

Faculty of Computer Science & Information Technology

Department of Information Technology

4th year – 7th Semester

E-commerce

Chapter 2 : E-commerce Business Models and Concepts

E-commerce Business Models

- Business model

- Set of planned activities (sometimes referred to as business processes) designed to result in a profit in a marketplace.
- A firm's business model is its plan or diagram for how it competes, uses its resources, structures its relationships, interfaces with customers, and creates value to sustain itself on the basis of the profits it generates.

- Business plan

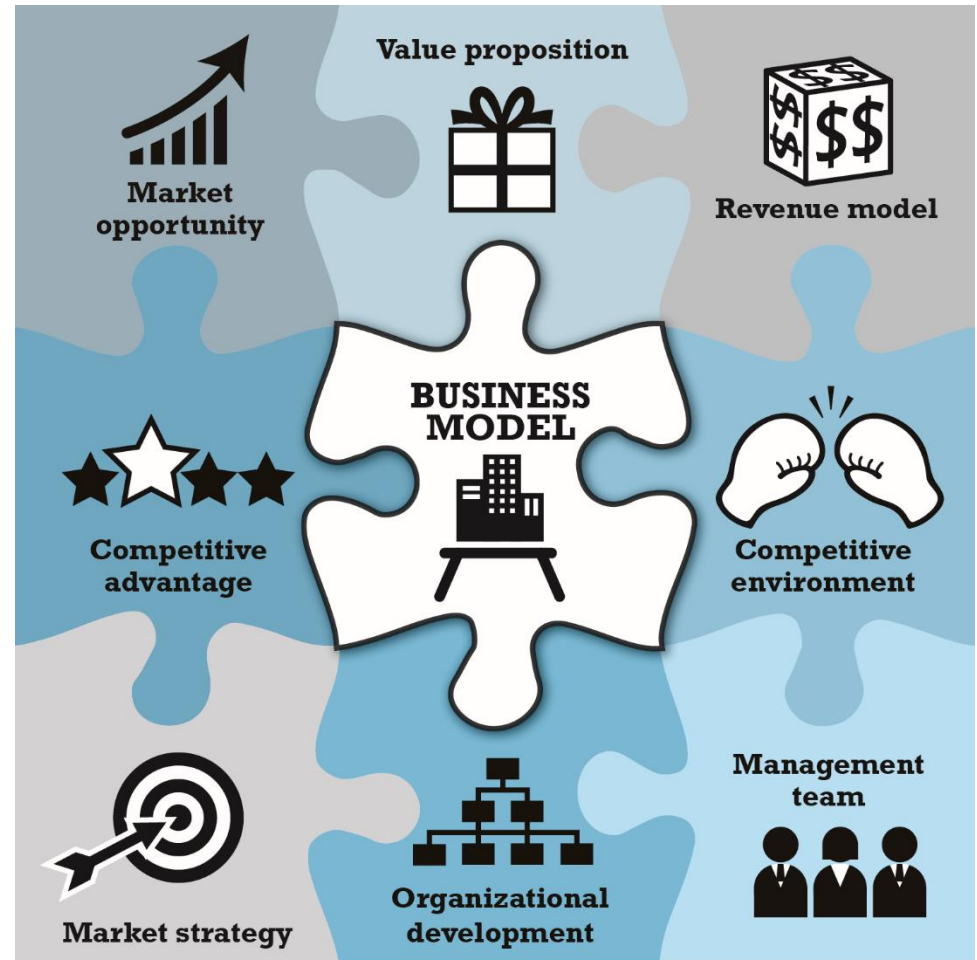
- Describes a firm's business model

- E-commerce business model

- a business model that aims to use and leverage the unique qualities of the Internet, the Web, and the mobile platform

Eight Key Elements of a Business Model

- There is no standard business model for an industry or for a target market within an industry.
- However, over time, the most successful business models in an industry predominate.
- There are always opportunities for business model innovation.



Eight Key Elements of a Business Model

1. Value proposition
2. Revenue model
3. Market opportunity
4. Competitive environment
5. Competitive advantage
6. Market strategy
7. Organizational development
8. Management team

1. Value Proposition

- “Why should the customer buy from you?”
- defines how a company’s product or service fulfills the needs of customers
 - What value do we deliver to the customer?
 - Which customer needs are we satisfying?
 - What are we offering to each customer segment?
- Successful e-commerce value propositions:
 - Personalization/customization
 - Reduction of product search, price discovery costs
 - Facilitation of transactions by managing product delivery

1. Value Proposition

- Value propositions exist in quantitative and qualitative areas

- *Quantitative :*

- *Price*
- *Cost reduction*
- *Risk reduction*
- *Convenience*
- *Usability*

- *Qualitative*

- *Newness*
- *Performance*
- *Design*
- *Brand*
- *Customization*

1. Value Proposition

Customer Value and Operations Strategy

Customer Value Proposition	Example	Operations Strategy
High Fashion content at a reasonable price	Zara	Speed to Market
Everyday Low Pricing	Wal-Mart	Cost Efficiency
Product Selection and Availability	Amazon	Efficient and Reliable Order Fulfillment
Product Innovation	Apple	Efficiency through outsourced manufacturing and logistics
Customer Experience	Dell Direct	Responsiveness through Configure-to-Order

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1. Value Proposition

http://www.walmart.com/browse/all/all/0?cat_id=0&facet=pickup_and_delivery:FREE%20Pickup%20Today

Walmart - Google Chrome

www.walmart.com/browse/all/all/0?cat_id=0&facet=pickup_and_delivery:FREE%20Pickup%20Today

Apps Google How to move your ... ماجستير ادارة هندسية... ماجستير ادارة هندسية... Google Scholar Gale Databases PHD Comics: Red ink قرار رقم (23) للعام 20... تصفح الخدمات - حكو...

Gift Cards Registry Lists Weekly Ads Store Finder Track Order Credit Card Help

Walmart All Search Hello, Sign In My Account

All Departments Daily Savings Center My Local Store Pick it up TODAY Tips & Ideas FREE Walmart Grocery pickup

Learn how to **save \$25** Apply Now

Showing 40 of 72,922 results

Free in-store pickup as soon as today!

Departments

- Movies & TV
- Home
- Sports & Outdoors
- Toys
- Home Improvement
- Office
- Electronics

