



Chapter 2:

E-commerce Business Models

Dr. N. Abdolvand

E-Business

Learning outcomes

- ◆ After completing this chapter the reader should be able to:
 - Complete an online marketplace analysis to assess competitor, customer, and intermediary and competitor use of the Internet as part of strategy development
 - Identify the main business and marketplace models for electronic communications and trading
 - Evaluate the effectiveness of business and revenue models for online businesses.
 - Identify the main components of e-commerce business models.
 - Describe the major B2C business models.
 - Describe the major B2B business models.
 - Understand key business concepts and strategies applicable to e-commerce.

Class discussion

- ◆ فرض کنید که می خواهید از رستوران یک غذا سفارش دهید، روش قدیمی و روشهای جدید الکترونیکی آن (استفاده از موبایل اپ و یا وبسایت) مقایسه کنید.
- ◆ کسب و کار الکترونیک چگونه روند خرید را متحول کرده است؟
- ◆ مزایای و معایب روشهای الکترونیکی آن چگونه است؟

استارتاپ هایلو: تحولی در بازار تاکسی لندن

- ◆ مدل کسب و کار در بازار تاکسی لندن
 - مراکز تماس ۲۴ ساعته در ۷ روز هفته
 - نصب تجهیزات GPS در خودروها
- ◆ تحول مدل کسب و کار نتیجه نشست سه کارآفرین و سه راننده تاکسی
 - دیدگاه رانندگان تاکسی متفاوت بود و تمایل داشتند سیستمی در راستای نیاز رانندگان باشد
- ◆ چالش های موجود:
 - به حداکثر رساندن زمان اشغال تاکسی: ۳۰ تا ۶۰٪ وقتشان خالی می چرخیدند
 - پیشنهاد جابه جایی یک مسافر در ازای پورسانت کمتر
 - تنهایی رانندگان:
 - پیشنهاد یک انجمن اجتماعی که رانندگان را مشغول کند و به هم پیوند دهد

مزایا برای رانندگان

- ◆ استفاده هایلو از تحلیل داده برای دسترسی بهتر رانندگان به سفرها
- ◆ اعلام آخرین وضعیت لحظه ای ترافیک

استارتاپ هایلو: تحولی در بازار تاکسی لندن

- ◆ ارسال پیام هشدار رانندگان برای یکدیگر در زمان ها و نواحی معینی
 - مثلا: پایان نمایش تئاتر
- ◆ ارائه سفرنامه کامل برای هر راننده
 - میزان مصرف سوخت روزانه
 - میزان درآمد به ازای هر ساعت
 - درصد زمان پر بودن تاکسی
 - سایر اطلاعات مدیریتی
- ◆ تنظیم برنامه روزانه
- ◆ مقایسه عملکرد روزانه خود با عملکرد قبلی
- ◆ ارائه یک خبرخوان که رانندگان می توانند موقعیت خود را به روزرسانی کنند و اطلاعات خود را به اشتراک بگذارند (فیسبوکی برای رانندگان)
- ◆ رانندگان می توانند گروهی از دوستان خود را انتخاب کنند و در طول روز آنها را دنبال کرده و با آنها گفتگو کنند.

استارتاپ هایلو: تحولی در بازار تاکسی لندن

- ◆ افزایش قابل ملاحظه زمان اشغال تاکسی ها (۳۰٪ افزایش کسب و کار)
- ◆ تا سال ۲۰۱۳ تقریبا ۶۰٪ از جمعیت تاکسی های لندن به این شبکه پیوستند
- ◆ مزایای برای مشتریان
 - ◆ اپلیکیشن موبایل ساده
 - ◆ بعد از مکان یابی تاکسی، نام، عکس، شماره ثبت و شماره همراه راننده ارسال می شود
 - ◆ فاصله زمانی کم تاکسی با مشتریان (به طور متوسط ۴ دقیقه)
 - ◆ پیش از استفاده از کیلومتر شمار ۵ دقیقه فرصت تاخیر در سوار شدن به مشتری می دادند
 - ◆ امکان ثبت شماره کارت و پرداخت با تلفن همراه
 - ◆ مدل سود: دریافت ۱۰ درصد پورسانت از هر راننده به ازای معرفی هر مسافر
 - ◆ استفاده از فناوری های دیجیتال به یک مدل کسب و کار متفاوت می انجامد

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, Web and the mobile platform.

