Hosting services, etc.

### **How the Internet and the Web Change 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

### **Industry Value Chains**

- Set of activities performed by suppliers, manufacturers, transporters, distributors, and retailers that transform raw inputs into final products and services
- Internet reduces cost of information and other transactional costs
- Leads to greater operational efficiencies, lowering cost, prices, adding value for customers