



# **E-commerce**

**business. technology. society.**

*Sixth Edition*

**Kenneth C. Laudon**  
**Carol Guercio Traver**

## **Chapter 2**

### **E-commerce Business Models and Concepts**

## 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

3

## 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?

4



## 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

5



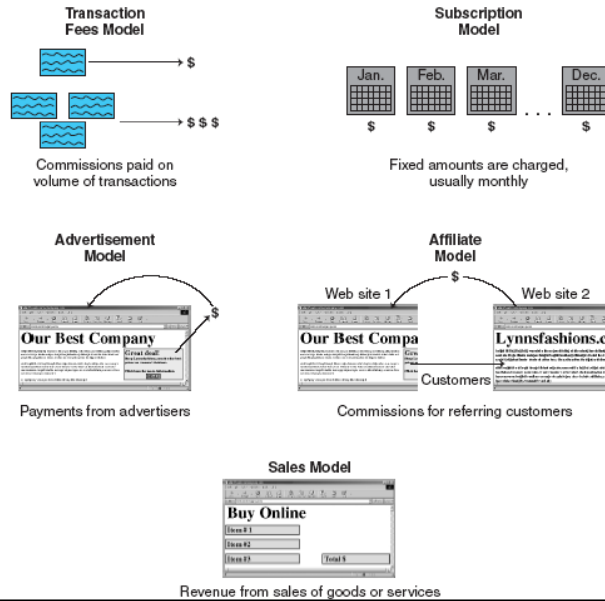
## Revenue Model

- 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

6

## EC Business Models

### EXHIBIT 1.8 Common Revenue Models



7

## 4. Competitive Environment

- Who else occupies your intended marketplace?
  - Other companies selling similar products in the same marketplace
  - Includes both direct and indirect competitors
- Influenced by:
  - how many competitors are active
  - how large their operations are
  - what is the market share for each competitor
  - how profitable these firms are
  - how they price their products
- Includes both **direct** competitors and **indirect** competitors

Copyright © 2010 Pearson  
Education, Inc.

Slide 2-8



## 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
  - 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
- Perfect market: No competitive advantages or asymmetries
  - Asymmetry: One participant in a market has more resources than others
- Leverage: When a company uses its competitive advantage to achieve more advantage in surrounding markets

9



## Let's Talk

- What are Amazon.com's primary customer value propositions?
- Would you say that Amazon.com and eBay.com are direct or indirect competitors?

10



## 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

Copyright © 2010 Pearson  
Education, Inc.

Slide 2-11



## 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
  - Hiring moves from generalists to specialists as company grows

Copyright © 2010 Pearson  
Education, Inc.

Slide 2-12

## 8. Management Team

- What kinds of experiences and background are important for the company's leaders to have?
  - Employees are 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

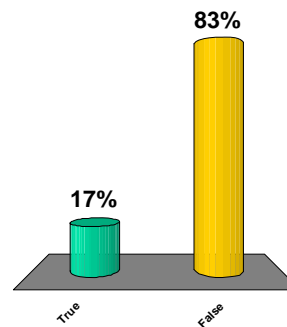
Copyright © 2010 Pearson  
Education, Inc.

Slide 2-13


**A revenue model defines how a company's products or services fulfil the need of customers**

1. True
- 😊 2. False

Correct answer: Value proposition

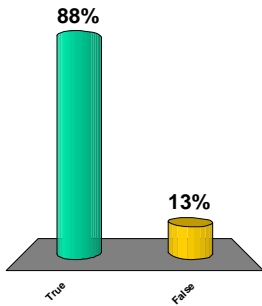


14




**An asymmetry exists whenever one participant in a market has more resources than other participants**

😊 1. True  
2. False



Response	Percentage
True	88%
False	13%

15



**Let's talk**

- Why is it difficult to categorize e-commerce business models?

16





## Categorizing E-commerce Business Models

---

- No one correct way
- We categorize business models according to:
  - E-commerce sector (B2C, B2B, C2C)
  - Type of e-commerce technology; i.e., m-commerce
- Similar business models appear in more than one sector
- Some companies use multiple business models; e.g., eBay

Copyright © 2010 Pearson  
Education, Inc.

