

Chapter 2

E-commerce Business Models and Concepts





Online Groceries: class Discussion

- Webvan Case study
- <https://groundfloorpartners.com/lessons-from-webvan/>
- Why do you think Webvan.com failed?
- https://www.freshdirect.com/browse.jsp?id=about_overview
- What are the important success factors for FreshDirect?
- Do you think FreshDirect would work in your town?

E-commerce Business Models—Definitions

- 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

Key Ingredients of a Business Model

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TABLE 2.1	KEY ELEMENTS OF A BUSINESS MODEL
COMPONENTS	KEY QUESTIONS
<p>Value proposition</p> <p>Revenue model</p> <p>Market opportunity</p> <p>Competitive environment</p> <p>Competitive advantage</p> <p>Market strategy</p> <p>Organizational development</p> <p>Management team</p>	<p>Why should the customer buy from you?</p> <p>How will you earn money?</p> <p>What marketplace do you intend to serve, and what is its size?</p> <p>Who else occupies your intended marketplace?</p> <p>What special advantages does your firm bring to the marketplace?</p> <p>How do you plan to promote your products or services to attract your target audience?</p> <p>What types of organizational structures within the firm are necessary to carry out the business plan?</p> <p>What kinds of experiences and background are important for the company's leaders to have?</p>

Value Proposition

- Defines how a company's product or service fulfills the needs of customers
- Questions to ask:
 - Why will customers choose to do business with your firm instead of another?
 - What will your firm provide that others do not or cannot?
- Examples of successful value propositions:
 - Personalization/customization
 - Reduction of product search, price discovery costs
 - Facilitation of transactions by managing product delivery



GREEN STAGE

www.slush.org

Revenue Model

- Describes how the firm will 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

Market Opportunity

- Refers to a company's intended market space and the overall potential financial opportunities available to the firm in that market space
 - Market space: area of actual or potential commercial value in which company intends to operate
 - Realistic market opportunity: defined by revenue potential in each of market niches in which company hopes to compete
 - <https://retail.economictimes.indiatimes.com/news/e-commerce/e-tailing/paytm-mall-rejigs-team-to-focus-on-online-to-offline/67733868>

Competitive Environment

- Refers to the other companies selling similar products and operating in the same marketplace
- Influenced by:
 - how many competitors are active
 - how large their operations are
 - the market share for each competitor
 - how profitable these firms are
 - how they price their products
- Includes both direct competitors and indirect competitors
- <https://retail.economictimes.indiatimes.com/news/e-commerce/e-tailing/jeff-bezos-vs-mukesh-ambani-is-the-bout-that-had-to-happen/67634655>

Competitive Advantage

- Achieved when a firm can produce a superior product and/or bring product to market at a lower price than most, or all, of competitors
- Types of competitive advantage include:
 - First mover advantage
 - Unfair competitive advantage

<https://www.smartpassiveincome.com/unfair-advantage/>

Market Strategy

- Plan that details how a company intends to enter a new market and attract customers
- Best business concepts will fail if not properly marketed to potential customers

*** GO TO MARKETSTRATEGY

Organizational Development

- Describes how the company will organize the work that needs to be accomplished
- Work is typically divided into functional departments
- Move from generalists to specialists as company grows