See all Departments

Pickup & delivery

☐ Show all

Electronics Video Games Toys Home Home Improvement

Refine Price Top brands Store availability Sort Best sellers

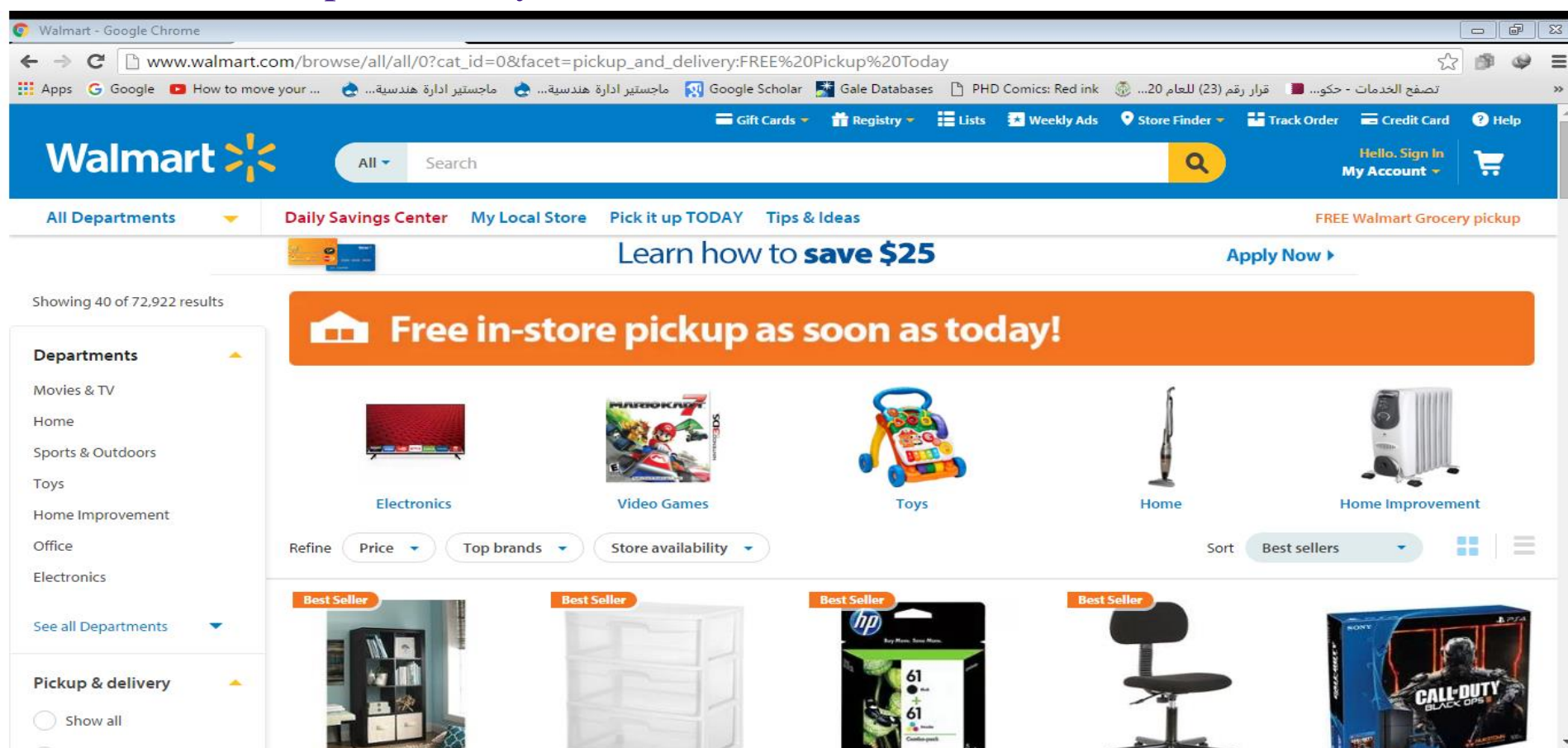
Best Seller

Best Seller

Best Seller

Best Seller

Best Seller



1. Value Proposition

http://www.amazon.com/gp/goldbox/ref=nav_cs_gb/175-6180810-5802103

Gold Box Deals | Today's Deals - Amazon.com - Google Chrome

www.amazon.com/gp/goldbox/ref=nav_cs_gb/175-6180810-5802103

Apps Google How to move your ... ماجستير ادارة هندسية... ماجستير ادارة هندسية... Google Scholar Gale Databases PHD Comics: Red ink قرار رقم (23) للعام 20... تصفح الخدمات - حكو...

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All

Catch College Hoops Fever Sponsored by TCL

Hello, Sign in Your Account Try Prime Your Lists Cart

Shop by Department Your Amazon.com Today's Deals Gift Cards Sell Help

Today's Deals Watched Deals Coupons Outlet Open Box & Used Digital Deals

Amazon Gift Cards Any Occasion. No Expiration. >Shop now

Ad feedback

Today's Deals

New deals. Every day. Shop our Deal of the Day, Lightning Deals and more daily deals and limited-time sales. See deals you're Watching [here](#).


Showing 1-32 of 2563 results

Never miss another deal

Sort by Relevance

Department

- ☐ Amazon Devices
- ☐ Amazon Instant Video
- ☐ Arts, Crafts & Sewing
- ☐ Automotive & Motorcycle
- ☐ Amazon Home Services
- ☐ Baby
- ☐ Baby Clothing & Accessories
- ☐ Beauty
- ☐ Books
- ☐ Boys' Fashion
- ☐ Cell Phones & Accessories
- ☐ Collectibles & Fine Art




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DEAL OF THE DAY

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List: ~~\$449.00~~ (74% off)

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DEAL OF THE DAY

\$19.88

List: ~~\$69.95~~ (72% off)

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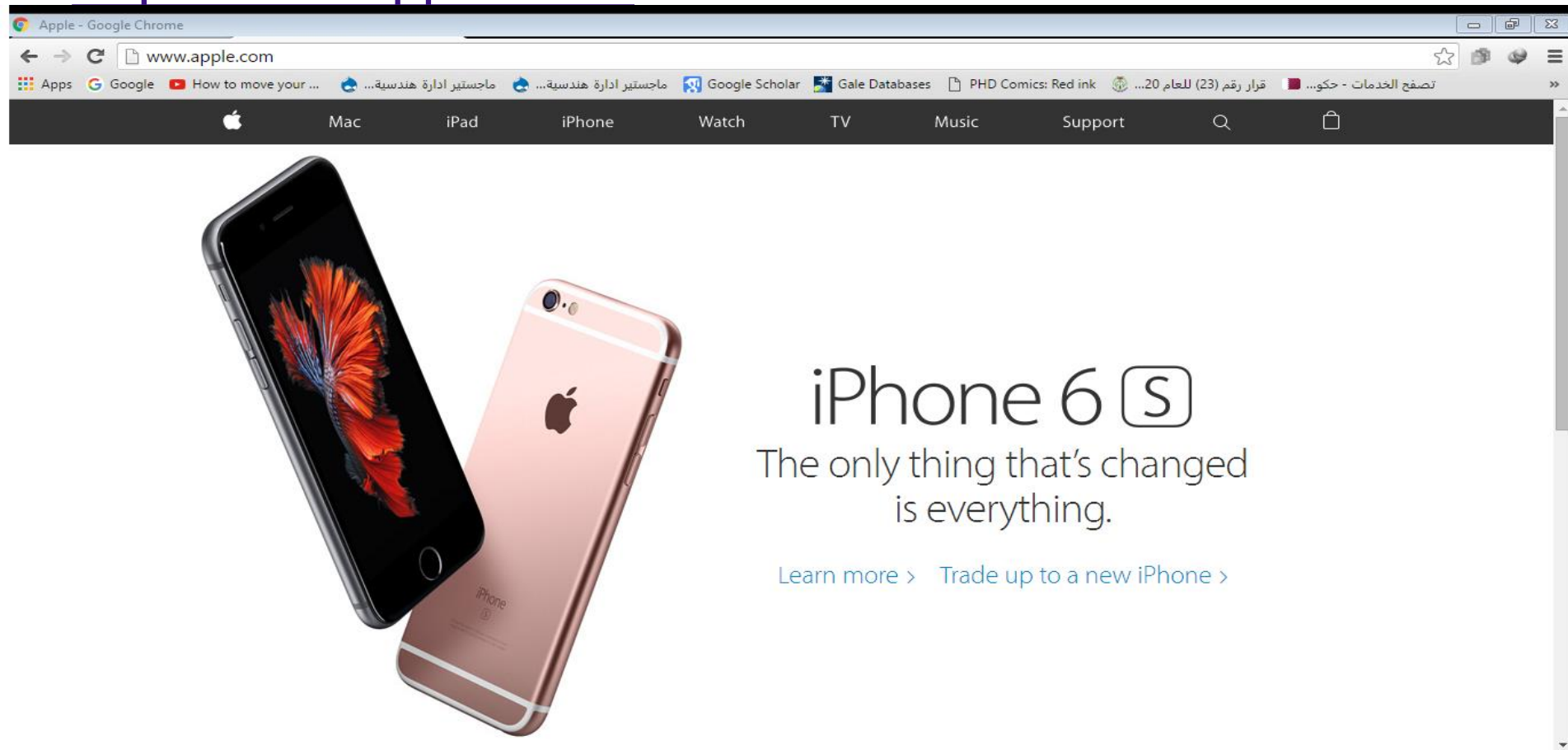
\$159.99

List: ~~\$189.99~~ (16% off)

[Save on Kindle Paperwhite 10th Anniversary Edition](#)

