



E-commerce

business. technology. society.

Third Edition

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Chapter 2

E-commerce Business Models and Concepts

Online Groceries: Up from the Embers

Class Discussion

- Why do you think Webvan.com failed?
- Why are more traditional grocery chains succeeding today?
- Why would online customers pay the same prices as in the stores plus pay delivery charges? What's the benefit to the customer?
- What are the important success factors for FreshDirect?
- Do you think FreshDirect would work in your town?



E-commerce Business Models—Definitions

- Business model: set of planned activities designed to result in a profit in a marketplace
- Business plan: document that describes a firm's business model
- E-commerce business model: aims to use and leverage the unique qualities of Internet and Web

Key Ingredients of a Business Model

Table 2.1, Page 59

TABLE 2.1 KEY INGREDIENTS 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 costs
 - Reduction of price discover costs
 - Facilitation of transactions by managing product delivery



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



Market Opportunity

- Refers to a company's intended marketspace and the overall potential financial opportunities available to the firm in that marketspace
- Marketspace: the area of actual or potential commercial value in which a company intends to operate
- Realistic market opportunity is defined by revenue potential in each of market niches in which company hopes to compete



Competitive Environment

- Refers to the other companies selling similar products and operating in the same marketplace
- 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

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
- 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

- A 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

- Describes how the company will organize the work that needs to be accomplished
- Work is typically divided into functional departments
- Move from generalists to specialists as the company grows



Management Team

- Employees of the company responsible for making the business model work
- Strong management team gives instant credibility to outside investors
- A 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
- Some companies use multiple business models



B2C Business Models: Portal

- Offers powerful search tools plus an integrated package of content and services
- Typically utilizes a combines subscription/advertising revenues/transaction fee model
- May be general or specialized (vortal)



B2C Business Models: E-tailer

- Online version of traditional retailer
- Types include:
 - Virtual merchants
 - Bricks-and-clicks
 - Catalog merchants
 - Manufacturer-direct



B2C Business Models: Content Provider

- Information and entertainment companies that provide digital content over the Web
- Typically utilizes a subscription, pay for download, or advertising revenue model
- Syndication a variation of standard content provider model



B2C Business Models: Transaction Broker

- Processes online transactions for consumers
- Primary value proposition—saving of time and money
- Typical revenue model—transaction fee
- Industries using this model include:
 - 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.com
 - eBay.com
- Typically uses a transaction fee revenue model



B2C Business Models: Service Provider

- Offers services online
- Value proposition: valuable, convenient, time-saving, low-cost alternatives to traditional service providers
- Revenue models: subscription fees or one-time payment



B2C Business Models: Community Provider

- Sites that create a digital online environment where people with similar interests can transact, communicate, and receive interest-related information.
- Typically rely on a hybrid revenue model
- Examples:
 - iVillage.com
 - Friendster.com
 - About.com

Insight on Technology: Search Engine Wars, Round 3

Class Discussion

- How many of you use Google, Yahoo!, or MSN 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 do people stay longer at Yahoo and MSN.com when compared to Google? Does this give them an advantage?



B2B Business Models: E-distributor

- Company that supplies products and services directly to individual businesses
- Owned by one company seeking to serve many customers
- Example: Grainger.com



B2B Business Models: E-procurement Companies

- Create and sell access to digital electronic markets
- B2B service provider is one type: offer purchasing firms sophisticated set of sourcing and supply chain management tools
- Application service providers: a subset of B2B service providers
- Example:
 - Ariba



B2B Business Models: Exchanges

- An electronic digital marketplace where suppliers and commercial purchasers can conduct transactions
- Usually owned by independent firms whose business is making a market
- Generate revenue by charging transaction fees
- Usually serve a single vertical industry
- Number of exchanges has fallen to around 200 in 2005



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?



B2B Business Models: Industry Consortia

- Industry-owned vertical marketplaces that serve specific industries
- Horizontal marketplaces, in contrast, sell specific products and services to a wide range of industries
- Example: Exostar



B2B Business Models: Private Industrial Networks

- Digital networks (usually, but not always Internet-based) designed to coordinate the flow of communications among firms engaged in business together
- Single firm network: the most common form (Example: Walmart)
- Industry-wide networks: often evolve out of industry associations (Example: Agentrics)



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 such as eBay.com
- Peer-to-Peer (P2P): Links users, enabling them to share files and common resources without a common server
- M-commerce: Takes traditional e-commerce business models and leverages emerging new wireless technologies
- To date, a disappointment in the United States; however, technology platform continues to evolve



Insight on Society: Is Privacy Possible in a Wireless World

Class Discussion

- Why should you care if companies and government agencies track your cell phone? What is the threat if you are not doing anything wrong?
- What is the “opt-in” principle and how does it protect privacy?
- Should business firms be allowed to call cell phones with advertising messages based on location?
- Should customer location information be protected from government agencies?