Management Team



Employees of the company responsible for making the business model work



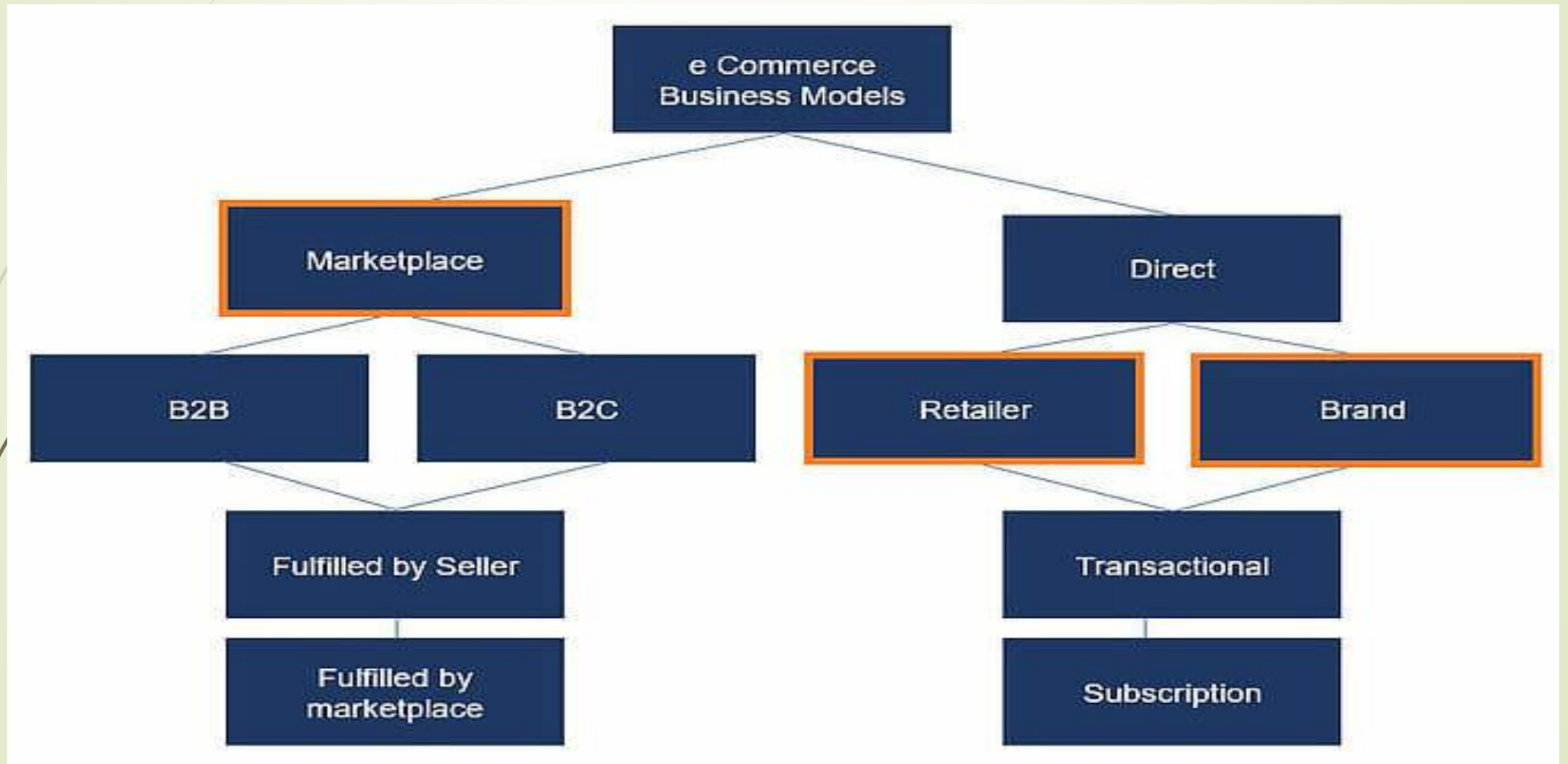
Strong management team gives instant credibility to outside investors



Strong management team may not be able to salvage a weak business model, but should be able to change the model and redefine the business as it becomes necessary

Categorizing E-commerce Business Models: Some Difficulties

- No one correct way
- We categorize business models according to e-commerce sector (B2C, B2B, C2C)
- Type of e-commerce technology used can also affect classification of a business model
- Some companies use multiple business models
- <https://retail.economictimes.indiatimes.com/news/e-commerce/e-tailing/how-amazon-poses-a-big-question-on-the-e-commerce-industry/67844111>
- <https://retail.economictimes.indiatimes.com/news/consumer-durables-and-information-technology/mobiles/cellphone-retailers-push-for-implementation-of-e-commerce-policy/67733383>