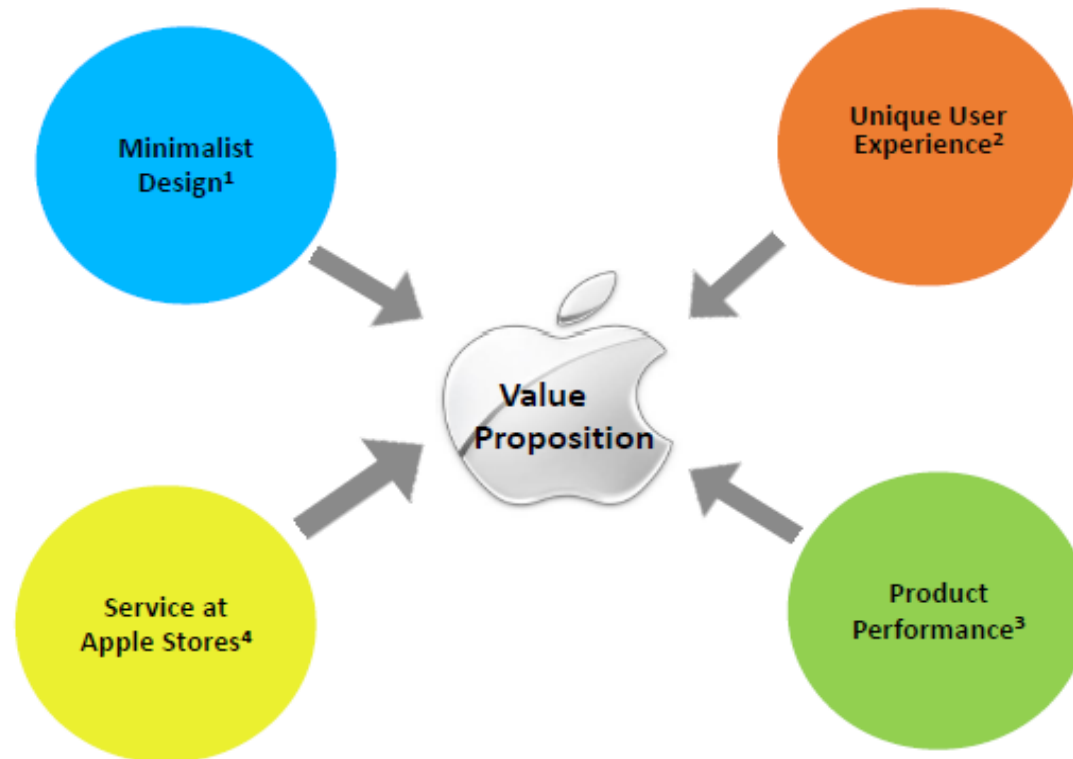
1. Value Proposition

<http://www.apple.com/>



1. Value Proposition- APPLE

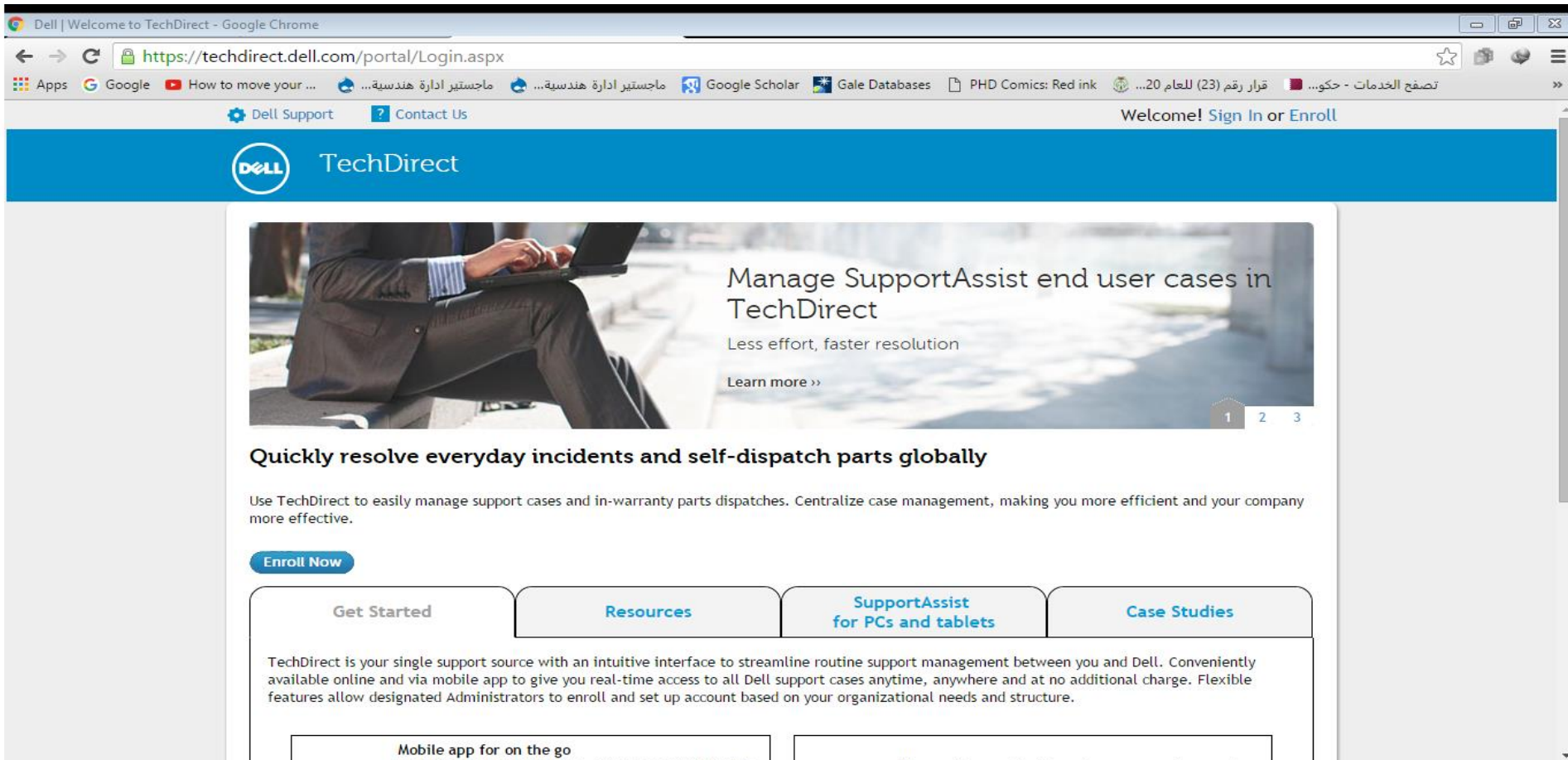
Value Proposition



¹[Burrows & Satariano , \(2012\)](#); ²[Osterwalder & Pigneur \(2009\)](#); ³[Apple Inc, \(2014\)](#); ⁴[Apple Inc, \(2014\)](#);

1. Value Proposition

<https://techdirect.dell.com/portal/Login.aspx>



The screenshot shows the Dell TechDirect portal login page in a Google Chrome browser. The address bar displays the URL <https://techdirect.dell.com/portal/Login.aspx>. The page features a blue header with the Dell logo and the text "TechDirect". Below the header, there is a main banner area with a background image of a person using a laptop. The banner text reads: "Manage SupportAssist end user cases in TechDirect", "Less effort, faster resolution", and "Learn more >>". Below the banner, there is a section titled "Quickly resolve everyday incidents and self-dispatch parts globally" with a subtext: "Use TechDirect to easily manage support cases and in-warranty parts dispatches. Centralize case management, making you more efficient and your company more effective." A blue button labeled "Enroll Now" is positioned below the subtext. At the bottom, there are four tabs: "Get Started", "Resources", "SupportAssist for PCs and tablets", and "Case Studies". Below the tabs, there is a paragraph of text: "TechDirect is your single support source with an intuitive interface to streamline routine support management between you and Dell. Conveniently available online and via mobile app to give you real-time access to all Dell support cases anytime, anywhere and at no additional charge. Flexible features allow designated Administrators to enroll and set up account based on your organizational needs and structure." Below this paragraph, there are two more sections: "Mobile app for on the go" and "TechDirect's support features".

Dell | Welcome to TechDirect - Google Chrome

<https://techdirect.dell.com/portal/Login.aspx>

Apps Google How to move your ... ماجستير ادارة هندسية... ماجستير ادارة هندسية... Google Scholar Gale Databases PHD Comics: Red ink قرار رقم (23) للعام 20... تصفح الخدمات - حكو... >>

Dell Support Contact Us Welcome! Sign In or Enroll

Dell TechDirect

Manage SupportAssist end user cases in TechDirect

Less effort, faster resolution

Learn more >>

Quickly resolve everyday incidents and self-dispatch parts globally

Use TechDirect to easily manage support cases and in-warranty parts dispatches. Centralize case management, making you more efficient and your company more effective.

Enroll Now

Get Started Resources SupportAssist for PCs and tablets Case Studies

TechDirect is your single support source with an intuitive interface to streamline routine support management between you and Dell. Conveniently available online and via mobile app to give you real-time access to all Dell support cases anytime, anywhere and at no additional charge. Flexible features allow designated Administrators to enroll and set up account based on your organizational needs and structure.

Mobile app for on the go

TechDirect's support features

2. Revenue Model

- “How will you earn money?”
- Major types of revenue models:
 - Advertising revenue model
 - Subscription revenue model
 - Freemium strategy
 - Transaction fee revenue model
 - Sales revenue model
 - Affiliate revenue model

2. Revenue Model - Advertising

- a company provides a forum for advertisements and receives fees from advertisers (yahoo.com)

2. Revenue Model - Subscription

- a company offers its users content or services and charges a subscription fee for access to some or all of its offerings (Pandora.com)

2. Revenue Model - freemium strategy

- companies give away a certain level of product or services for free, but then charge a subscription fee for premium levels of the product or service (Pandora.com)

2. Revenue Model - transaction fee

- a company receives a fee for enabling or executing a transaction (eBay.com)

2. Revenue Model - sales revenue

- a company derives revenue by selling goods, information, or services (amazon.com)