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
- Provide 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



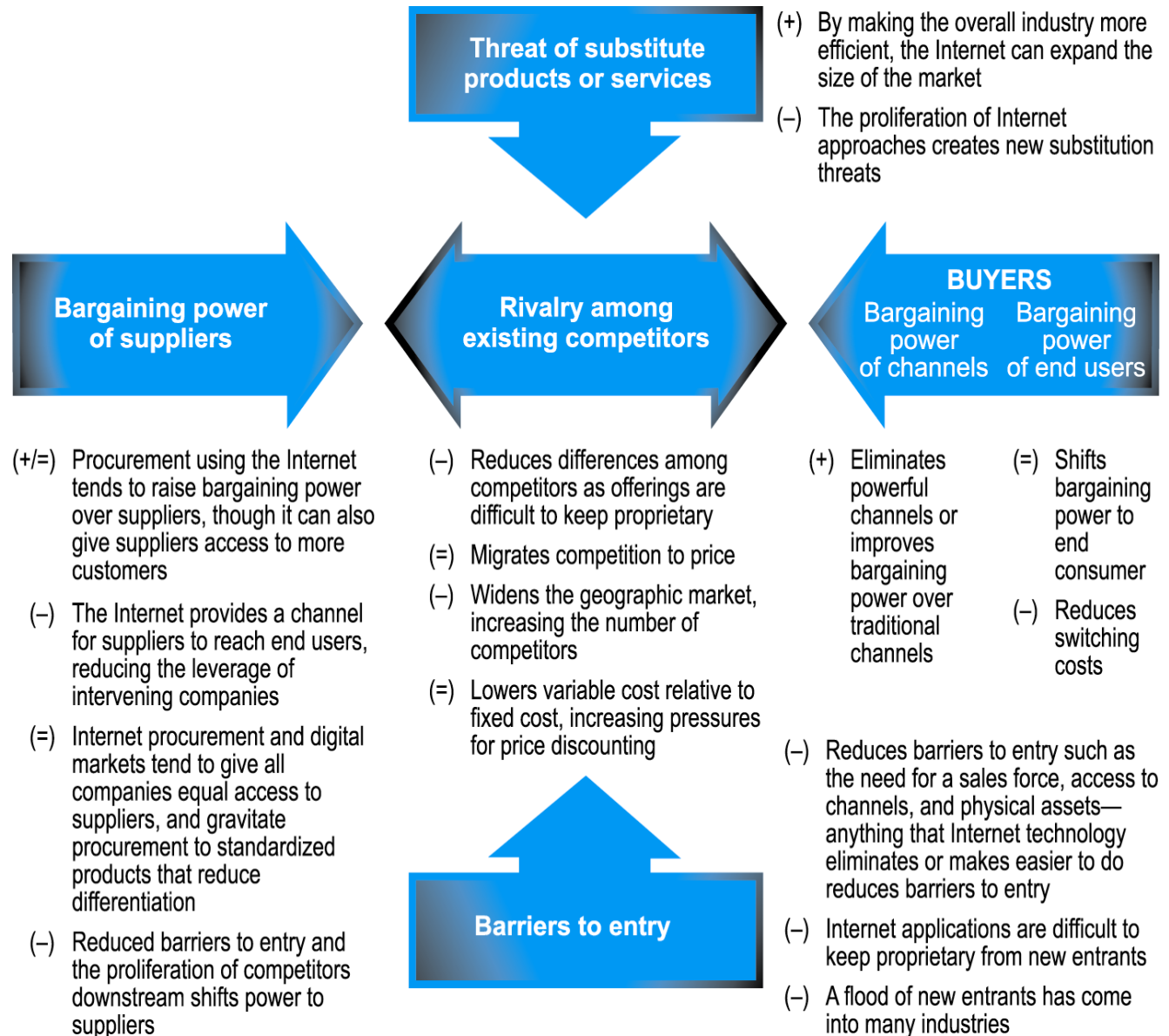
Industry Structure

- E-commerce changes the nature of players in an industry and their relative bargaining power by changing:
 - the basis of competition among rivals
 - 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

**Figure 2.5,
Page 91**

SOURCE: Porter, 2001.