Timmers (1999) defines a 'business model' as:

An architecture for product, service and information flows, including a description of the various business actors and their roles; and a description of the potential benefits for the various business actors; and a description of the sources of revenue.

Eight Key Elements of a Business Model



1. Value Proposition

- ◆ “Why should the customer buy from you?”
- ◆ Value proposition-products & services to offer
 - Which products and or services will the company offer?
- ◆ 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 you earn money?”
 - What are the specific revenue models that will generate different income streams?
 - What are the main costs of the business forming its budget?
 - How are these forecast to change through time?

2. Revenue Model

- ◆ Major types of revenue models:
 - Advertising revenue model: offers content, services/products. **Receives fees from advertisers** (yahoo).
 - Subscription revenue model: charges a subscription fees
 - Freemium strategy
 - Transaction fee revenue model: receives a transaction fee for each successful transaction (ebay).
 - Sales revenue model: selling goods, content or services to customers.
 - Affiliate revenue model: earns money by connecting companies with potential customers by offering special deals to its members. **Fees for business referral.**

3. Market Opportunity

- ◆ “What marketplace do you intend to serve and what is its size?”
- ◆ Market or audience
 - Which audience will the company serve and target with its communications?
 - Within these categories are there particular audience segments that will be targeted
 - Marketplace: 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 market space?”
- ◆ Who are the direct and indirect competitors for the service and
- ◆ which range of business models do they possess?
- ◆ 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 marketplace?”
 - 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

5. Competitive Advantage

Types of Competitive Advantage	
Asymmetry	One participation in a market has more resources than others.
First-mover advantage	Advantage that results for being the first in the marketplace.
Complementary resources	Resources & assets that directly not involved in the production of products but required for success, such as, marketing, management, financial assets, & reputations.
Unfair competitive adv.	When one firm develops an advantage based on factor that other firms cannot purchase.
Perfect market	A market in which there are no competitive advantages & asymmetries. All firms have equal access.
Leverage	When a firm uses its competitive advantages to achieve more advantages in surrounding markets.

6. Market Strategy

- ◆ “How do you plan to promote your products or services to attract your target audience?”
- ◆ Marketing:
 - Promoting company’s products/ services to potential customers.
- ◆ strategy
 - 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?”
- ◆ How will the organization be internally structured to create, deliver and promote its service?
- ◆ 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?”
- ◆ What experience in similar markets and companies do the managers 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

Marketspace

- ◆ Marketspace: A marketplace in which sellers and buyers exchange goods and services for money (or for other goods and services), but do so electronically

Electronic Marketplaces

- ◆ Three main functions of markets
 - matching buyers and sellers
 - facilitating the exchange of information, goods, services, and payments associated with market transactions
 - providing an institutional infrastructure, such as a legal and regulatory framework, that enables the efficient functioning of the market

Marketplace Channel Structure

- ◆ It describes the way a manufacture / supplier delivers products and services to its customers
- ◆ Fig. 2.5 and Fig 2.6 display variety of options

