

Chapter 2

E-commerce Business Models and Concepts

Online Groceries: Up from the Embers

Class Discussion

- Why do you think Webvan failed?
- Why are more traditional grocery chains succeeding online today?
- Why would an online customer pay the same price as in the store plus a delivery charge? What's the benefit to the customer?
- What are the important success factors for FreshDirect?
- Do you think FreshDirect would work in your town?

freshdirect® Our food is fresh. Our customers are spoiled.

ABOUT US

DELIVERY INFO

TAKE A TOUR

TIPS & TRICKS

TESTIMONIALS



FreshDirect is the new way to shop for food.

We've hired New York's food experts, built the perfect environment for food and found the shortest distance from farms, dairies and fisheries to your table. We have all the **irresistibly fresh food** you could want, plus popular grocery brands for **less than supermarket prices** and we bring it right to your door.

Direct from the farm = higher quality at lower prices.

Our food comes **directly from farms, dairies and fisheries** (not middlemen), so it's **several days fresher and a lot less expensive** when it gets to your table. Our fully refrigerated, state-of-the-art facility (minutes from Manhattan in Long Island City) lets us meet standards no retail store in the country can match. We follow USDA guidelines and the HACCP food safety system in all our fresh storage and production rooms. Since customers don't shop in our facility, we can maintain different environments for each type of food we sell. For example, we have seven different climates for handling produce, ensuring that the bananas are as happy as the potatoes.



Current customer? [Log in](#)

START SHOPPING

Enter your ZIP code to find out if we're delivering to your neighborhood.

HOME ZIP CODE:

CORPORATE ZIP CODE:

GO



Current customer?
[Click here to log in.](#)

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

Table 2.1, Page 67

TABLE 2.1 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?

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

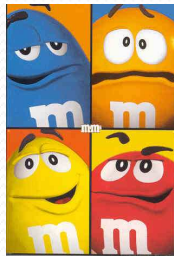
Example of Value propositions



"You get fresh, hot pizza delivered to your door in 30 minutes or less -- or it's free."



"Your package absolutely, positively has to get there overnight"



"The milk chocolate melts in your mouth, not in your hand"



"It helps building strong bones 12 ways"

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



Advertising Revenue Model

- Web site that offers content, services and/or products also provides a forum for advertisements and receives fees from advertisers
- Example: Yahoo.com

Subscription Revenue Model

- Web site that offers users content or services charges a subscription fee for access to some or all of its offerings
- Examples:
 - Consumer Reports Online

The screenshot displays the ConsumerReports.org website. At the top, the logo "ConsumerReports.org" is accompanied by the tagline "Expert • Independent • Nonprofit". A navigation bar includes categories like "Cars", "Appliances", "Electronics", "Home & Garden", "Babies & Kids", "Money", "Shopping", and "Health". A search bar is located in the top right. The main content area features a "Today's News" section with headlines such as "Behind the scenes: Snow-traction tire tests" and "Appliance rebate program begins in more states". A prominent advertisement for "BEST VALUES" cars is shown, featuring a yellow car and the text "The most bang for the buck". A "Subscribe Now!" button is visible in the bottom right corner of the page.



Transaction Fee Revenue Model

- Company that receives a fee for enabling or executing a transaction
- Examples:
 - eBay.com
 - E-Trade.com

Sales Revenue Model

- Company derives revenue by selling goods, information, or services to customers
- Examples:
 - Amazon.com
 - LLBean.com
 - Gap.com

Amazon Uses a Sales Revenue Model

The screenshot displays the Amazon.com homepage. At the top left is the Amazon logo. To its right, a greeting says "Hello, Sign in to get personalized recommendations. New customer? Start here." Further right, it advertises "FREE 2-Day Shipping, No Minimum Purchase: See details". Below this are links for "Your Amazon.com", "Today's Deals", "Gifts & Wish Lists", and "Gift Cards". On the far right are links for "Your Account" and "Help".

A navigation sidebar on the left lists categories: "Shop All Departments", "Books", "Movies, Music & Games", "Digital Downloads", "Kindle", "Computers & Office", "Electronics", "Home & Garden", "Grocery, Health & Beauty", "Toys, Kids & Baby", "Clothing, Shoes & Jewelry", "Sports & Outdoors", and "Tools, Auto & Industrial".

The main content area features a search bar with "All Departments" selected. Below the search bar is a banner for "Kunde in Deutschland? Besuchen Sie amazon.de" with a German flag and the text "Shopping from Germany? Jetzt einkaufen".

The central focus is a large advertisement for the Kindle, showing the device displaying "Chapter 1" of a book. The text reads "Kindle #1 Bestselling Product on Amazon" and includes an "Order now" button and the "amazonkindle" logo.

On the right side, there are several promotional boxes: "Computer Accessories" (Keyboards, mice, webcams, speakers, and more) with a "Shop now" link; "What's your Pay Phrase?" featuring "Prudent Comments" with a "Claim yours" link; "The Kodak Pulse Is Now Available" with a "Check it out" link; and "I Am Iron Man Too" featuring Iron Man toys with a "23% off" badge and a "See more" link.