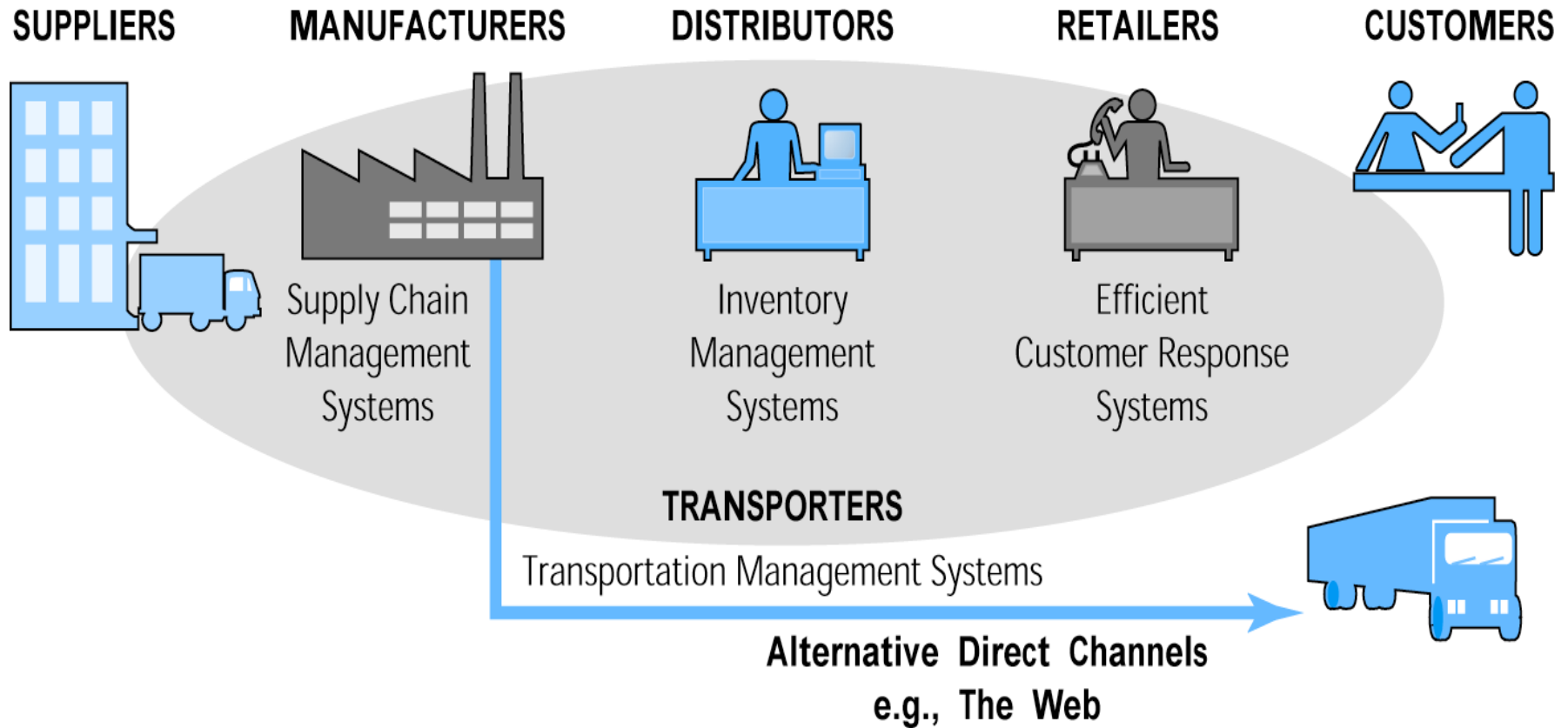


Industry Value Chains

- A set of activities performed in an industry by suppliers, manufacturers, transporters, distributors, and retailers that transform raw inputs into final products and services
- Reduces the cost of information and other transactional costs

E-commerce and Industry Value Chains

Figure 2.6, Page 93





Firm Value Chains

- A set of activities that a firm engages in to create final products from raw inputs
- Increases operational efficiency

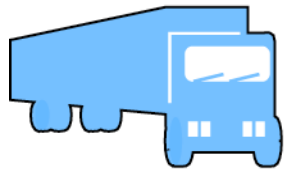
E-commerce and Firm Value Chains

Figure 2.7, Page 95

Administration
Human Resources
Information Systems
Procurement
Finance/Accounting