Dr. N. Abdolvand 23

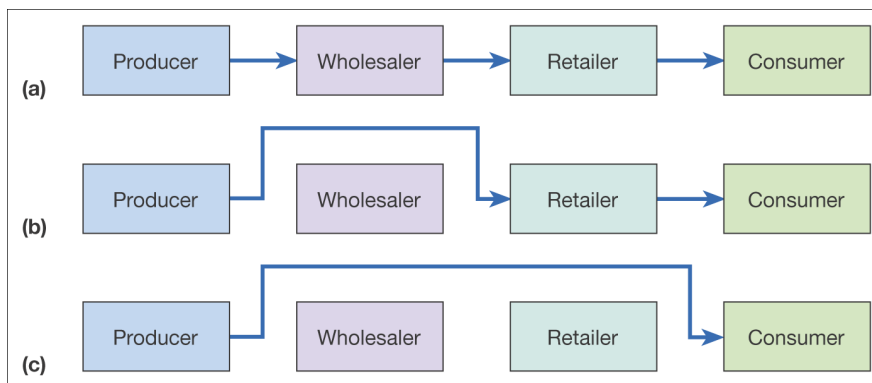
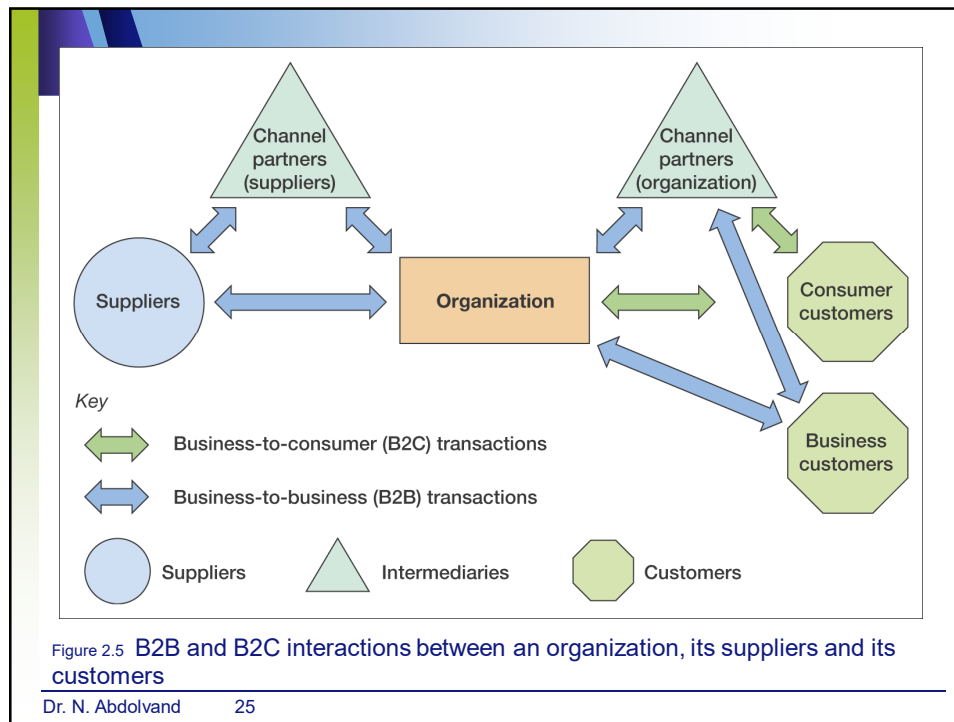


Figure 2.6 Disintermediation of a consumer distribution channel showing (a) the original situation, (b) disintermediation omitting the wholesaler, and (c) disintermediation omitting both wholesaler and retailer

Dr. N. Abdolvand 24



Categorizing E-commerce Business Models

- ◆ No one correct way
- ◆ Text categorizes according to:
 - E-commerce sector (e.g., B2B and B2C)
 - E-commerce technology (e.g., m-commerce)
- ◆ Similar business models appear in more than one sector
- ◆ Some companies use multiple business models (e.g., eBay)

B2C Business Models

- ◆ E-tailer
- ◆ Community provider (social network)
- ◆ Content provider
- ◆ Portal
- ◆ Transaction broker
- ◆ Market creator
- ◆ Service provider

Dr. N. Abdolvand 28

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	LL Bean LillianVernon	Online version of direct mail catalog	Sales of goods
Community Provider	Manufacturer-Direct	Dell Mattel	Manufacturer uses online channel to sell direct to customer	Sales of goods
		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 Apple iTunes CNN ESPN Rhapsody	Information and entertainment providers such as newspapers, sports sites, and other online sources that offer customers up-to-date news and special interest how-to-guidance and tips and/or information sales	Advertising, subscription fees, sales of digital goods
Portal	Horizontal/General	Yahoo AOL MSN Facebook	Offers an integrated package of content, 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 (Vertical)	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 Wane RocketLawyer	Companies that make money by selling users a service, rather than a product	Sales of services