At the bottom left, there are sections for "Check This Out" (Selling on Amazon List items for free and sell to millions; Tax Software Order or download now) and "Features & Services" (Selling with Amazon). At the bottom center, there is a "More Items to Consider" section with "You viewed" and "Customers who viewed this also viewed" tabs.



Affiliate Revenue Model

- Sites that steer business to an “affiliate” receive a referral fee or percentage of the revenue from any resulting sales
- Example:
 - MyPoints.com



MyPoints

Web

Search

SHOP

DEALS

EASY POINTS

REWARDS

MY NETWORK

Daily SPIN 'N' WIN ▶

3 2 0 PTS

Shop your favorite brands and you'll earn Points.

Learn more

Join now

Shop by Featured Brands

 1,100 POINTS Home of perfect projects and today's top titles: Crafter's Choice®, (once)	 4 POINTS PER DOLLAR Shop for women's clothes, men's clothes & more at Old Navy! Earn Points.	 500 POINTS Order \$25 or more & get 500 Points! \$49 or more for free shipping!	 12 POINTS PER DOLLAR Save on books, music & DVDs! Fast & Free Delivery on orders of \$25!
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MyPoints Grocery Coupons

Print • Save • Earn

EARN Points

Expand

What's Up @ MyPoints

Double Days

DSW^{SHOES}
FREE

DSW
Double your Points! Shop through this link today and

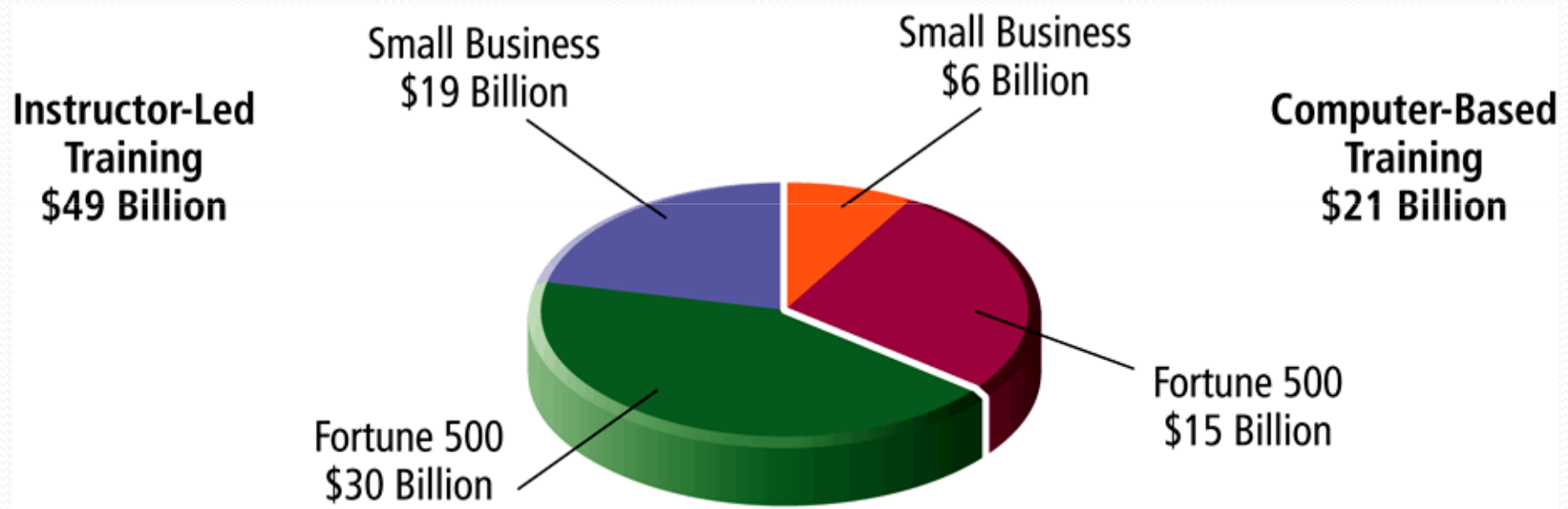


Market Opportunity

- Refers to a company's intended marketspace and overall potential financial opportunities available to the firm in that marketspace
 - Marketspace
 - 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

Marketspace and Market Opportunity in the Software Training Market

- Figure 2.1, Page 67



Competitive Environment

- Refers to the other companies selling similar products and operating in the same marketspace
- Influenced by:
 - Number of active competitors
 - Each competitor's market share
 - Competitors' profitability
 - Competitors' pricing
- Includes both direct competitors and indirect competitors

Competitive Environment (cont'd)

- Direct competitors – companies that sell products or services that are very similar and into the same market segment
 - Example: Priceline.com and Travelocity.com
- Indirect competitors – companies that may be in different industries but that still compete indirectly because their products can substitute for one another
 - Example: CNN.com and ESPN.com