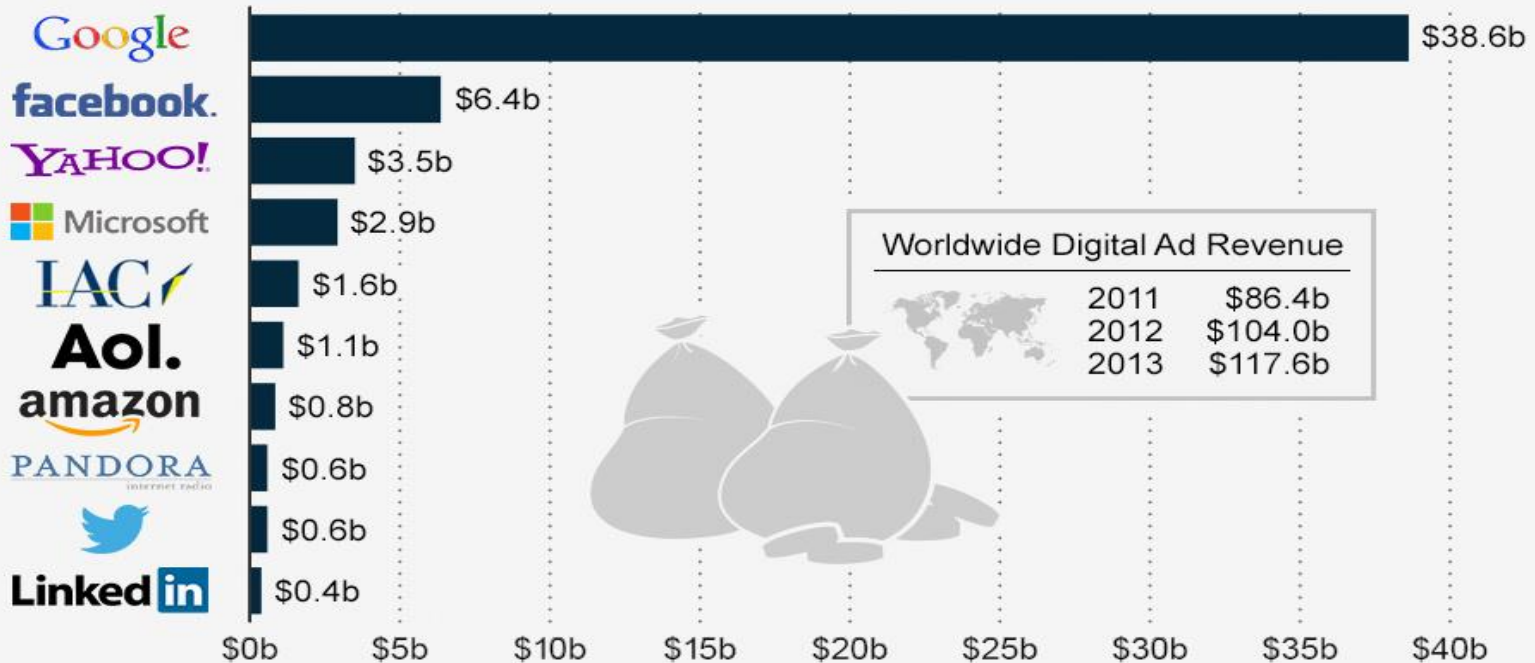
2. Revenue Model - affiliate

- a company steers business to an affiliate and receives a referral fee or percentage of the revenue from any resulting sales (skyscanner)

2. Revenue Model - Streams

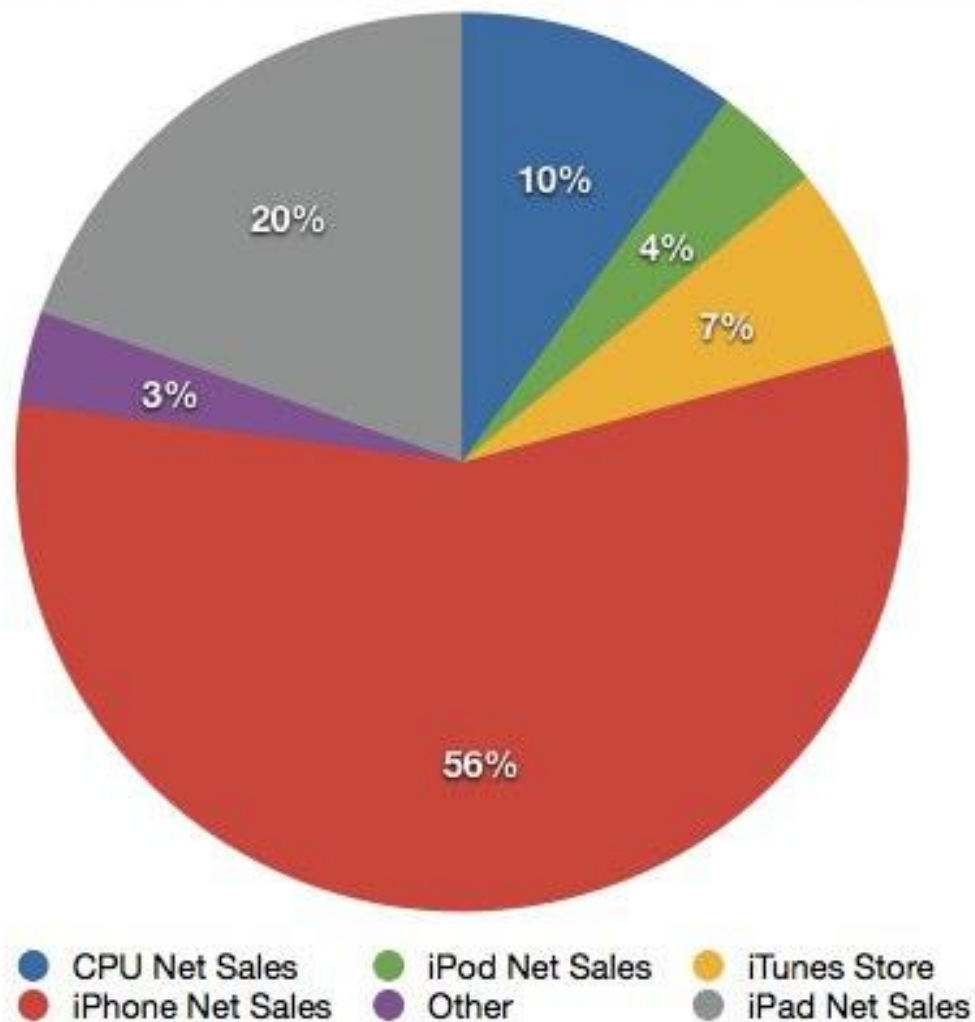
Google to Rake in 33% of Online Ad Revenues This Year

Worldwide digital advertising revenue forecast for the 10 largest ad publishers in 2013



2. Revenue Model - Streams

Apple Inc. Revenue by Category - Fiscal Q1 2013 - by MacRumors.com



2. Revenue Model - Streams



3. Market Opportunity

- “What marketspace 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

3. Market Opportunity - Customer Segments

- Defines the different groups of people or organizations to serve
- Separate segments if:
 - Needs require and justify distinct offer
 - Reached through different channels
 - Require different types of relationships
 - Are willing to pay for different aspects
 - Have different profitabilities

3. Market Opportunity - Customer Segments

Customer segments may exist in different types

- Mass market
 - One large group comprising only one segment
- Niche market
 - Specific, specialized customer group
- Segmented
 - Slightly different customer groups
- Diversified
 - Multiple unrelated customer segments

3. Market Opportunity - Channels

- Describes how a company communicates with and reaches its customer segments to deliver a value proposition
 1. Raising awareness of the products and services
 2. Helping customers evaluate the value proposition
 3. Allowing customers to purchase
 4. Delivering a value proposition
 5. Providing post-purchase customer support

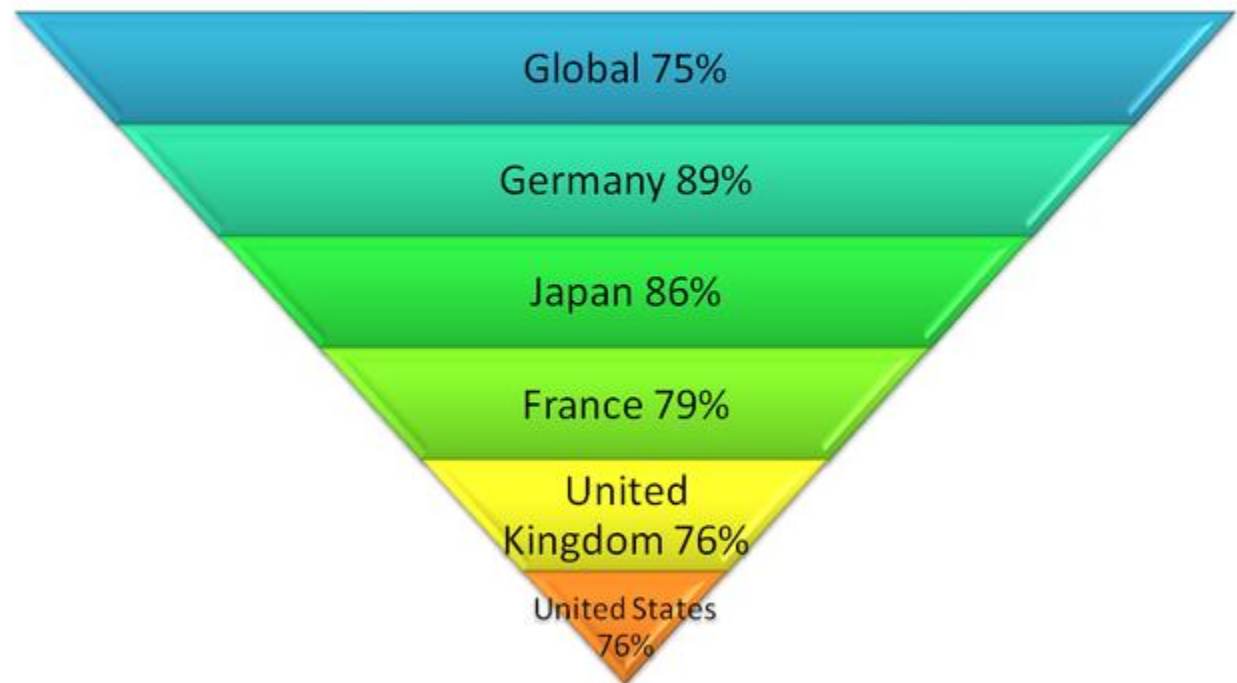
3. Market Opportunity - Channels

- **Channels demand consideration of key questions**
 - Through which channels do our customer segments want to be reached?
 - How can we integrate our channels?
 - What measures define which channels work best?

