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 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.
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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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."

- ‘You 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
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
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
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

![Pie chart showing market opportunities with categorized data:]

- Instructor-Led Training: $49 Billion
- Fortune 500: $30 Billion
- Computer-Based Training: $21 Billion
- Small Business: $6 Billion
- Fortune 500: $15 Billion
- Small Business: $19 Billion
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
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
- Sriracha in a wimauh that sizzles: 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?
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!

Google AdSense

Get started

Google AdWords

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.

©2010 – AdSense Home – Terms of Use
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
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.
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
Control costs, reduce risk and maximize performance

Get Tips and Best Practices for Reducing Supplier Risk

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
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?
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 News & Events
Reach 17,000 Recovery

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

Economic Recovery Bids and RFPs

"Onvia has allowed us to identify 70% more RFPs."

- Robert Hernandez, Everbridge

View Case Studies

- 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
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...

![Ahold](image)

![ARCANDOR](image)

![AEO](image)

![Rekach](image)

...in retail and fast moving consumer goods

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)

Agentrics and NeoGrid are the operating companies of MAP.
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
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

**Bargaining power of suppliers**

(+/-) Procurement using the Internet tends to raise bargaining power over suppliers, though it can also give suppliers access to more customers

(-) The Internet provides a channel for suppliers to reach end users, reducing the leverage of intervening companies

(=) Internet procurement and digital markets tend to give all companies equal access to suppliers, and gravitate procurement to standardized products that reduce differentiation

(-) Reduced barriers to entry and the proliferation of competitors downstream shifts power to suppliers

**Rivalry among existing competitors**

(-) Reduces differences among competitors as offerings are difficult to keep proprietary

(=) Migrates competition to price

(-) Widens the geographic market, increasing the number of competitors

(=) Lowers variable cost relative to fixed cost, increasing pressures for price discounting

**Threat of substitute products or services**

(+) By making the overall industry more efficient, the Internet can expand the size of the market

(-) The proliferation of Internet approaches creates new substitution threats

**BUYERS**

Bargaining power of channels

(+) Eliminates powerful channels or improves bargaining power over traditional channels

(=) Shifts bargaining power to end consumer

(-) Reduces switching costs

(-) Reduces barriers to entry such as the need for a sales force, access to channels, and physical assets—anything that Internet technology eliminates or makes easier to do reduces barriers to entry

(-) Internet applications are difficult to keep proprietary from new entrants

(-) A flood of new entrants has come into many industries

**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

STRICT ALLIANCE AND PARTNER FIRMS

DIRECT SUPPLIERS

FIRM/INDUSTRY

ERP Systems
Legacy Systems

INDIRECT SUPPLIERS (MRO)

Supply Chain
Management Systems:
Private Industrial Networks
Net Marketplaces

Customer Relationship
Management (CRM) Systems

CUSTOMERS

Publishing as Prentice Hall
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