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
- Firms achieve competitive advantage when they are able to obtain differential access to the factors of production that are denied to competitors
- Asymmetry – when one participant in a market has more resources than others



Competitive Advantage

- Types of competitive advantage include:
 - First mover advantage—results from a firm being first into a marketplace
 - Unfair competitive advantage—occurs when one firm develops an advantage based on a factor that other firms cannot purchase

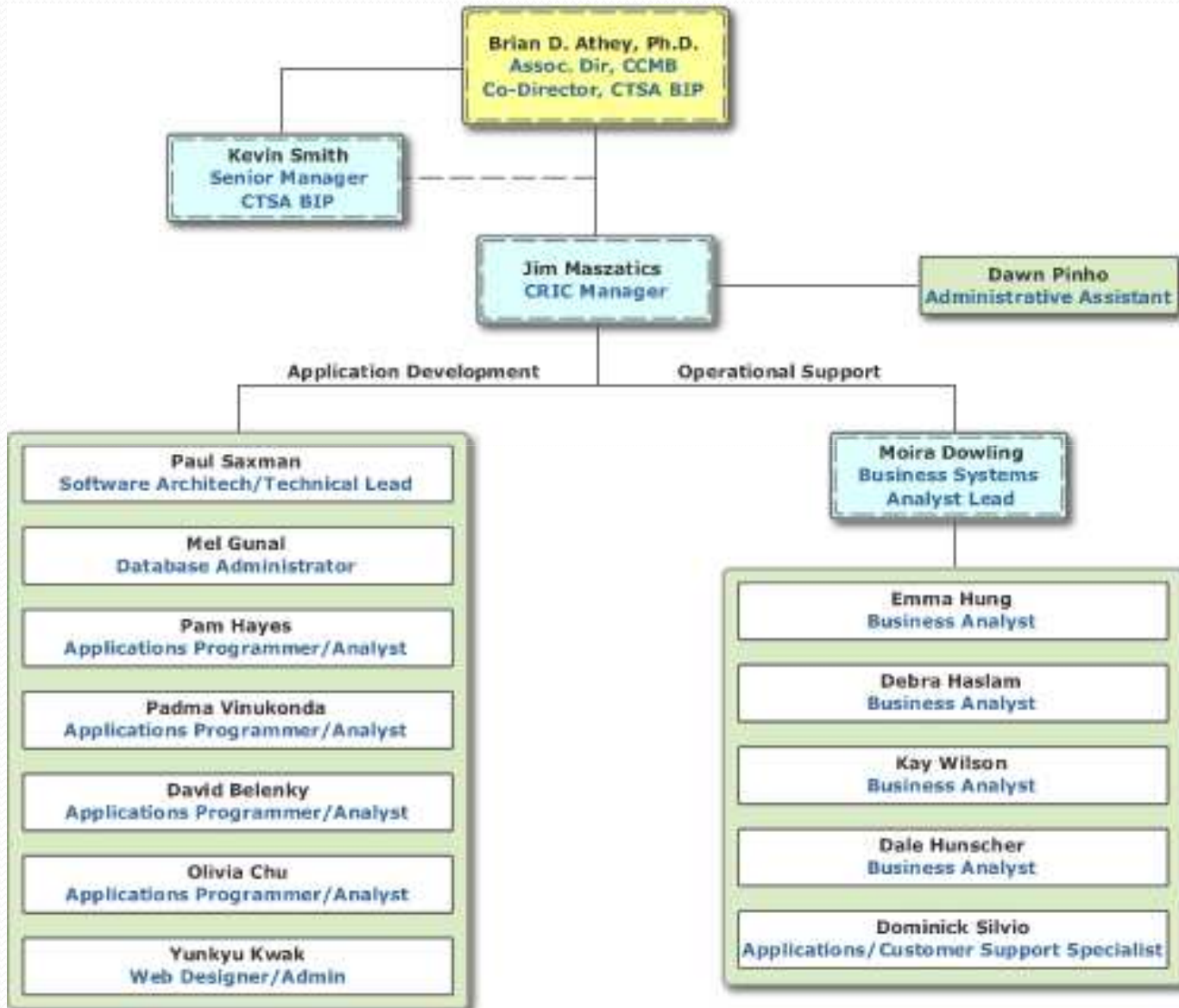
Market Strategy

- 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



Organizational Development

- Plan that describes how the company will organize the work that needs to be accomplished
 - Work is typically divided into functional departments
 - Hiring moves 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
 - i.e., m-commerce
- Some companies use multiple business models
 - eBay



B2C Business Models

- Portal
- E-tailer
- Content Provider
- Transaction Broker
- Market Creator
- Service Provider
- Community Provider

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
- Today, seen as “destination” site rather than gateway
- May be general (horizontal) or specialized (vertical)