SECONDARY ACTIVITIES

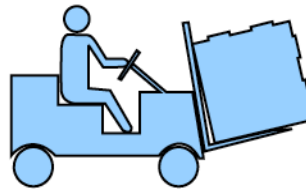
PRIMARY ACTIVITIES



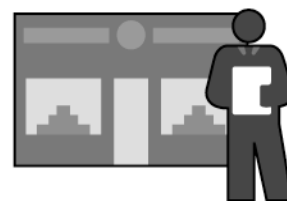
**Inbound
Logistics**



Operations



**Outbound
Logistics**



**Sales and
Marketing**



**After Sales
Service**



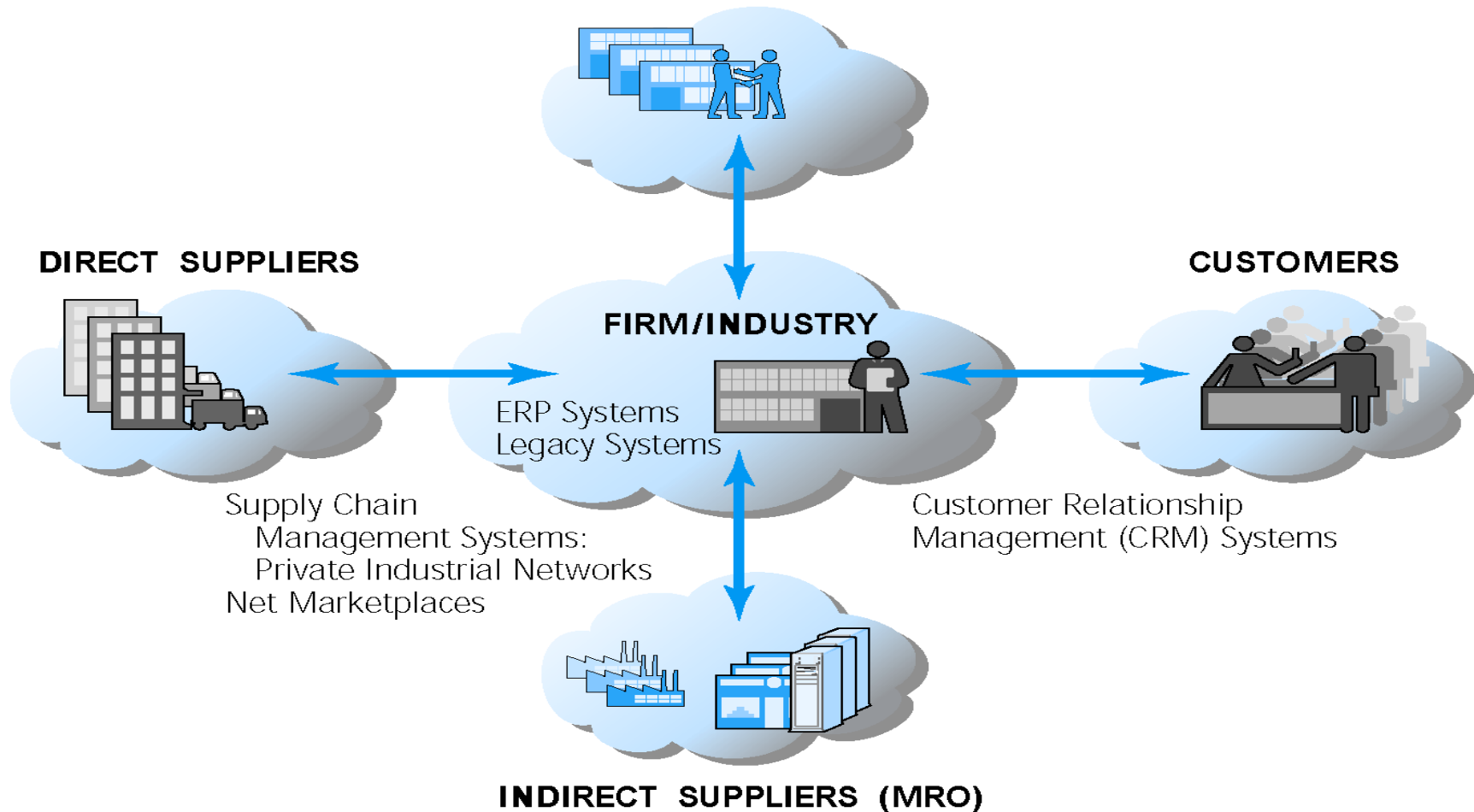
Firm Value Webs

- A 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 2.8, Page 96

STRATEGIC ALLIANCE AND PARTNER FIRMS





Business Strategy

- A 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