Dr. N. Abdolvand 29

B2C Models: E-tailer

- ◆ Online version of traditional retailer
- ◆ Revenue model: Sales of goods
- ◆ 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, communicate and receive interest-related information.
 - 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:
 - Use variety of models, including advertising, subscription; sales of digital goods
- ◆ Variations:
 - Syndication
 - Web aggregators

B2C Business Models: Portal

- ◆ Search plus an integrated package of content and services
- ◆ Revenue models:
 - Advertising, referral fees, transaction fees, subscriptions for premium services
- ◆ 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
 - Examples: Priceline, eBay
- ◆ Revenue model: Transaction fees, fees to merchants for access
- ◆ Sharing economy (mesh economy): platforms that allow people to sell services
 - Examples: Uber, Airbnb

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

Dr. N. Abdolvand 36

The diagram illustrates three variations of e-commerce trading:

- (a) **Sell-side @ supplier site** (One-to-many): A single supplier (blue icon) trades via their web site with multiple customers (green icons).
- (b) **Buy-side @ buyer site** (Many-to-one): Multiple suppliers (blue icons) trade via a buyer's web site with a single customer (green icon).
- (c) **Many-to-many** (Neutral exchanges): Multiple suppliers (blue icons) trade via an intermediary web site with multiple customers (green icons).

Key: Supplier (blue icon), Customer (green icon).

Figure 2.8 Variations in the location and scale of trading on e-commerce sites

Dr. N. Abdolvand 37

Reinter-mediation

- ◆ The creation of new intermediaries between customers and suppliers, such as search engine, price comparator, etc. such as <http://www.esurance.com/>, <http://www.pricecanada.com/>
- ◆ Suppliers need to
 - Be represented with new intermediaries
 - Monitor other suppliers via intermediaries
 - Create own intermediaries

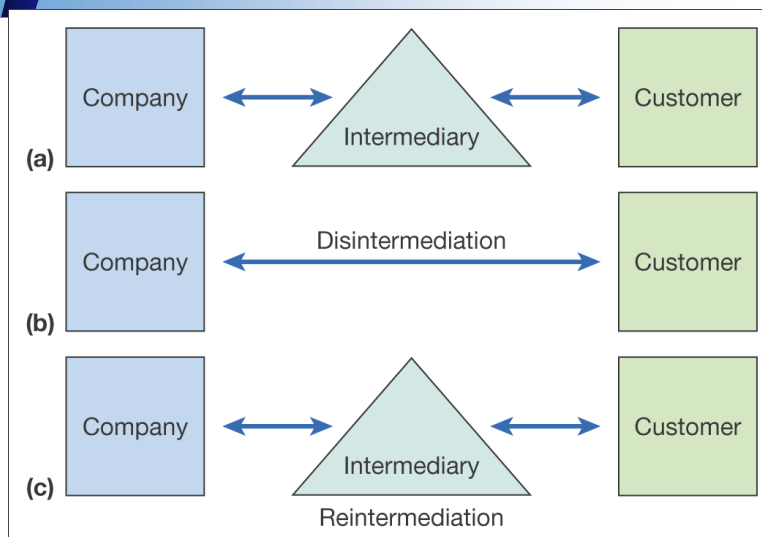


Figure 2.7 From original situation (a) to disintermediation (b) and reintermediation (c)

Countermediation

- ◆ Creation of a new intermediary by an established company
- ◆ Example:
 - B&Q *www.diy.com*
 - Opodo *www.opodo.com*
 - Boots *www.wellbeing.com www.handbag.com*
 - Ford, Daimler (*www.covisint.com*)
- ◆ Partnering with existing intermediary – Mortgage broker Charcol and Freeserve