3. Market Opportunity - Channels - Google



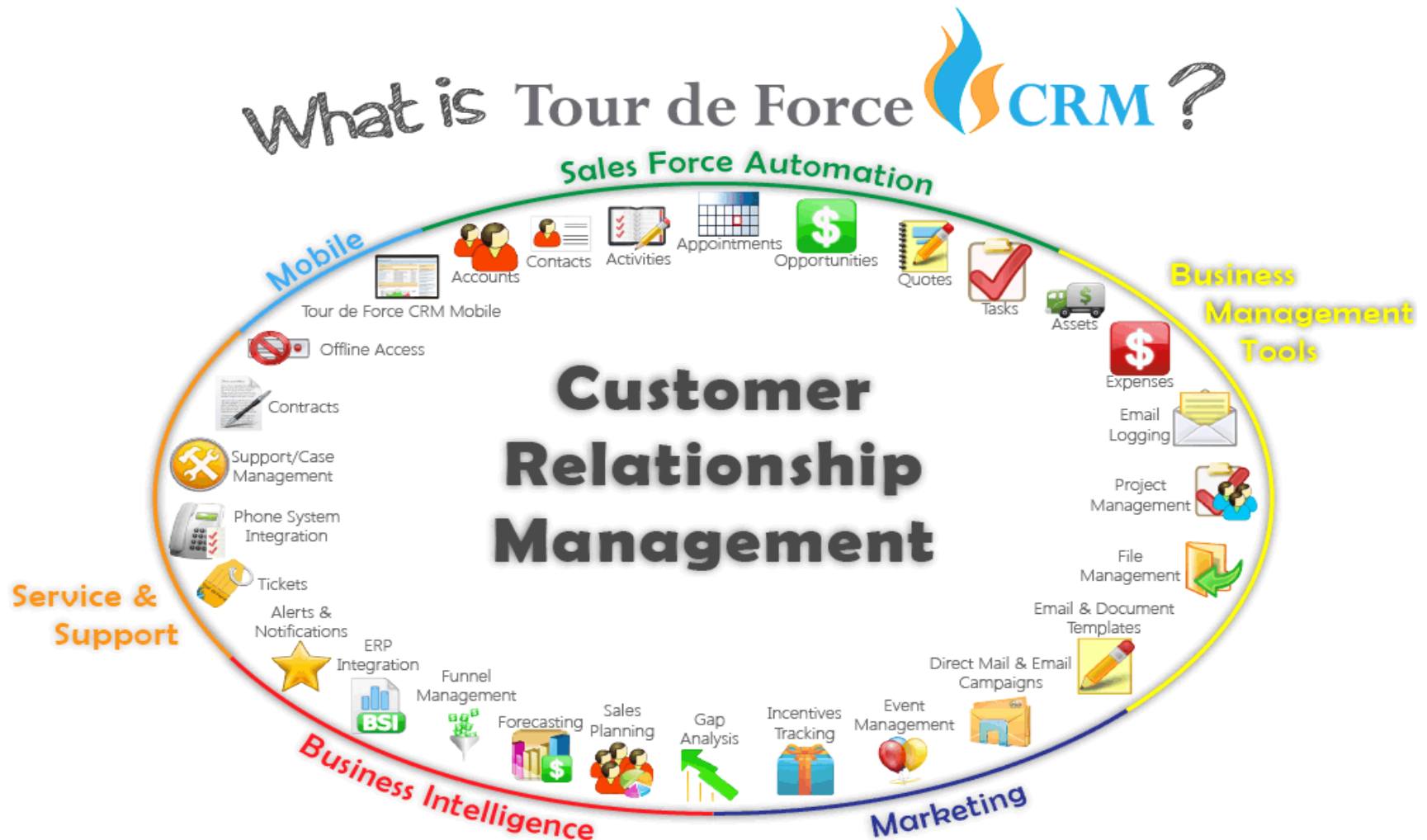
Population Reach (%):



3. Market Opportunity - Customer Relationships

- Describes the types of relationships a company establishes with specific customer segments
- Driven by motivations to include:
 - Customer acquisition
 - Customer retention
 - Upselling

3. Market Opportunity - Customer Relationships



3. Market Opportunity - Customer Relationships

Google Business Solutions

Find new customers

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FEATURED
AdWords

Reach local customers

[VIEW ALL »](#)



FEATURED
AdWords Express

Earn money from your site

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AdSense

Enhance your website

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Be a trusted Google partner

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Google Certification Program

Research & innovate

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FEATURED
Ad Innovations

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

4. Competitive Environment - Competitor Analysis

- What is a Competitor Analysis?
 - A competitor analysis is a detailed analysis of a firm's competition.
 - It helps a firm understand the positions of its major competitors and the opportunities that are available.
 - A competitive analysis grid is a tool for organizing the information a firm collects about its competitors.

4. Competitive Environment - Identifying Competitors

Types of Competitors New Ventures Face

Direct Competitors

Businesses offering identical or similar products

Indirect Competitors

Businesses offering close substitute products

Future Competitors

Businesses that are not yet direct or indirect competitors but could be at any time

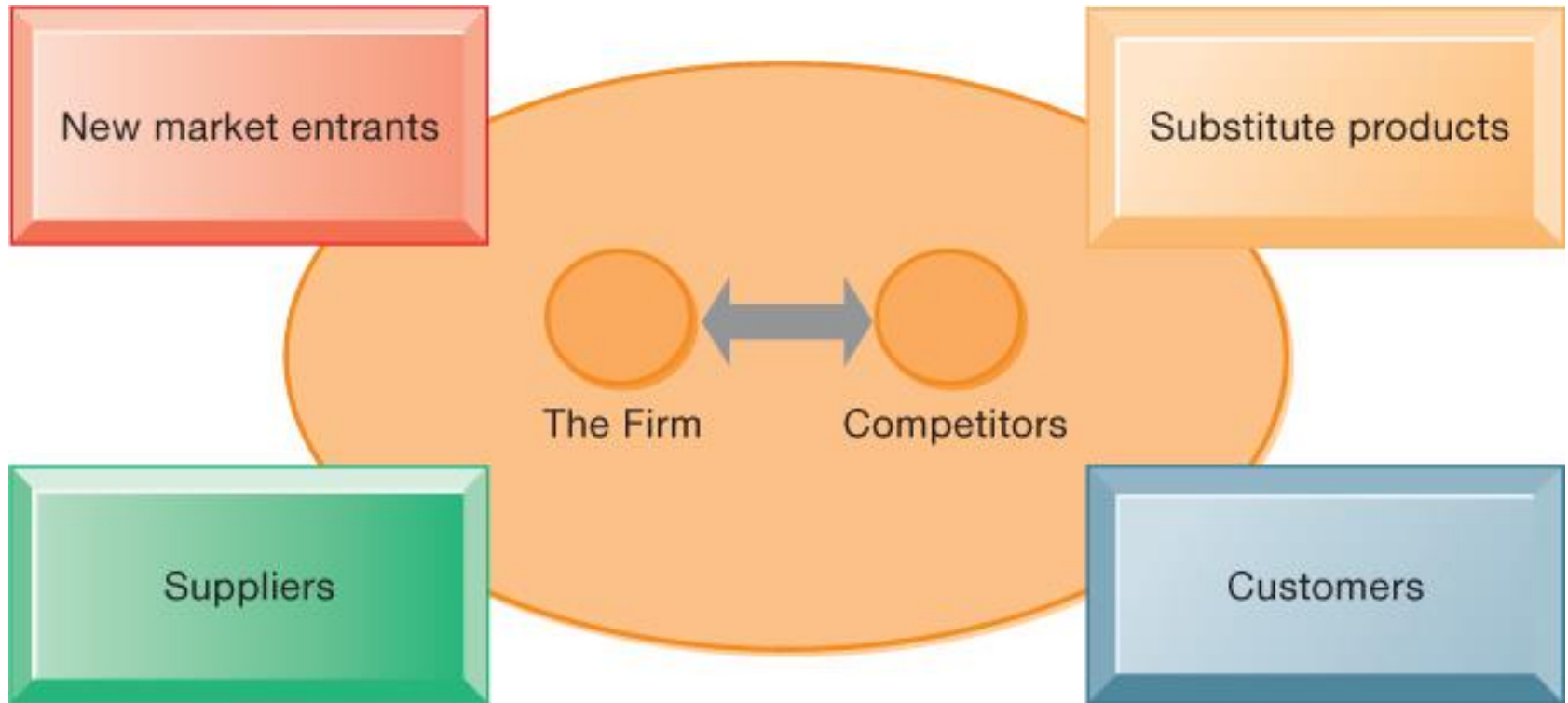
4. Competitive Environment

Porter's Competitive Forces Model (1 of 3)