B2C Business Models: E-tailer

- Online version of traditional retailer
- Types include:
 - Virtual merchants (online retail store only)
 - Clicks and bricks (online distribution channel for a company that also has physical stores)
 - Catalog merchants (online version of direct mail catalog)
 - Manufacturer-direct (manufacturer selling directly over the Web)
- Low barriers to entry

B2C Business Models: Content Provider

- Distribute digital content: information and entertainment, over the Web
- Typical revenue models:
 - Subscription
 - Pay for download
 - Advertising
- Variations:
 - Syndication: is a variation of standard content provider model
 - Web aggregators

B2C Business Models: Transaction Broker

- Processes online transactions for consumers
- Primary value proposition—saving time and money
- Typical revenue model—transaction fee
- Largest industries using this model:
 - 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
 - eBay
- Typically uses a transaction fee revenue model

B2C Business Models: Service Provider

- Offers services online
 - e.g. Google: Google Maps, Google Docs, etc.
- Value proposition
 - Valuable, convenient, time-saving, low-cost alternatives to traditional service providers
- Revenue models
 - Subscription fees
 - One-time payment

B2C Business Models: Community

Provider

- Creates online environment (social network) where people with similar interests can transact and communicate.
- Typical revenue model: Hybrid
 - Including advertising fees, subscription fees, sales revenues, transaction fees, affiliate fees
- Examples:
 - MySpace
 - Facebook
 - iVillage

 Click to Expand



TODAY'S BIG STORY | 6 MORE NOT TO MISS



9 Summer Sandals on the Cheap

Jul 11 - 6:00am

We've found some strappy flats and funky flip-flops that are so cute (and affordable) it won't matter what your bathing suit looks like! [more](#)

[Share](#)

GLADIATOR SANDALS: YAY OR YUCK?

more weekend fun

- [What's the deal with rompers?](#)
- [Beauty products that are just plain silly](#)
- [9 tasty ways to use up summer squash](#)
- [Stars in swimsuits that sizzle: Get the look](#)
- [Budget beach bag buys](#)
- [How to make the perfect burger](#)

Search, Ads, and Apps: The Future For Google (and Microsoft)

Class Discussion

- How many of you use Google, Yahoo, or MSN's Live Search search engines? Does the class differ from the overall Web population?
- Why do you use a particular search engine?
- Why are search engines so profitable?
- Why is Google moving beyond search and advertising into applications?

Google AdSense

What's AdSense?

[How it works](#)

[Access advertisers](#)

[Targeting options](#)

[Ad formats](#)

[Controls](#)

[Reporting tools](#)

[More solutions](#)

[Get started](#)

What's AdSense?

The flexible, hassle-free way to earn revenue online



- Get paid for displaying targeted Google ads on your site.
- Customize ads to match your site's look and feel.
- Track your success with online reports.
- It's free!

[Learn more »](#)

[Get started](#)

©2010 – [AdSense Home](#) – [Terms of Service](#)

Google AdWords

Change Language: []

Advertise your business on Google

No matter what your budget, you can display your ads on Google and our advertising network. Pay only if people click your ads.

Your ads appear beside related search results...

People click your ads...

...And connect to your business





B2B Business Models

- E-distributor
- E-procurement Companies
- Exchanges
- Industry Consortia
- Private Industrial Networks

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



▶ Catalog 401

▶ Find a Branch

Search

Search

▶ Products

▶ Resources

▶ Services

▶ Worldwide

▶ Repair Parts

▶ About Us

▶ Today's Features

▶ Site Features

Product Categories

Grainger is a leading provider of top-quality industrial supplies worldwide. We carry the brands you trust, along with money-saving alternatives to suit any budget. We add new products nearly every day to make sure we offer the latest, high-quality products. We also provide [product services](#) such as lighting upgrades, lighting project management, hazardous recycling services, storage equipment/ installation and safety services, along with specific [product resources](#) for many of your operation's most pressing needs.



[Abrasives](#)



[Adhesives, Sealants & Tape](#)



[Cable Ties](#)



[Cleaning](#)



[Electrical](#)



[Electronics, Appliances & Batteries](#)



[Fasteners](#)



[Fleet & Vehicle Maintenance](#)



[Furniture & Furnishings](#)



[Hand Tools](#)



[Hardware](#)



[HVACR](#)



[Hydraulics](#)



[Lighting](#)



B2B Business Models: E-

procurement

- Creates and sells access to digital electronic markets
 - Includes B2B service providers, application service providers (ASPs)
- Revenue models:
 - Transaction fees, usage fees, annual licensing fees
- Ariba
 - Software that helps firms organize procurement process

Language | English

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Invoice Management
Payment Management
Working Capital Management



REGISTER FOR A LIVE DEMO

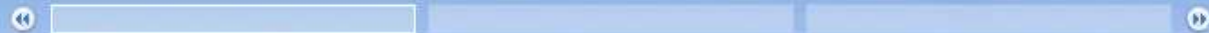
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- WHY NOW?
- WHY ARIBA?