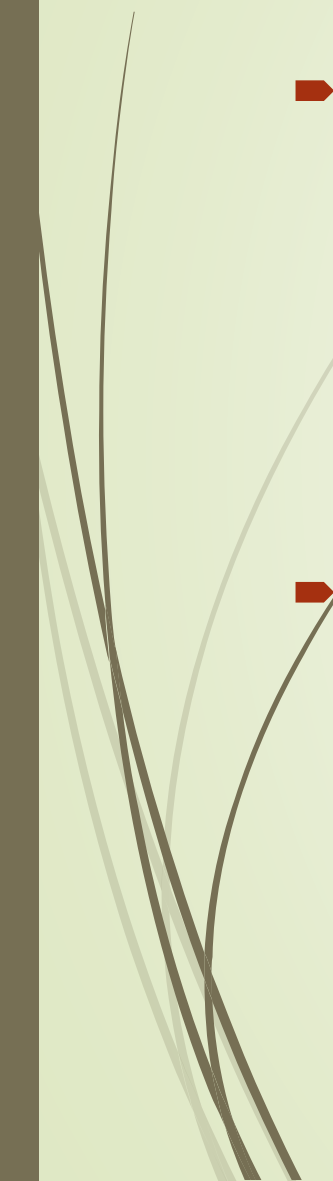


Marketplaces

- These are the various places where sellers can list their products or services, with the marketplace operator providing a platform that connects buyers and sellers. The marketplace charges a transaction fee for its service. E.g. - eBay (B2C and C2C), Amazon (B2C), Alibaba (B2B), and Fiverr.
- When building a financial model (there are various types of financial models) for a marketplace, it's important to build the model starting with **Gross Merchandise Value (GMV)** - the total value of goods and services transactions on the platform. From there, the commission structure determines revenue for the platform, and costs can vary widely depending on the business.
- In most cases, the sellers handle fulfillment (whether they pay for it themselves or charge the customer), but in some cases, such as **'Fulfilled By Amazon (FBA)'**, the marketplace will also take care of delivery.



Retailers

- In the direct model, retailers are responsible for finding their own customers and have full control over the customer experience. Typically requires significant marketing spend and a means of driving traffic to the website. Unlike marketplaces which primarily just facilitate transactions, retailers often try to provide a curated experience for their customers and help guide them through a unique discovery process.
 - Retailers typically don't own their own brands, and instead, sell other companies' brands. Given the pressure online retailers are feeling from both sides of the buying and selling environment (marketplaces offering the most competitive prices, and major brands now selling direct to customers), they are probably in the most challenging position of the eCommerce business models.
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Brands

- Brands are now using their own websites and social media accounts to sell directly to customers. A classic example of this is Nike, which has made their direct channel (their company website) a top business priority and expects it to be one of their largest revenue segments by 2020.
 - Brands are on the other end of the spectrum from marketplaces – they have the most focused selection, the highest level of customized experience, and strongest connection with the customer. In comparison to other eCommerce marketplaces, they have a more limited selection, and also bear full responsibility for marketing and fulfillment of their products and services.
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News articles for class discussion

- ▶ <https://retail.economictimes.indiatimes.com/news/e-commerce/e-tailing/amazon-walmart-lose-over-50-billion-in-market-value-after-e-tail-policy-change/67805616>
- ▶ <https://retail.economictimes.indiatimes.com/news/e-commerce/e-tailing/key-amazon-seller-cloudtail-returns-in-a-new-avatar/67877430>
- ▶ <https://retail.economictimes.indiatimes.com/news/e-commerce/e-tailing/small-sellers-say-field-is-still-not-level-for-playing/67894620>

B2C Business Models: Portal

- Offers powerful search tools plus an integrated package of content and services
- Typically utilizes a combined subscription/advertising revenues/transaction fee model
- May be general or specialized (vortal)

B2C Business Models: E-tailer

- Online version of traditional retailer
- Types include:
 - Virtual merchants
 - Bricks-and-clicks
 - Catalog merchants
 - Manufacturer-direct

B2C Business Models: Content Provider

- Information and entertainment companies that provide digital content over the Web
- Typically utilizes a subscription, pay for download, or advertising revenue model
- Syndication a variation of standard content provider model

B2C Business Models: Transaction Broker

- Processes online transactions for consumers
- Primary value proposition—saving time and money
- Typical revenue model—transaction fee
- Industries using this model include:
 - Financial services
 - Travel services
 - Job placement services

B2C Business Models: Market Creator

- Uses Internet technology to create markets that bring buyers and sellers together
- Examples:
 - Priceline.com
 - eBay.com
- Typically uses a transaction fee revenue model

B2C Business Models: Service Provider

- Offers services online
- Value proposition: valuable, convenient, time-saving, low-cost alternatives to traditional service providers
- Revenue models: subscription fees or one-time payment