- Why do some firms become leaders in their industry?
- Michael Porter's competitive forces model
 - Provides general view of firm, its competitors, and environment
- Five competitive forces shape fate of firm:
 - Traditional competitors
 - New market entrants
 - Substitute products and services
 - Customers
 - Suppliers

4. Competitive Environment

Porter's Competitive Forces Model



4. Competitive Environment

Porter's Competitive Forces Model (2 of 3)

- Traditional competitors
 - All firms share market space with competitors who are continuously devising new products, services, efficiencies, and switching costs
- New market entrants
 - Some industries have high barriers to entry, for example, computer chip business
 - New companies have new equipment, younger workers, but little brand recognition

4. Competitive Environment

Porter's Competitive Forces Model (3 of 3)

- Substitute products and services
 - Substitutes customers might use if your prices become too high, for example, iTunes substitutes for CDs
- Customers
 - Can customers easily switch to competitor's products? Can they force businesses to compete on price alone in transparent marketplace?
- Suppliers
 - Market power of suppliers when firm cannot raise prices as fast as suppliers

4. Competitive Environment

Rivalry Among Existing Firms 1 of 3

- Rivalry Among Existing Firms
 - In most industries, the major determinant of industry profitability is the level of competition among existing firms.
 - Some industries are fiercely competitive, to the point where prices are pushed below the level of costs, and industry-wide losses occur.
 - In other industries, competition is much less intense and price competition is subdued.

4. Competitive Environment

Rivalry Among Existing Firms 2 of 3

Factors that determine the intensity of the rivalry among existing firms in an industry.

Number and balance of competitors	The more competitors there are, the more likely it is that one or more will try to gain customers by cutting its price.
Degree of difference between products	The degree to which products differ from one product to another affects industry rivalry.

4. Competitive Environment

Rivalry Among Existing Firms 3 of 3

Factors that determine the intensity of the rivalry among existing firms in an industry (continued)

Growth rate of an industry	The competition among firms in a slow-growth industry is stronger than among those in fast-growth industries.
Level of fixed costs	Firms that have high fixed costs must sell a higher volume of their product to reach the break-even point than firms with low fixed costs.

4. Competitive Environment

Threat of New Entrants 1 of 6

- Threat of New Entrants
 - If the firms in an industry are highly profitable, the industry becomes a magnet to new entrants.
 - Unless something is done to stop this, the competition in the industry will increase, and average industry profitability will decline.
 - Firms in an industry try to keep the number of new entrants low by erecting barriers to entry.
 - A barrier to entry is a condition that creates a disincentive for a new firm to enter an industry.

4. Competitive Environment

Threat of New Entrants 2 of 6

Barriers to Entry

Barrier to Entry	Explanation
Economies of Scale	Industries that are characterized by large economies of scale are difficult for new firms to enter, unless they are willing to accept a cost disadvantage.
Product differentiation	Industries such as the soft drink industry that are characterized by firms with strong brands are difficult to break into without spending heavily on advertising.
Capital requirements	The need to invest large amounts of money to gain entrance to an industry is another barrier to entry.

4. Competitive Environment

Threat of New Entrants 3 of 6

Barriers to Entry (continued)

Barrier to Entry	Explanation
Cost advantages independent of size	Existing firms may have cost advantages not related to size. For example, the existing firms in an industry may have purchased land when it was less expensive than it is today.
Access to distribution channels	Distribution channels are often hard to crack. This is particularly true in crowded markets, such as the convenience store market.
Government and legal barriers	Some industries, such as broadcasting, require the granting of a license by a public authority to compete.

4. Competitive Environment

Threat of New Entrants 4 of 6

- Nontraditional Barriers to Entry
 - It is difficult for start-ups to execute barriers to entry that are expensive, such as economies of scale, because money is usually tight.
 - Start-ups have to rely on nontraditional barriers to entry to discourage new entrants, such as assembling a world-class management team that would be difficult for another company to replicate.

4. Competitive Environment

Threat of New Entrants 5 of 6

Nontraditional Barriers to Entry

Barrier to Entry	Explanation
Strength of management team	If a start-up puts together a world-class management team, it may give potential rivals pause in taking on the start-up in its chosen industry.
First-mover advantage	If a start-up pioneers an industry or a new concept within an industry, the name recognition the start-up establishes may create a barrier to entry.
Passion of the management team and employees	If the employees of a start-up are motivated by the unique culture of a start-up, and anticipate a large financial reward, this is a combination that cannot be replicated by larger firms.

4. Competitive Environment

Threat of New Entrants 6 of 6

Nontraditional Barriers to Entry (continued)

Barrier to Entry	Explanation
Unique business model	If a start-up is able to construct a unique business model and establish a network of relationships that makes the business model work, this set of advantages creates a barrier to entry.
Internet domain name	Some Internet domain names are so “spot-on” that they give a start-up a meaningful leg up in terms of e-commerce opportunities.
Inventing a new approach to an industry	If a start-up invents a new approach to an industry and executes it in an exemplary fashion, these factors create a barrier to entry for potential imitators.

4. Competitive Environment

Bargaining Power of Suppliers 1 of 3

- Bargaining Power of Suppliers
 - Suppliers can suppress the profitability of the industries to which they sell by raising prices or reducing the quality of the components they provide.
 - If a supplier reduces the quality of the components it supplies, the quality of the finished product will suffer, and the manufacturer will eventually have to lower its price.
 - If the suppliers are powerful relative to the firms in the industry to which they sell, industry profitability can suffer.

4. Competitive Environment

Bargaining Power of Suppliers 2 of 3

Factors that have an impact on the ability of suppliers to exert pressure on buyers

Supplier concentration	When there are only a few suppliers that supply a critical product to a large number of buyers, the supplier has an advantage.
Switching costs	Switching costs are the fixed costs that buyers encounter when switching or changing from one supplier to another. If switching costs are high, a buyer will be less likely to switch suppliers.

4. Competitive Environment

Bargaining Power of Suppliers 3 of 3

Factors that have an impact on the ability of suppliers to exert pressure on buyers (continued)

Attractiveness of substitutes	Supplier power is enhanced if there are no attractive substitutes for the product or services the supplier offers.
Threat of forward integration	The power of a supplier is enhanced if there is a credible possibility that the supplier might enter the buyer's industry.

4. Competitive Environment

Bargaining Power of Buyers 1 of 3

- Bargaining Power of Buyers
 - Buyers can suppress the profitability of the industries from which they purchase by demanding price concessions or increases in quality.
 - For example, the automobile industry is dominated by a handful of large companies that buy products from thousands of suppliers in different industries. This allows the automakers to suppress the profitability of the industries from which they buy by demanding price reductions.

4. Competitive Environment

Bargaining Power of Buyers 2 of 3

Factors that have an impact on the ability of suppliers to exert pressure on buyers

Buyer group concentration	If there are only a few large buyers, and they buy from a large number of suppliers, they can pressure the suppliers to lower costs and thus affect the profitability of the industries from which they buy.
Buyer's costs	The greater the importance of an item is to a buyer, the more sensitive the buyer will be to the price it pays.

4. Competitive Environment

Bargaining Power of Buyers 3 of 3

Factors that have an impact on the ability of buyers to exert pressure on suppliers (continued)

Degree of standardization of supplier's products	The degree to which a supplier's product differs from its competitors affects the buyer's bargaining power.
Threat of backward integration	The power of buyers is enhanced if there is a credible threat that the buyer might enter the supplier's industry.

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**: exists whenever one participant in a market has more resources than other participants. Ex. Apple iTunes
 - **First-mover advantage**: a competitive market advantage for a firm that results from being the first into a marketplace with a serviceable product or service. Ex. Amazon

5. Competitive Advantage

- **Complementary resources:** resources and assets not directly involved in the production of the product but required for success, such as marketing, management, financial assets, and reputation.
- **Unfair competitive advantage:** occurs when one firm develops an advantage based on a factor that other firms cannot purchase.
Ex. brands
- **Leverage:** when a company uses its competitive advantages to achieve more advantage in surrounding markets
- **Perfect markets:** a market in which there are no competitive advantages or asymmetries because all firms have equal access to all the factors of production.

5. Competitive Advantage - Strategies for Dealing with Competitive Forces (1 of 3)

- Four generic strategies for dealing with competitive forces, enabled by using IT:
 - Low-cost leadership
 - Product differentiation
 - Focus on market niche
 - Strengthen customer and supplier intimacy

5. Competitive Advantage - Strategies for Dealing with Competitive Forces (2 of 3)

- Low-cost leadership
 - Produce products and services at a lower price than competitors
 - Example: Walmart's efficient customer response system
- Product differentiation
 - Enable new products or services, greatly change customer convenience and experience
 - Example: Google, Nike, Apple
 - Mass customization

5. Competitive Advantage - Strategies for Dealing with Competitive Forces (3 of 3)

- Focus on market niche
 - Use information systems to enable a focused strategy on a single market niche; specialize
 - Example: Hilton Hotels' OnQ system
- Strengthen customer and supplier intimacy
 - Use information systems to develop strong ties and loyalty with customers and suppliers
 - Increase switching costs
 - Examples: Chrysler, Amazon, Starbucks

5. Competitive Advantage - The Internet's Impact on Competitive Advantage

- Transformation or threat to some industries
 - Examples: travel agency, printed encyclopedia, media
- Competitive forces still at work, but rivalry more intense
- Universal standards allow new rivals, entrants to market
- New opportunities for building brands and loyal customer bases

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
 - For instance, Twitter, YouTube, and Pinterest have a social network marketing strategy that encourages users to post their content for free, build personal profile pages, contact their friends, and build a community.