Slide 2-17



## EC Business Models

---

- Online direct marketing
- Electronic tendering systems.
- Name your own price
- Find the best price
- Affiliate marketing
- Viral marketing
- Group purchasing
- Online auctions
- Product and service customization
- Electronic marketplaces and exchanges
- Information brokers (intermediaries)
- Bartering
- Deep discounting
- Membership
- Value-chain integrators
- Value-chain service providers
- Supply chain improvers
- Social networks, communities, and blogging
- Direct sale by manufacturers
- Negotiation
- .....More.....

18



## 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
- Portals
  - Yesterday:
    - Sought to be viewed as gateways to the internet
  - Today:
    - Marketed as places where consumers will want to start their Web searching and hopefully stay a long time to read news, find entertainment, etc.
- May be **general (horizontal)** or **specialized (vertical)**
  - General: Yahoo, MSN
  - Specialized: Sailnet- specializing in customer sailboat market
  - Visitors to specialized niche portals tend to spend more money than the average visitor to a horizontal portal. **Why??**

19



## B2C Models: E-tailer

- Online version of traditional retailer
- Revenue model: Sales
- Variations:
  - Virtual merchant
  - Bricks-and-clicks
  - Catalog merchant
  - Manufacturer-direct
- Low barriers to entry
  - Why?

Copyright © 2010 Pearson  
Education, Inc.

Slide 2-20



## B2C Business Models: Content Provider

- Distribute digital content: information and entertainment, over the Web
- Typical revenue models:
  - Subscription
  - Pay for download
  - Advertising
- Variations:
  - Syndication
    - Do not own content, but syndicate (aggregate) and then distribute content produced by others.
  - Web aggregators
    - Collect information from a wide variety of sources, and then add value to that information through post aggregation services
    - Shopping.com collects information on the prices, analyzes and present users with tables showing the range of prices and web locations.
      - Adds value and re-sell this value to advertisers who advertise on its site.

21



## 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

Copyright © 2010 Pearson  
Education, Inc.

Slide 2-22



## B2C Models: Market Creator

- Uses Internet technology to create markets that bring buyers and sellers together
- Build a digital environment in which buyers and sellers can meet, display products, search for products, and establish prices
- Examples:
  - Priceline
  - eBay
- Revenue model: Transaction fees

Copyright © 2010 Pearson  
Education, Inc.

Slide 2-23



## B2C Models: Service Provider

- Online services
  - e.g., Google: Google Maps, Google Docs, and so on
- Value proposition
  - Valuable, convenient, time-saving, low-cost alternatives to traditional service providers
- Revenue models:
  - Some charge a fee, or monthly subscriptions,
  - Others generate revenue from other sources:
    - Advertising
    - Collecting personal information useful in direct marketing

Copyright © 2010 Pearson  
Education, Inc.

Slide 2-24

## B2C Models: Community Provider

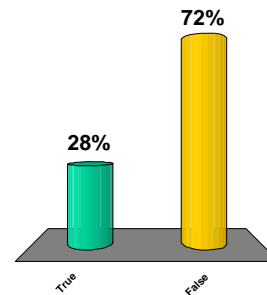
- Provides online environment (social network) where people with similar interests can transact, share content, and communicate
  - E.g., Facebook, MySpace, LinkedIn
- Revenue models:
  - Advertising fees, subscription fees, sales revenues, transaction fees, affiliate fees

Copyright © 2010 Pearson  
Education, Inc.