B2C Business Models: Community Provider

- Sites that create a digital online environment where people with similar interests can transact, communicate, and receive interest-related information.
- Typically rely on a hybrid revenue model
- Examples:
 - iVillage
 - Friendster
 - About.com

Insight on Technology: Search, Ads, and Apps: The Future For Google (and Microsoft) Class Discussion

- ▶ How many of you use Google, Yahoo, or MSN search engines?
- ▶ Why do you use a particular search engine?
- ▶ Why are search engines so profitable?
- ▶ Do people stay longer at Yahoo and MSN.com when compared to Google? Does this give them an advantage?

B2B Business Models: E- distributor



Supplies products and services directly to individual businesses



Owned by one company seeking to serve many customers



Example: Grainger.com

B2B Business Models: E-procurement

- Creates and sells access to digital electronic markets
- B2B service provider is one type
 - Application service providers: a subset of B2B service providers
- Example:Ariba

B2B Business Models: Exchanges

- ▶ Electronic digital marketplace where suppliers and commercial purchasers can conduct transactions
- ▶ Usually owned by independent firms whose business is making a market
- ▶ Generate revenue by charging transaction fees
- ▶ Usually serve a single vertical industry
- ▶ Number of exchanges has fallen dramatically

B2B Business Models: Industry Consortia

- ▶ Industry-owned vertical marketplaces that serve specific industries
- ▶ Horizontal marketplaces, in contrast, sell specific products and services to a wide range of industries
- ▶ Example: Exostar

B2B Business Models: Private Industrial Networks

- ▶ Digital networks designed to coordinate the flow of communications among firms engaged in business together
- ▶ Single firm network: the most common form (Example: Wal-Mart)
- ▶ Industry-wide networks: often evolve out of industry associations (Example: Agentrics)

Business Models in Emerging E-commerce Areas

- Consumer-to-Consumer (C2C): Provides a way for consumers to sell to each other, with the help of an online market-maker
- Peer-to-Peer (P2P): Links users, enabling them to share files and common resources without a common server
- M-commerce: E-commerce business models that use wireless technologies
- <https://retail.economictimes.indiatimes.com/news/e-commerce/e-tailing/legal-experts-say-etailers-may-eye-private-labels-to-curb-loss/67783597>

Insight on Society: Is Privacy Possible in a Wireless World?

Class Discussion

- Why should you care if companies and government agencies track your cell phone? What is the threat if you are not doing anything wrong?
- What is the “opt-in” principle and how does it protect privacy?
- Should business firms be allowed to call cell phones with advertising messages based on location?
- Should customer location information be protected from government agencies?

Various E-Commerce Models

B2C	B2B – 1. Net Marketplace, 2. Private Industrial Network
E-tailer – Virtual Merchant (Amazon), Bricks & Clicks (Walmart.com), Catalog Merchant (LLBean.com), Manufacturer-Direct (Mattel.com, Dell.com)	E-distributor – Grainger.com
Community provider – Facebook, Pinterest	E-procurement - Ariba
Content Provider – CNN.com, ESPN.com	Exchange - OceanConnect
Portal – Horizontal/General (Yahoo, Fb), Vertical/ Specialized (Vortal) - Sailnet	Industry Consortium - Exostar
Transaction Broker - Monster	
Market Creator – eBay, Etsy, Amazon	2. Private Industrial Network – P& G, Walmart
Service Provider - VisaNow	

E-commerce Enablers: The Gold Rush Model

- Internet infrastructure companies
 - Provide hardware, software, networking, security, e-commerce software systems, payment systems, databases, hosting services, etc.