Control costs, reduce risk and maximize performance

Get Tips and Best Practices for Reducing Supplier Risk

LEARN MORE



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News Events Blog

British Airways suppliers scrutinised for risk status - Supply Management - 23 Jun 2009
[Read article](#)

Make IT click -



Solutions
- Spend Analysis
- Sourcing

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
- Revenue model: Transaction fees
- Usually serve a single vertical industry
- Number of exchanges has fallen dramatically

Insight on Business

Onvia Evolves

Class Discussion

- Why did Onvia have a difficult time with its early business model?
- What type of B2B business model is Onvia using now? Is it still an “exchange?”
- Why is the government market succeeding? What services does Onvia provide to government buyers? To small business sellers?
- How does Onvia make money?



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[Custom Solutions](#)

[Case Studies](#)

[Take the Tour](#)

[Resource Center](#)

[Economic Stimulus](#)

Get connected to Onvia and win more business today.

→ **RFPs & BIDS** BUYERS AND DECISION MAKERS PARTNERS & COMPETITORS

→ **LEARN HOW**

Get 5 Free Leads Now

I Do Business In

Please Choose..

Industry

Please Choose..

GET 5 FREE LEADS

* Both Fields Required

Information that Leads to Business

As the government prepares to pour billions of dollars into the state and local economy Onvia can help you zero in on the best opportunities for your company. We send business your way – tell us what you need and receive it every day.

“ Onvia has allowed us to identify 70% more RFPs.”

- Robert Hernandez, Everbridge

[View Case Studies](#)

Onvia News & Events

Reach 17,000 Recovery

Onvia Recorded Over 51,600 New Bids and RFPs in June

Economic Recovery Bids and RFPs

B2B Business Models: Industry Consortia

- Industry-owned vertical marketplaces that serve specific industries (e.g. automobile, chemical, floral, logging)
 - Supply smaller number of companies with product and services relevant to industry
 - Sponsored by powerful industry players
 - Strengthen traditional purchasing behavior
- Exostar: Online trading exchange for aerospace and defense industry

- ▶ **MY EXOSTAR** Login/Register
- About Exostar
- Customers
- Products
- Solutions
- Client Services
- Resource Center

Reduce risk. Lower costs. Improve speed-to-value.

Please click above to contact our Customer Support team.


Please click below to receive Exostar news & updates

▶ **GET CONNECTED**



Major Customers	Business Transformations	Exostar Products
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<p>BAE SYSTEMS</p>	<p>Selected Exostar to extend business processes from multiple ERP systems, including SAP and Oracle, to their global supply base.</p>	<ul style="list-style-type: none"> ▶ B2B Supplier Network ▶ Supply Chain Platform (SCP) ▶ Auctions, eRFQ, Sourcir ▶ eProcurement (Catalog) ▶ ForumPass ▶ SecureForms ▶ Federated Identity Servic (FIS)
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<p> BOEING</p>	<p>Use Exostar to collaborate with global partners. Today, Boeing has over 20 different ERP systems integrated to Exostar, including BAAN, Oracle and legacy systems. The 787 program uses Exostar's Supply Chain Platform to enable its partner-based manufacturing strategy</p>	<ul style="list-style-type: none"> ▶ B2B Supplier Network ▶ Auctions, eRFQ, Sourcir ▶ ForumPass ▶ Supply Chain Platform ▶ CertiPath PKI Cross-Certification
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	<p>Improved cycle times and reduced</p>	<ul style="list-style-type: none"> ▶ B2B Supplier Network
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News & Resources
In the News

- ▶ *Aviation Maintenance*: "Supply Chain Problems and Solutions"
- ▶ *Industry Week*: "ERP & Supply Chain Collaboration -- Connect, Protect, Manage, Optimize"

B2B Business Models: Private Industrial Networks

- Digital networks designed to coordinate the flow of communications among firms engaged in business together
- Single firm network: Most common form
 - Wal-Mart
- Industry-wide networks: Often evolve out of industry associations
 - Agentrics



Changing the way the world trades

Agentrics is a global provider of retail & supply chain solutions. We provide world leading retailers, brands and manufacturers with business solutions that enable them to

- launch more products - faster
- achieve significantly higher inventory turns
- make massive savings through efficient sourcing
- benchmark performance against the world's best

Fast Facts

Agentrics Product Lifecycle Management (PLM)

- Increase throughput by 300% -no cost increase
- Speed to Market improvement 20–40%
- Meet compliance regulation & grow volume

Agentrics Supply Chain Synchronization (SCS)

- Increase sales 10–25%
- Decrease inventory 20–50%
- Minimized out-of-stock situations

Our Customers

We work with the world's largest brands...



...in retail and fast moving consumer goods



Agentrics and Neogrid are the operating companies of MAP.