B2B Business Models

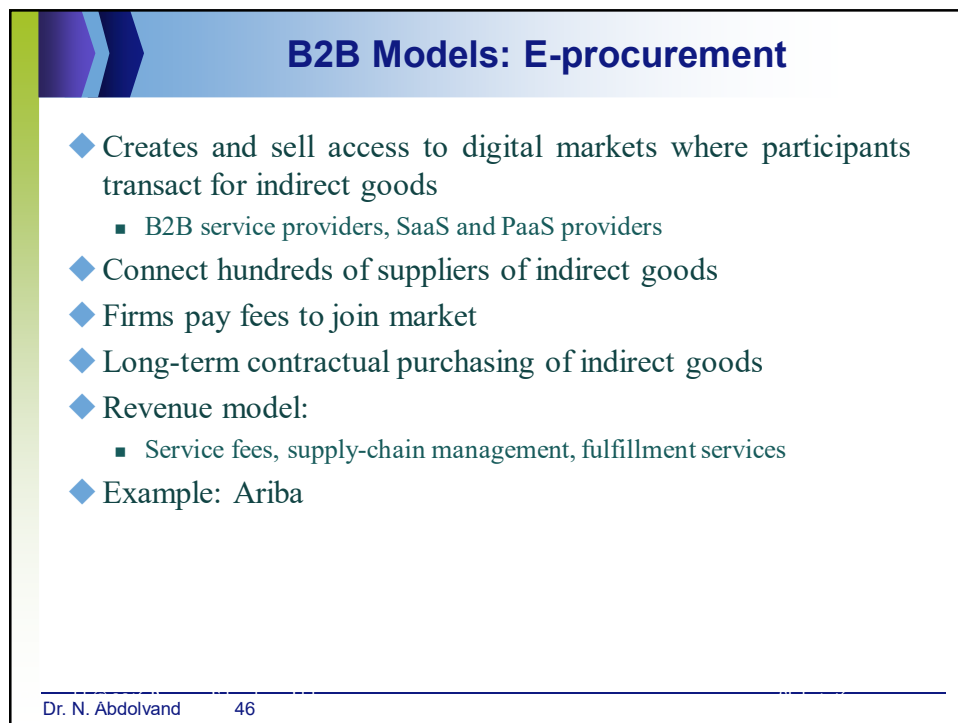
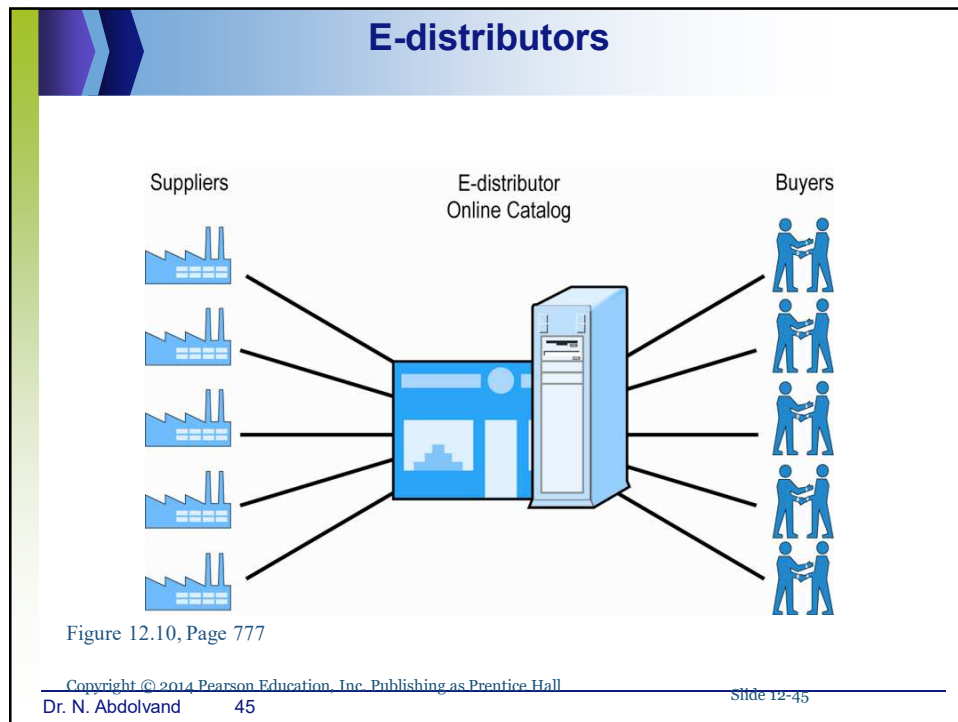
- ◆ Net marketplaces
 - E-distributor
 - E-procurement
 - Exchange
 - Industry consortium
- ◆ Private industrial network