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

- Employees of the company responsible for making the business model work
- “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

Eight key elements of a business model and the key questions

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?

Raising Capital

- Seed capital:
 - typically, an entrepreneur's personal funds derived from savings, credit card advances, home equity loans, or from family and friends.
- Elevator pitch
 - short two-to-three minute presentation aimed at convincing investors to invest
- Traditional sources
 - **Incubators**, typically provide a small amount of funding and also an array of services to start-up companies.

Elements of an 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.

Raising Capital

- **Angel investors:** typically wealthy individuals or a group of individuals who invest their own money in exchange for an equity share in the stock of a business; often are the first outside investors in a start-up
- **Commercial banks,**
- **venture capital firms:** typically invest funds they manage for other investors; usually later-stage investors Strategic partners
- **Crowdfunding**
 - involves using the Internet to enable individuals to collectively contribute money to support a project.
 - Ex. Kickstarter and Indiegogo

Categorizing E-commerce Business Models

- No one correct way
- Text categorizes according to:
 - E-commerce sector (e.g., B2B)
 - E-commerce technology (e.g., m-commerce)
- Similar models appear in different sectors
- Companies may use multiple business models
 - Ex: eBay: a market creator in the B2C and C2C e-commerce sectors, using both the traditional Internet/Web and mobile platforms
- E-commerce enablers

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:** operate only in the virtual world, without any ties to physical locations. (Ex. Amazon)
 - **Bricks-and-clicks:** are subsidiaries or divisions of existing physical stores and carry the same products. (Ex. Walmart)
 - **Catalog merchant:** Online version of direct mail catalog.
 - **Manufacturer-direct:** Manufacturer uses online channel to sell direct to customer (Ex: Dell)
- 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
 - Ex. *Harvard Business Review*
- Revenue models:
 - Use variety of models, including advertising, subscription; sales of digital goods
 - Key to success is typically owning the content
- Variations:
 - **Syndication**: distribute content produced by others.
 - **Aggregators**: collect information from a wide variety of sources and then add value to that information through post-aggregation services. Ex: Shopzilla

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**: define their marketplace to include all users of the Internet. (Ex: Yahoo)
 - Vertical/specialized (vortal): focused around a particular subject matter or market segment. (Ex: sailnet)
 - Search

B2C Models: Transaction Broker

- Process online transactions for consumers
 - Processes transactions for consumers that are normally handled in person, by phone, or by mail.
 - 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 (no inventory or production costs).
 - Revenue model: Transaction fees, fees to merchants for access
- On-demand service companies (sharing economy): platforms that allow people to sell services. Examples:
 - Uber: (founded in 2009) currently operates in over 480 cities in 69 countries around the world.
 - Airbnb: founded in 2008, operates in more than 190 countries and 34,000 cities, lists over 2 million rooms available for rent.

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

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

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 Models: E-distributor

- Version of retail and wholesale store, MRO (maintenance, repair, operation) goods, and indirect goods
- Owned by one company seeking to serve many customers
- Revenue model: Sales of goods
- Example: Grainger

B2B Models: E-procurement

- Creates digital markets where participants transact for indirect goods
 - B2B service providers, SaaS and PaaS providers
 - Scale economies: efficiencies that arise from increasing the size of a business
- Revenue model:
 - Service fees, supply-chain management, fulfillment services
- Example: Ariba

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
- More successful than exchanges
 - Sponsored by powerful industry players
 - Strengthen traditional purchasing behavior
- Revenue model: Transaction, commission fees
- Example: SupplyOn

Private Industrial Networks

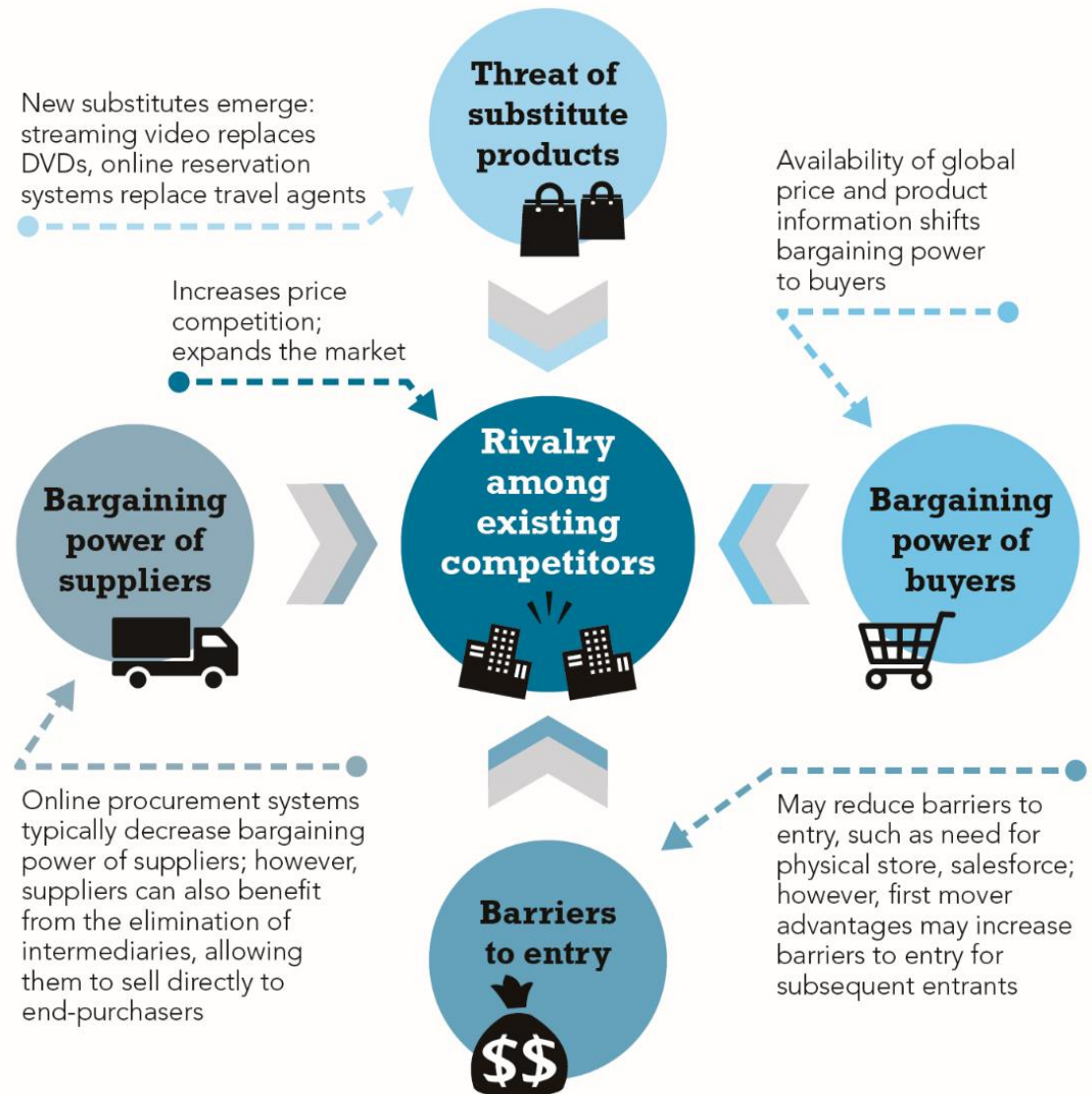
- Digital network used to coordinate among firms engaged in business together
- Typically evolve out of large company's internal enterprise system
 - Key, trusted, long-term suppliers invited to network
- Example: Walmart's network for suppliers

How E-commerce Changes Business

- Industry Structures: refers to the nature of the players in an industry and their relative bargaining power.
- 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 structural analysis