Slide 2-25

**Visitors to horizontal portals tend to spend more money than the average visitor to a specialized niche portals .**

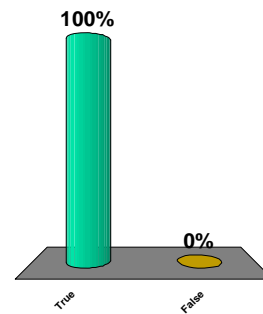
1. True
- 😊 2. False



26

## Barriers to entry into the e-tail marketplace are very low

1. True
2. False



27

## B2B Business Models

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



## B2B Business Models: E-distributor

- Companies that supply products and services directly to individual businesses
- Owned by one company seeking to serve many customers
- Critical mass is a factor
  - The more products and services are available on its website, more attractive the site is to its potential customers
  - One stop shopping is always preferable
- Example: Grainger.com
  - Largest distributor of maintenance, repair and operations (MRO) supplies
- <http://pressroom.grainger.com/phoenix.zhtml?c=194987&p=irol-factsheet>

29



## B2B Business Models: E-procurement

- Creates and sells access to digital electronic markets
  - Includes B2B service providers, application service providers (ASPs)
  - E-procurement Web sites allow qualified and registered users to look for buyers or sellers of goods and services.
  - Depending on the approach, buyers or sellers may specify costs or invite bids.
  - Ongoing purchases may qualify customers for volume discounts or special offers.
  - E-procurement software may make it possible to automate some buying and selling.
- Revenue models:
  - Transaction fees, usage fees, annual licensing fees
- Ariba
  - Software that helps firms organize procurement process

30



## 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 (such as steel, etc)
- Number of exchanges has fallen dramatically

31



## 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

32





## Private Industrial Networks

- Designed to coordinate flow of communication among firms engaged in business together
  - Electronic data interchange (EDI)
- Single firm networks
  - Most common form
  - Example: Wal-Mart's network for suppliers
- Industry-wide networks
  - Often evolve out of industry associations
  - Example: Agentrics

Copyright © 2010 Pearson  
Education, Inc.

Slide 2-33



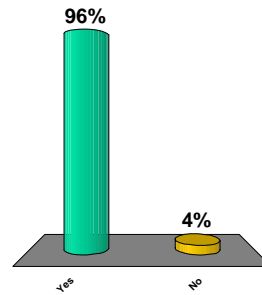
## Business Models in Emerging E-commerce Areas

- Consumer to Consumer (C2C):
  - Provides a way for consumers to sell to each other, with the help of an online marketmaker
  - eBay, Half.com
- Peer-to-Peer (P2P):
  - Links users, enabling them to share files and common resources without a common server
  - Kazaa, Cloudmark
- M-commerce:
  - E-commerce models using wireless technologies
  - PayPal Mobile Checkout, AOL MovieFone
  - Technology platform continues to evolve

34

## It is difficult to classify e-commerce business model

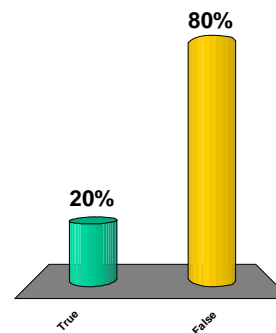
- 1. Yes
- 2. No



35

## The final participants in B2B transactions are consumers.

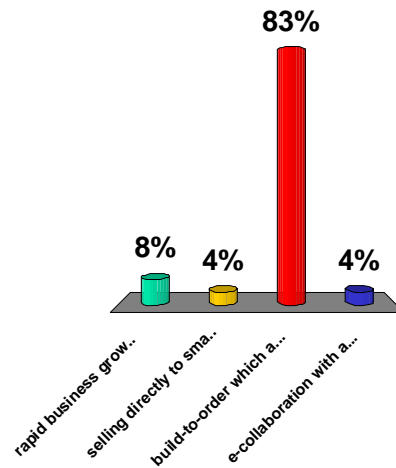
- 1. True
- 2. False



36

## Dell's cornerstone business model is based on the concept of:

1. rapid business growth and threatening competitors.
2. selling directly to small and medium sized businesses.
3. build-to-order which allows customers to configure their own customized systems.
4. e-collaboration with a few select business partners.



37

## E-commerce Enablers: The Gold Rush Model

- E-commerce infrastructure companies:
  - Hardware, software, networking, security
  - E-commerce software systems, payment systems
  - Media solutions, performance enhancement
  - CRM software
  - Databases
  - Hosting services, etc.