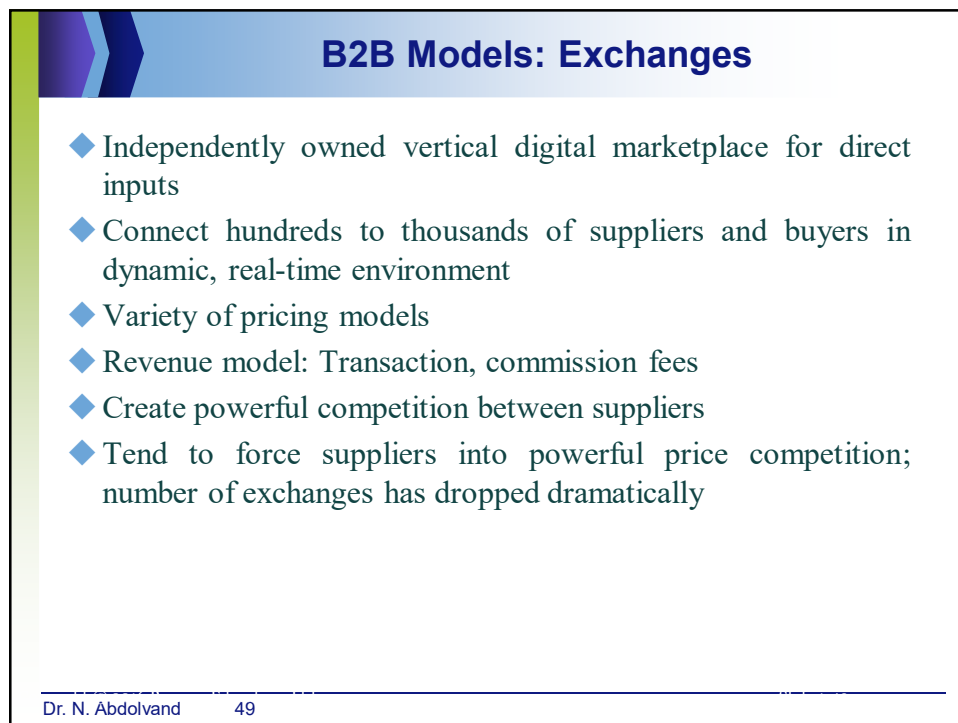
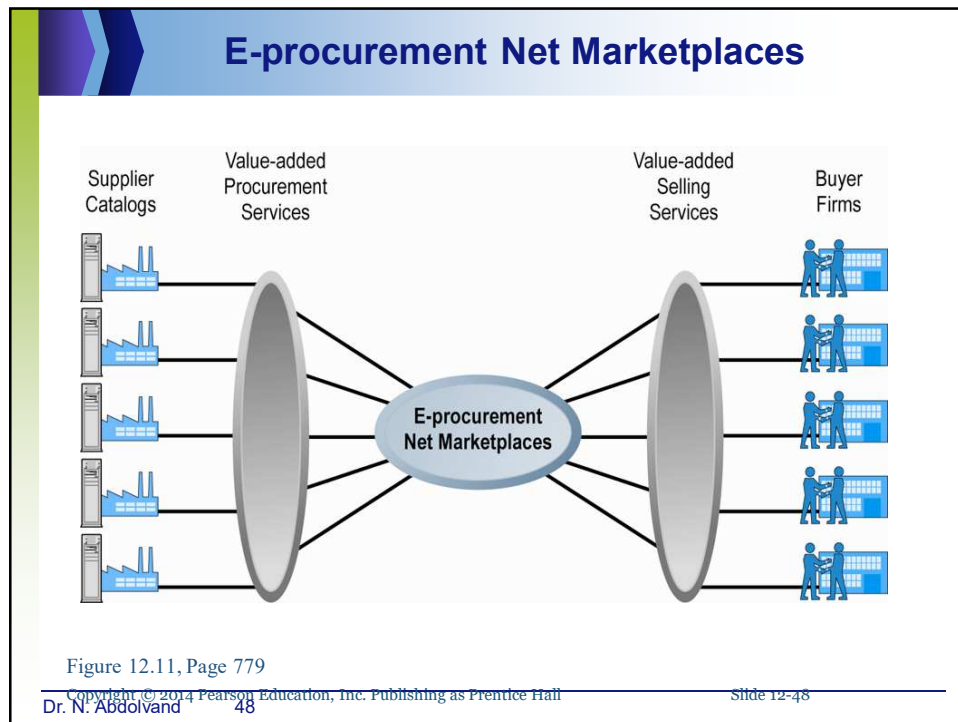
B2B Business Models