The Agentrics solution " ...helped to lower carrying costs, increase turns, allowed us to be first to market with new items and raise profits through enhanced operational efficiencies "

- Walgreens, Procurement Executive (USA)

Business Models in Emerging E-commerce Areas

- Consumer-to-Consumer (C2C)
 - eBay, Half.com
- Peer-to-Peer (P2P)
 - Kazaa, Cloudmark
- M-commerce:
 - E-commerce models using wireless technologies
 - PayPal Mobile Checkout, AOL MovieFone
 - Technology platform continues to evolve

Search:

All Categories

Go



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Sign in now

Books

Audiobooks
Fiction
Top 200
\$0.99 or less

Sell Books

Movies

DVDs
VHS
\$7.99/less DVD
\$3.99/less VHS

Sell Movies

Music

World Music
Soundtracks
Top 200
\$2.99 or less

Sell Music

Games

PS2
Xbox
GameCube
70% off

Sell Games

Pre-Order

Recommendations



Save on Shipping
Buy 2 or more from
the same seller and
pay less.

Bargain Bin



Paperbacks for \$0.99 or less



CDs for \$2.99 or less

Textbook Superstore



Find Textbooks

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Title

Go

ISBN (one or many)

Go

Sell Yours

ISBN

Go



Your item may be eligible for
an instant sale! [learn more](#)

New Releases



The Beatles: Mono Box Set

Beatles (The)
(CD, 2009)

\$129.99 **Save 56%**



Michael Jackson's This Is It

Michael Jackson
(CD, 2009)

\$7.98 **Save 55%**



I Dreamed a Dream *

Susan (Vocals) Boyle
(CD, 2009)


\$4.75 **Save 60%**

Hot Deals



E-commerce Enablers: The Gold Rush Model

- **Internet infrastructure companies:** Companies whose business model is focused on providing infrastructure necessary for e-commerce companies to exist, grow, and prosper
- Internet infrastructure companies have profited the most, providing:
 - 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

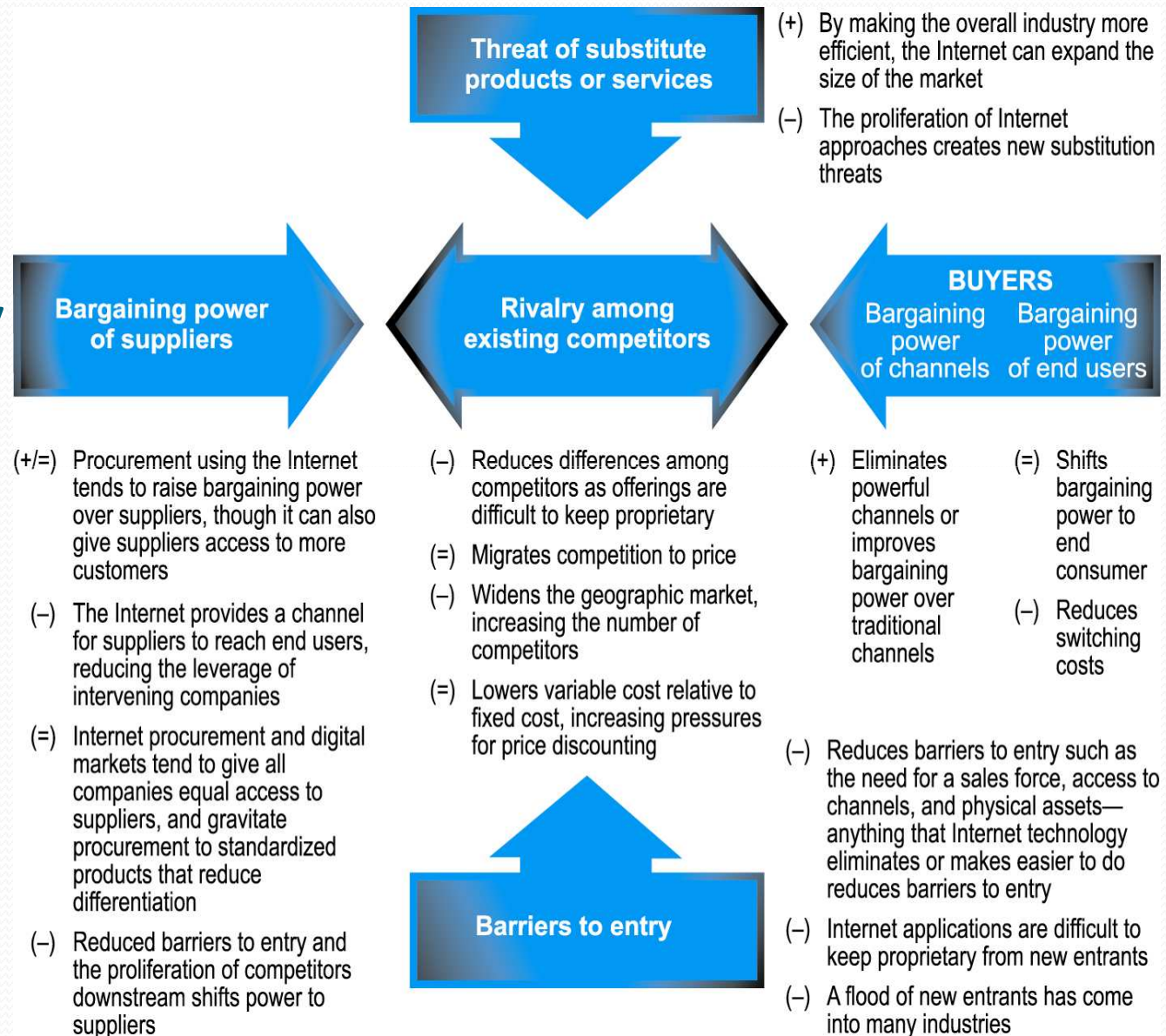
- Important to understand how Internet and Web have changed business environment, including industry structures, business strategies, and industry and firm operations