Copyright © 2010 Pearson Education, Inc.

Slide 2-38



## E-commerce Enablers: The Gold Rush Model

---

- Group of companies whose business model is focused on providing the 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.

39



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

---

- E-commerce changes industry structure (nature of players in an industry and their relative bargaining power) by changing:
  - Basis of competition among rivals
  - Barriers to entry
  - Threat of new substitute products
  - Strength of suppliers
  - Bargaining power of buyers

40

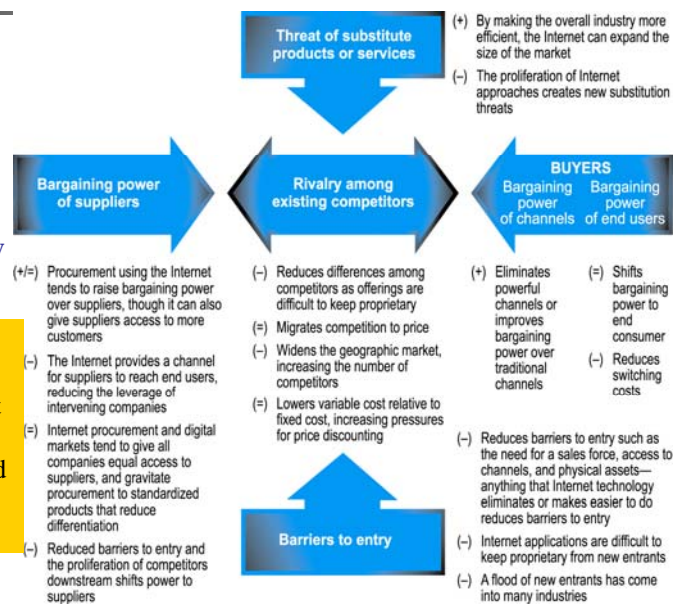
- Industry Structure:

- Refers to the nature of players in an industry and their relative bargaining power
- Characterized by five forces
  - Rivalry among existing competitors
  - Threat of substitute products
  - Barriers to entry into the industry
  - Bargaining power of the supplier
  - Bargaining power of the buyer

### Porters Five Forces Model

#### How the Internet Influences Industry Structure

Inter-firm rivalry is one area of the business environment where e-commerce technologies have had an impact on most industries



SOURCE: Porter, 2001.

## Industry Value Chains

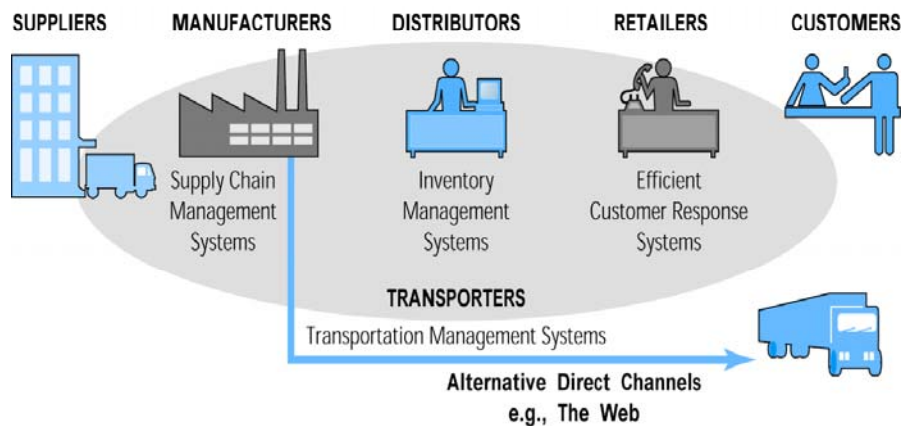
- Set of activities performed by suppliers, manufacturers, transporters, distributors, and retailers that transform raw inputs into final products and services
- Internet reduces cost of information and other transactional costs
- Leads to greater operational efficiencies, lowering cost, prices, adding value for customers

Copyright © 2010 Pearson  
Education, Inc.