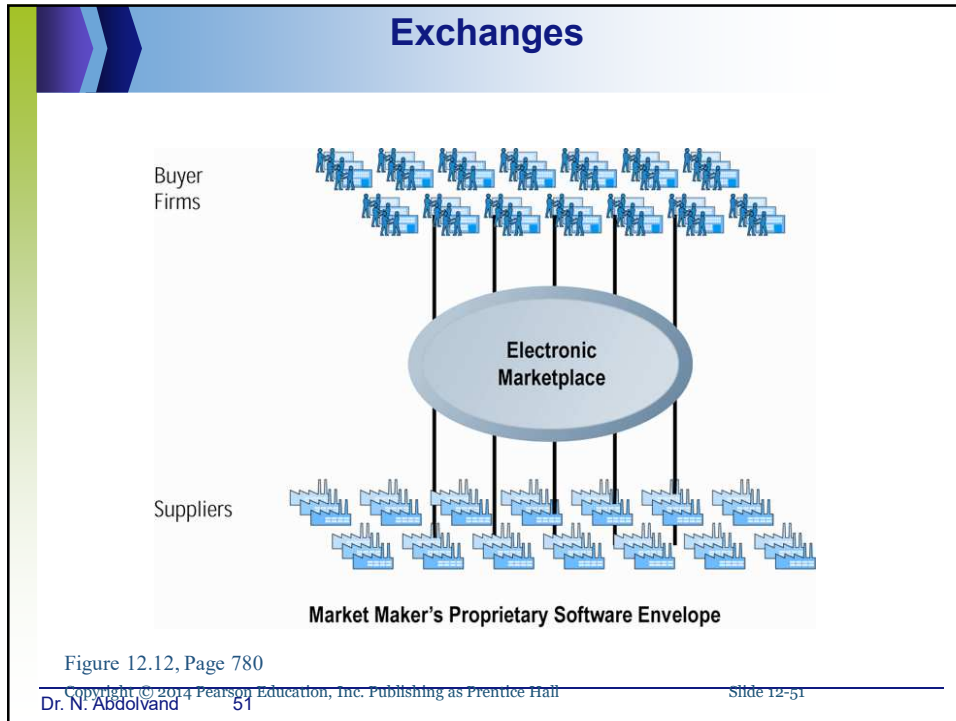
BUSINESS MODEL	EXAMPLES	DESCRIPTION	REVENUE MODEL
<i>(1) NET MARKETPLACE</i>			
E-distributor	Grainger Amazon Business	Single-firm online version of retail and wholesale store; supply maintenance, repair, operation goods; indirect inputs	Sales of goods
E-procurement	Ariba Supplier Network PerfectCommerce	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 Models: E-distributor

- ◆ supplies products and services directly to individual businesses
- ◆ Version of retail and wholesale store, MRO goods, and indirect goods
- ◆ Owned by one company seeking to serve many customers
- ◆ Revenue model: Sales of goods
- ◆ Example: MacMaster, Grainger







Classification of B2B Exchanges

	Direct	Indirect (MRO)
Systematic Sourcing	(1) Vertical Distributors <i>plastics.com</i> <i>epapertrade.com</i> Methods: Aggregation , fixed/negotiated prices	(2) Horizontal Distributors <i>mro.com</i> Methods: Aggregation , fixed/negotiated prices
Spot Sourcing	(3) Vertical Exchanges <i>Isteelasia.com</i> <i>Chemconnect.com</i> Methods: Matching , dynamic pricing	(4) Horizontal Exchanges <i>employease.com</i> Methods: Matching , dynamic pricing