Industry Structure

- E-commerce changes the nature of players in an industry and their relative bargaining power by changing:
 - the basis of competition among competitors
 - the barriers to entry
 - the threat of new substitute products
 - the strength of suppliers
 - the bargaining power of buyers

How the Internet Influences Industry Structure



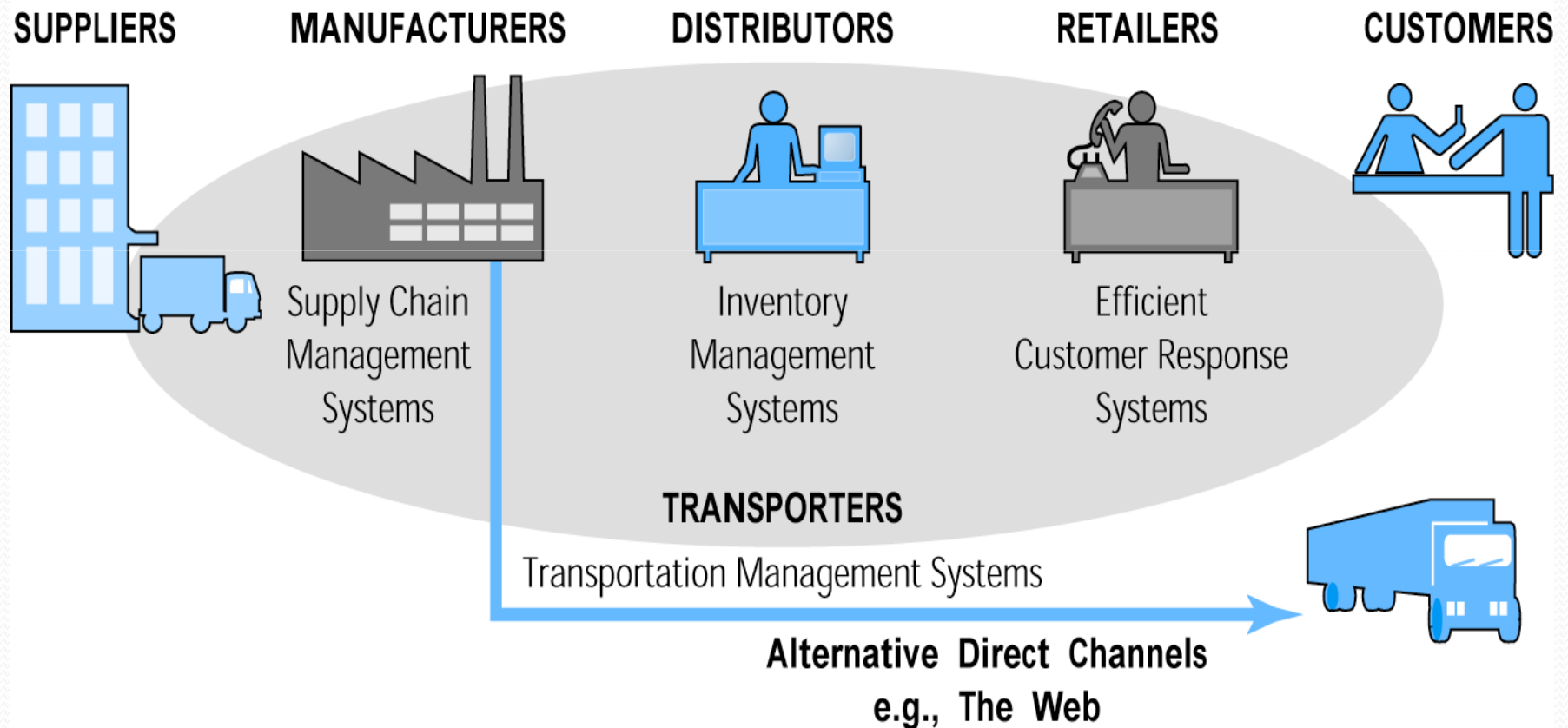
SOURCE: Porter, 2001.