Slide 2-43

## E-commerce and Industry Value Chains

Figure 2.5, Page 103



Copyright © 2010 Pearson  
Education, Inc.

Slide 2-44

## 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

Copyright © 2010 Pearson  
Education, Inc.

Slide 2-45

## E-commerce and Firm Value Chains

Figure 2.6, Page 103

Administration  
Human Resources  
Information Systems  
Procurement  
Finance/Accounting

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

### SECONDARY ACTIVITIES

### PRIMARY ACTIVITIES



Inbound  
Logistics



Operations



Outbound  
Logistics



Sales and  
Marketing



After Sales  
Service

46

## Firm Value Webs

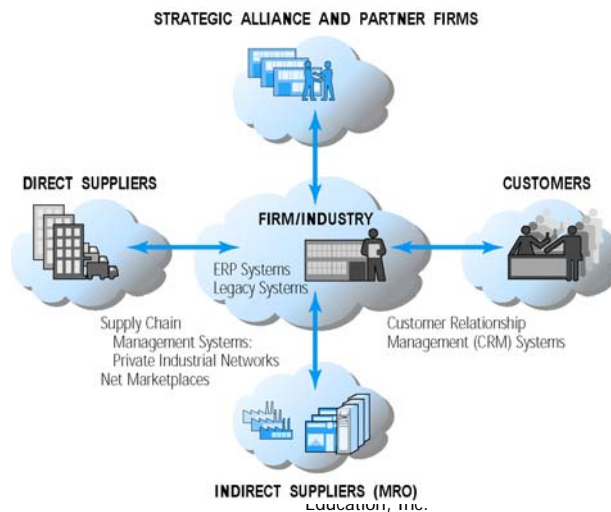
- Networked business ecosystem
- Uses Internet technology to coordinate the value chains of business partners
  - Within an industry
  - Within a group of firms
- Coordinates a firm's suppliers with its own production needs using an Internet-based supply chain management system

Copyright © 2010 Pearson  
Education, Inc.

Slide 2-47

## Internet-Enabled Value Web

Figure 2.7, Page 105

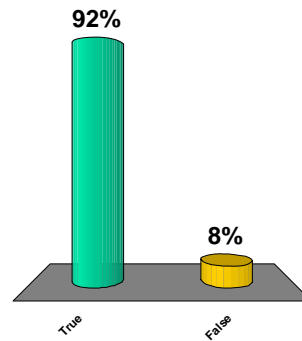


Slide 2-48



**Inter-firm rivalry is one area of the business environment where e-commerce technologies have had an impact on most industries**

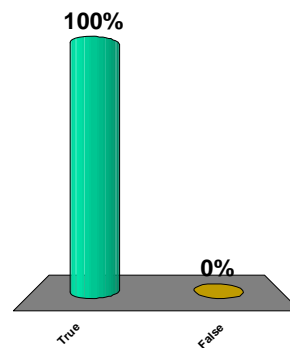
- 1. True
- 2. False



49

**Strong competition and increased power of consumers are two of the major market pressures in today's business environment.**

- 1. True
- 2. False




50



## 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
    - Ways producers can make their products unique and different to distinguish them from those of the competitors
    - Commoditization- No difference among products or service, only basis for choosing a product is price.
  - Cost Competition
    - Business has discovered some unique set of business processes or resources that other firms cannot obtain in the marketplace

51



### Four generic strategies (contd.)

- Scope Strategy
  - Strategy to compete in all markets around the globe, rather than merely in local, regional or national market
  - Yahoo
- Focus
  - Leveraging the Web's rich interactive features to create highly focused messages to different marketing segment
  - Personalization, and customization- Same product can be customized and personalized to fulfill the very focused needs of a specific market segments and customers.

52



## Case Study- Priceline

---

1. What are the core components of Priceline.com's business model?
2. Do you think Priceline will ultimately succeed or fail? Why?
3. How has Priceline (and similar online services) impacted the travel services industry?

Copyright © 2010 Pearson  
Education, Inc.

Slide 2-53