Dr. N. Abdolvand 52

B2B Models: Industry Consortia

- ◆ Industry-owned vertical digital marketplace that serve specific industries
- ◆ Emphasize long-term contractual purchasing, stable relationships, creation of data standards
- ◆ More successful than exchanges
 - Sponsored by powerful industry players
 - Strengthen traditional purchasing behavior
- ◆ Can force suppliers to use consortia's networks
- ◆ Revenue model: Transaction, commission fees
- ◆ Example: SupplyOn

Dr. N. Abdolvand 53

Industry Consortia

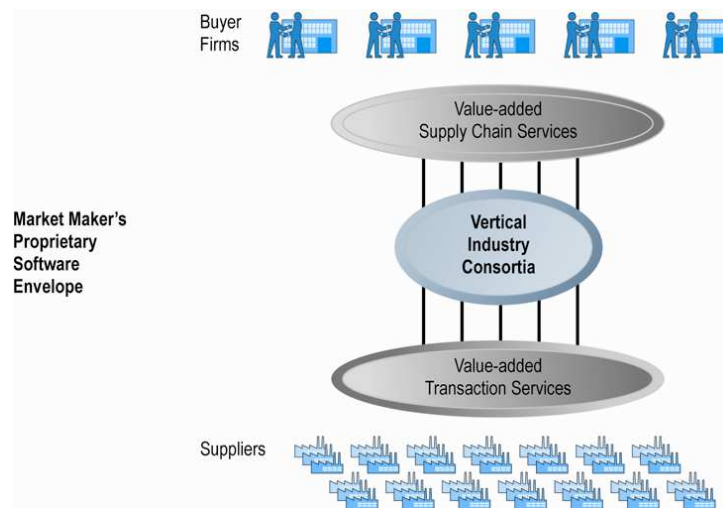


Figure 12.13, Page 782

Copyright © 2014 Pearson Education, Inc. Publishing as Prentice Hall
Dr. N. Abdolvand 55

Slide 12-55

Private Industrial Networks

- ◆ Digital network used to coordinate among firms engaged in business together
- ◆ The network is owned by a single large purchasing firm.
- ◆ Participation is by invitation only to trusted long-term suppliers of direct inputs.
- ◆ Typically evolve out of company's internal enterprise system
- ◆ Example: Walmart's network for suppliers
- ◆ Cost absorbed by network owner and recovered through production and distribution efficiencies

Trading Location

- ◆ Trading can be done on seller-controlled site, buyer-controlled side, or neutral third-party site
- ◆ P. 67, Table 2.3 and P. 69 Fig. 2.8 present various options

Table 2.3 Different places for online representation

Place of purchase	Examples of sites
A. Seller-controlled	<ul style="list-style-type: none"> • Vendor sites, i.e. home site of organization selling products, e.g. www.dell.com
B. Seller-oriented	<ul style="list-style-type: none"> • Intermediaries controlled by third parties to the seller such as distributors and agents, e.g. Opodo (www.opodo.com) represents the main air carriers
C. Neutral	<ul style="list-style-type: none"> • Intermediaries not controlled by buyer's industry, e.g. EC21 (www.ec21.com) • Product-specific search engines, e.g. CNET (www.computer.com) • Comparison sites, e.g. MoneySupermarket (www.moneysupermarket.com) • Auction space, e.g. eBay (www.ebay.com)
D. Buyer-oriented	<ul style="list-style-type: none"> • Intermediaries controlled by buyers, e.g. Covisint used to represent the major motor manufacturers (www.covisint.com) although they now don't use a single marketplace, but each manufacturer uses the technology to access its suppliers direct • Purchasing agents and aggregators
E. Buyer-controlled	<ul style="list-style-type: none"> • Web-site procurement posting on company's own site, e.g. GE • Trading Process Network (www.gxs.com)

Source: Adapted from McDonald and Wilson (2002)

Questions?