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
- Internet reduces cost of information and other transactional costs for manufacturers, distributors, customers
- Leads to greater operational efficiencies, lowering prices, adding value for customers

E-commerce and Industry Value Chains

Figure 2.5, Page 102



Firm Value Chains

- Set of activities that a firm engages in to create final products from raw inputs
- Internet effect:
 - Increases operational efficiency
 - Enables product differentiation

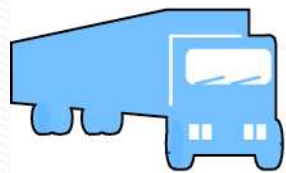
E-commerce and Firm Value Chains

Figure 2.6, Page 103

Administration
Human Resources
Information Systems
Procurement
Finance/Accounting

SECONDARY ACTIVITIES

PRIMARY ACTIVITIES



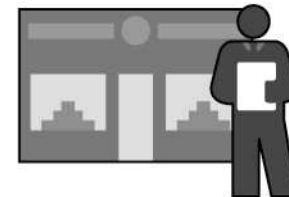
**Inbound
Logistics**



Operations



**Outbound
Logistics**



**Sales and
Marketing**



**After Sales
Service**

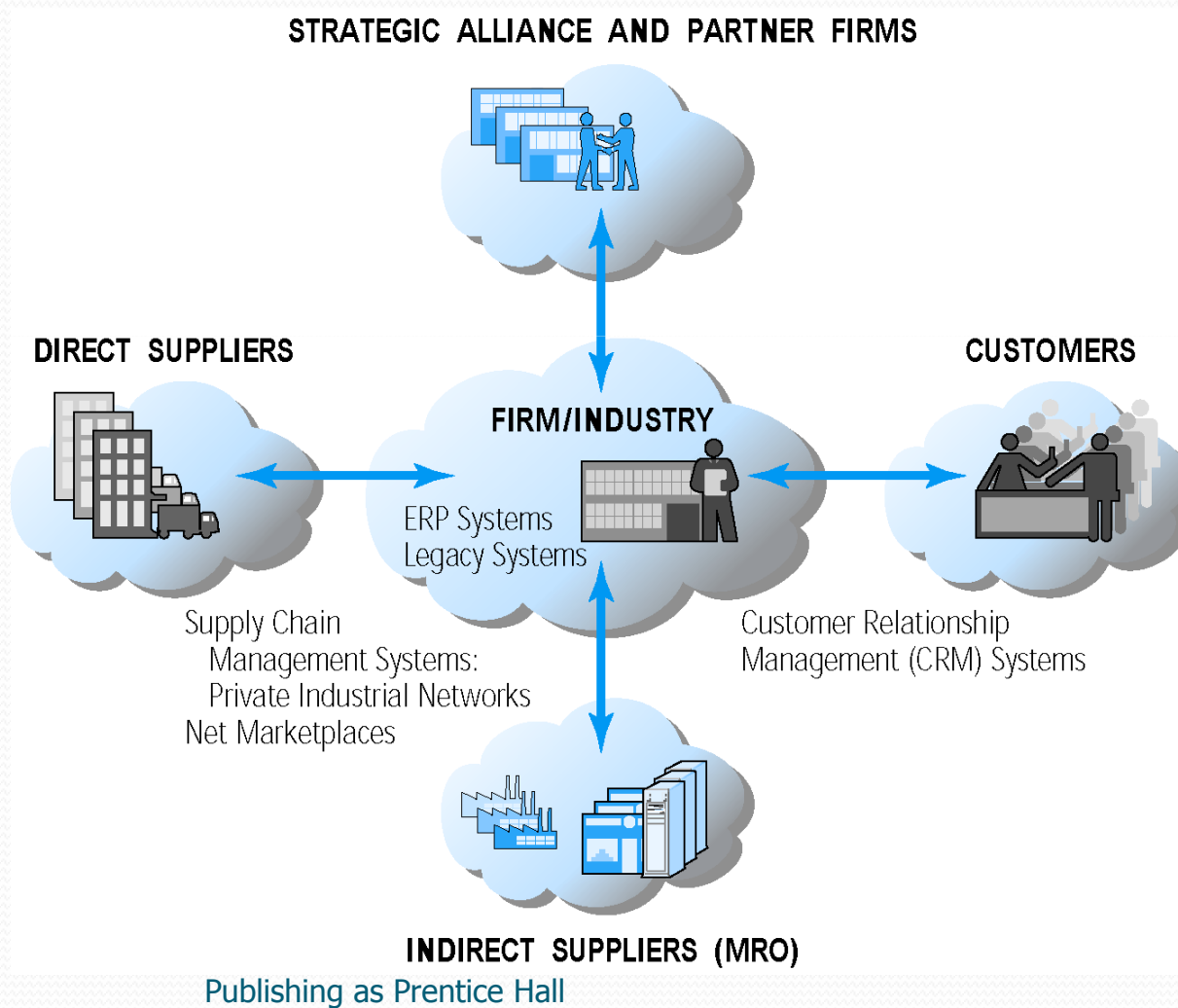


Firm Value Webs

- 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

Figure 2.7, Page 104



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