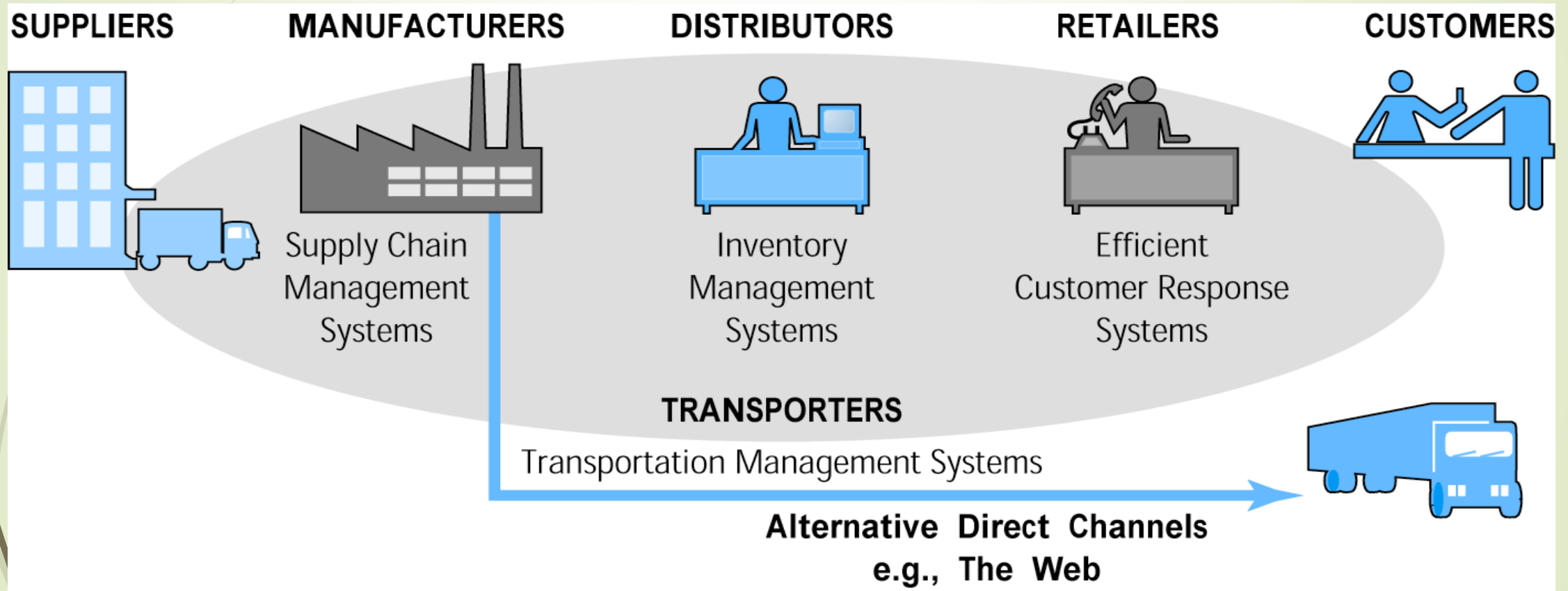
How the Internet and the Web Change Business: Strategy, Structure, and Process

- ▶ E-commerce changes 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
 - ▶ the bargaining power of buyers

Industry Value Chains

- Set of activities performed in an industry by suppliers, manufacturers, transporters, distributors, and retailers that transform raw inputs into final products and services
- Reduces the cost of information and other transactional costs

E-commerce and Industry Value Chains



Firm Value Chains

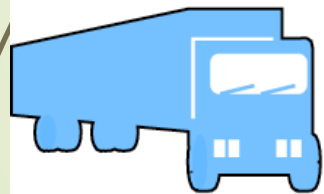
- Set of activities that a firm engages in to create final products from raw inputs
- Increases operational efficiency

E-commerce and Firm Value Chains

Administration
Human Resources
Information Systems
Procurement
Finance/Accounting