How E-commerce Changes Business

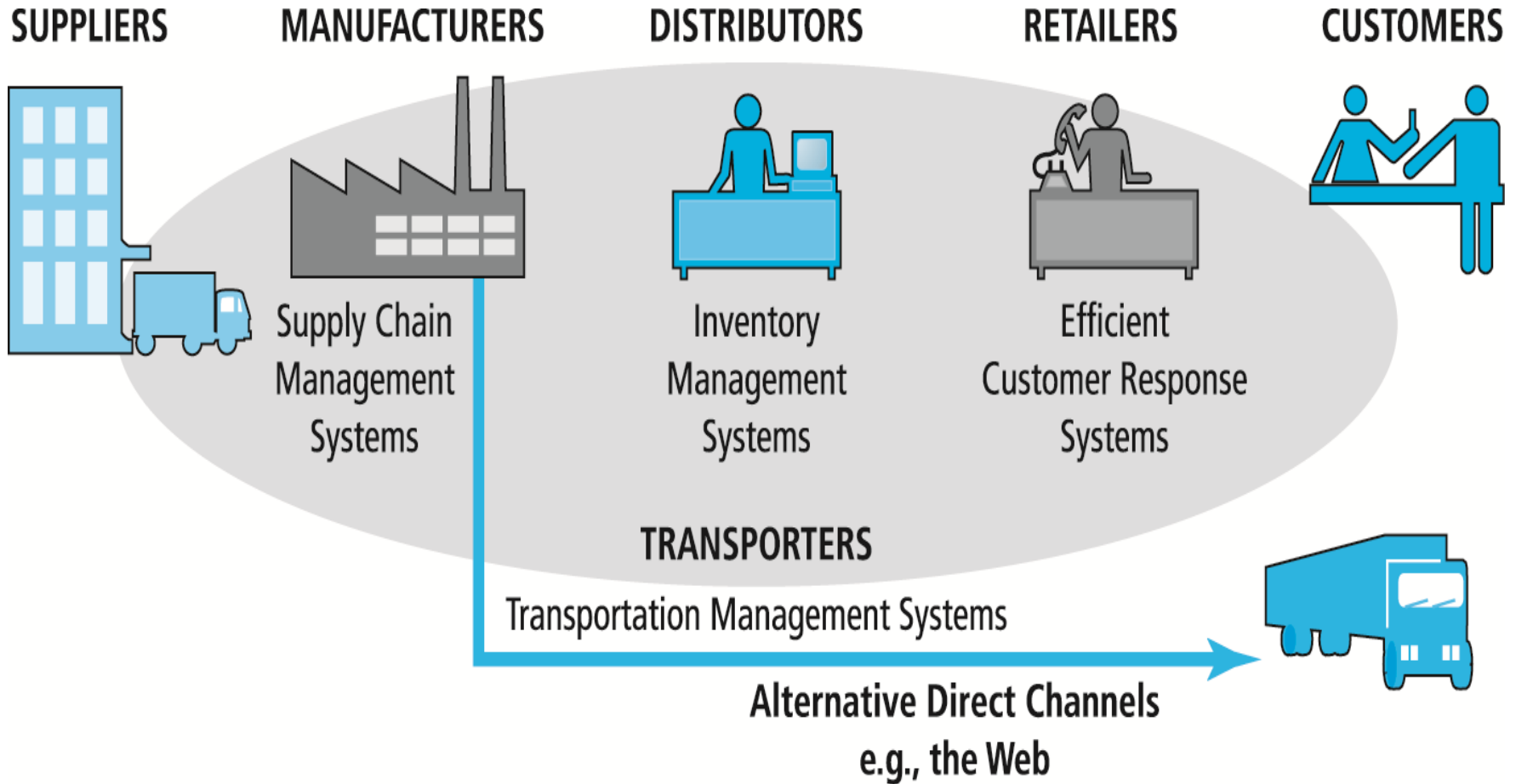
- E-commerce has many impacts on industry structure and competitive conditions.
- From the perspective of a single firm, these changes can have negative or positive implications depending on the situation.
- In some cases, an entire industry can be disrupted, while at the same time, a new industry is born.
- Individual firms can either prosper or be devastated.



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

E-commerce and Industry Value Chains



Firm Value Chains

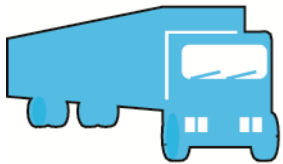
- Activities that a firm engages in to create final products from raw inputs
- Each step adds value
- Effect of Internet:
 - Increases operational efficiency
 - Enables product differentiation
 - Enables precise coordination of steps in chain

E-commerce and Firm Value Chains

Administration
Human Resources
Information Systems
Procurement
Finance/Accounting

SECONDARY ACTIVITIES

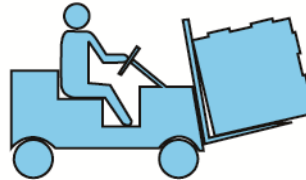
PRIMARY ACTIVITIES



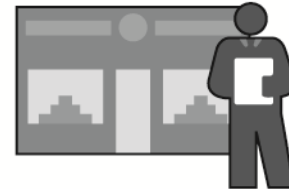
**Inbound
Logistics**



Operations



**Outbound
Logistics**



**Sales and
Marketing**



**After Sales
Service**

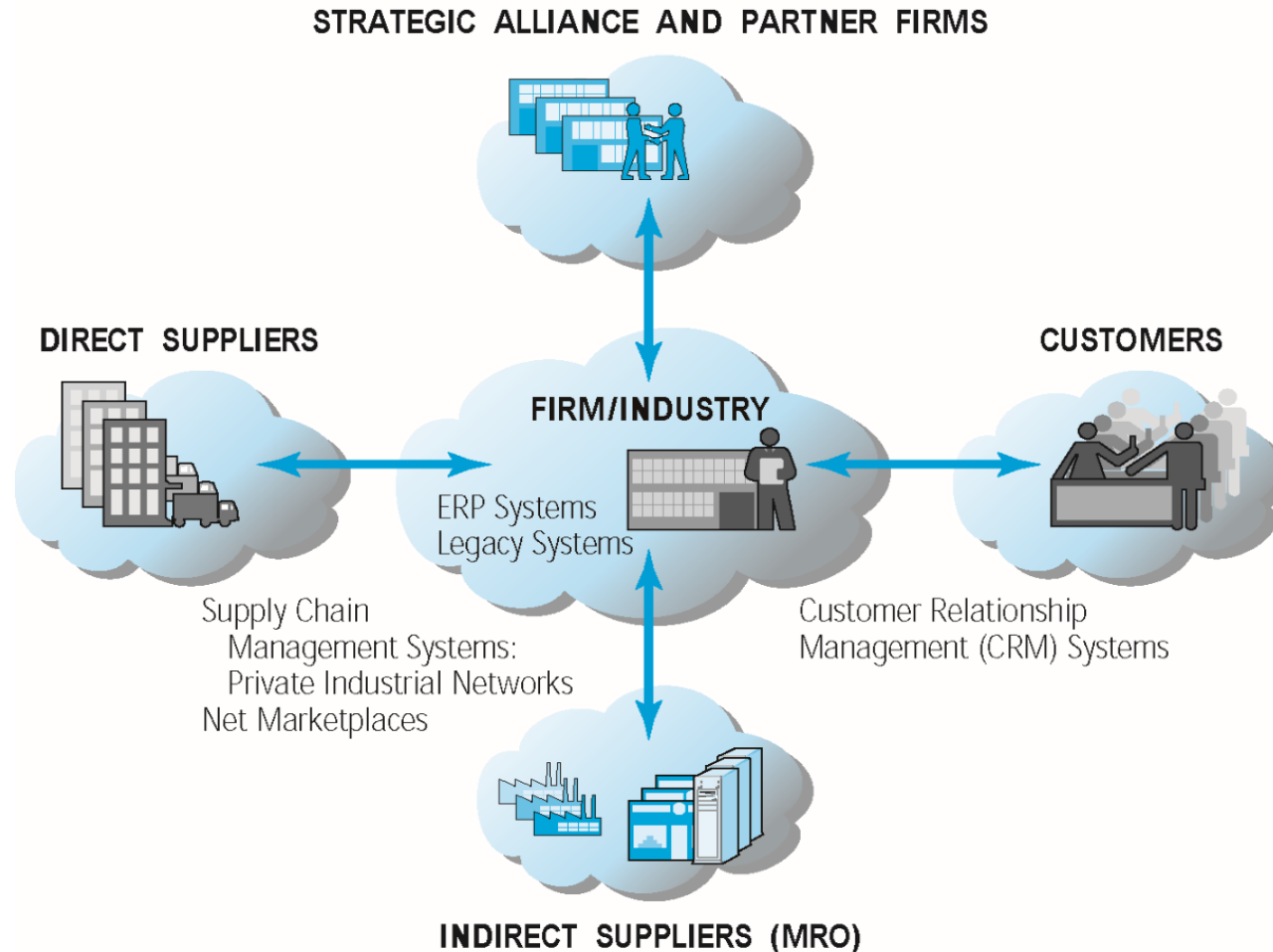
Every firm can be characterized by a set of value-adding primary and secondary activities performed by a variety of actors in the firm.

A simple firm value chain performs five primary value-adding steps: inbound logistics, operations, outbound logistics, sales and marketing, and after sales service.

Firm Value Webs

- Networked business ecosystem
- Uses Internet technology to coordinate the value chains of business partners
- Coordinates a firm's suppliers with its own production needs using an Internet-based supply chain management system

Internet-enabled Value Web



Internet technology enables firms to create an enhanced value web in cooperation with their strategic alliance and partner firms, customers, and direct and indirect suppliers.

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/market niche
 - Customer intimacy

E-commerce Technology and Business Model Disruption

- Disruptive technologies
- Digital disruption
- Sustaining technology
- Stages
 - Disruptors introduce new products of lower quality
 - Disruptors improve products
 - New products become superior to existing products
 - Incumbent companies lose market share