SECONDARY ACTIVITIES

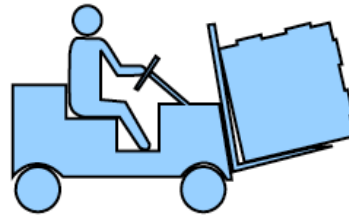
PRIMARY ACTIVITIES



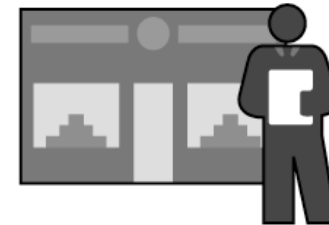
**Inbound
Logistics**



Operations



**Outbound
Logistics**



**Sales and
Marketing**

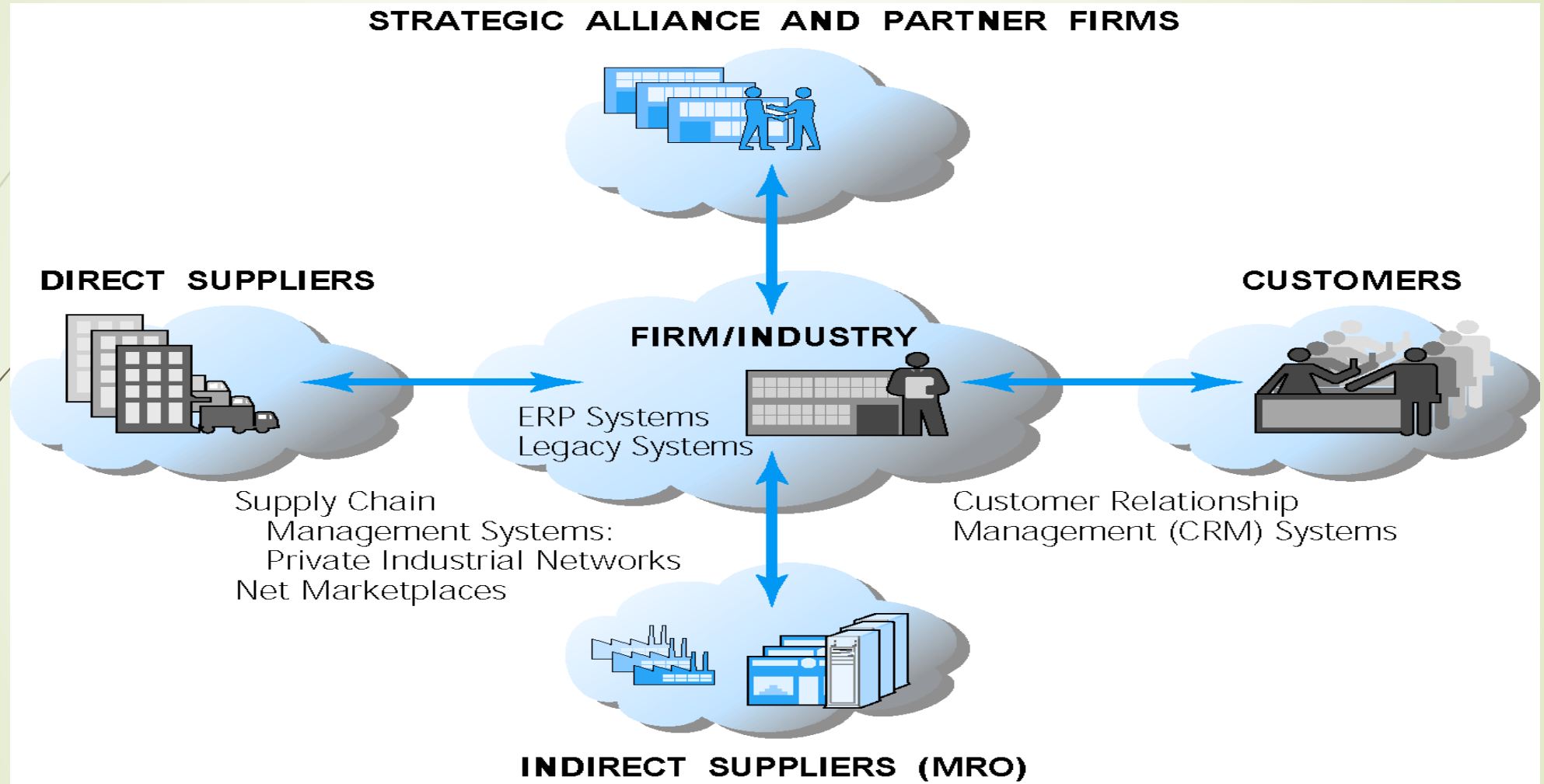


**After Sales
Service**

Firm Value Webs

- ▶ Networked business ecosystem that uses Internet technology to coordinate the value chains of business partners within an industry, or within a group of firms
- ▶ Coordinates a firm's suppliers with its own production needs using an Internet-based supply chain management system

Internet-Enabled Value Web



Business Strategy



Set of plans for achieving superior long-term returns on the capital invested in a business firm (i.e., a plan for making a profit in a competitive environment)



Four generic strategies

Differentiation
Cost
Scope
Focus