



E-commerce

business. technology. society.

Fifth 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 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?

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

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 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

Competitive Environment

- Refers to the other companies selling similar products and operating in the same marketplace
- Influenced by:
 - Number of active competitors
 - Each competitor's market share
 - Competitors' profitability
 - Competitors' pricing
- 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
 - First mover advantage
 - Unfair competitive advantage
- Perfect market: No competitive advantages or asymmetries
- Leverage: When a company uses its competitive advantage to achieve more advantage in surrounding markets

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

- 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
 - Bricks-and-clicks
 - Catalog merchants
 - Manufacturer-direct
- 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
 - 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



Insight on Technology

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?

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

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

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?

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

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

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 have profited the most, providing:
 - Hardware, software, networking, security
 - E-commerce software systems, payment systems,
 - Databases
 - Hosting services, etc.



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?

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

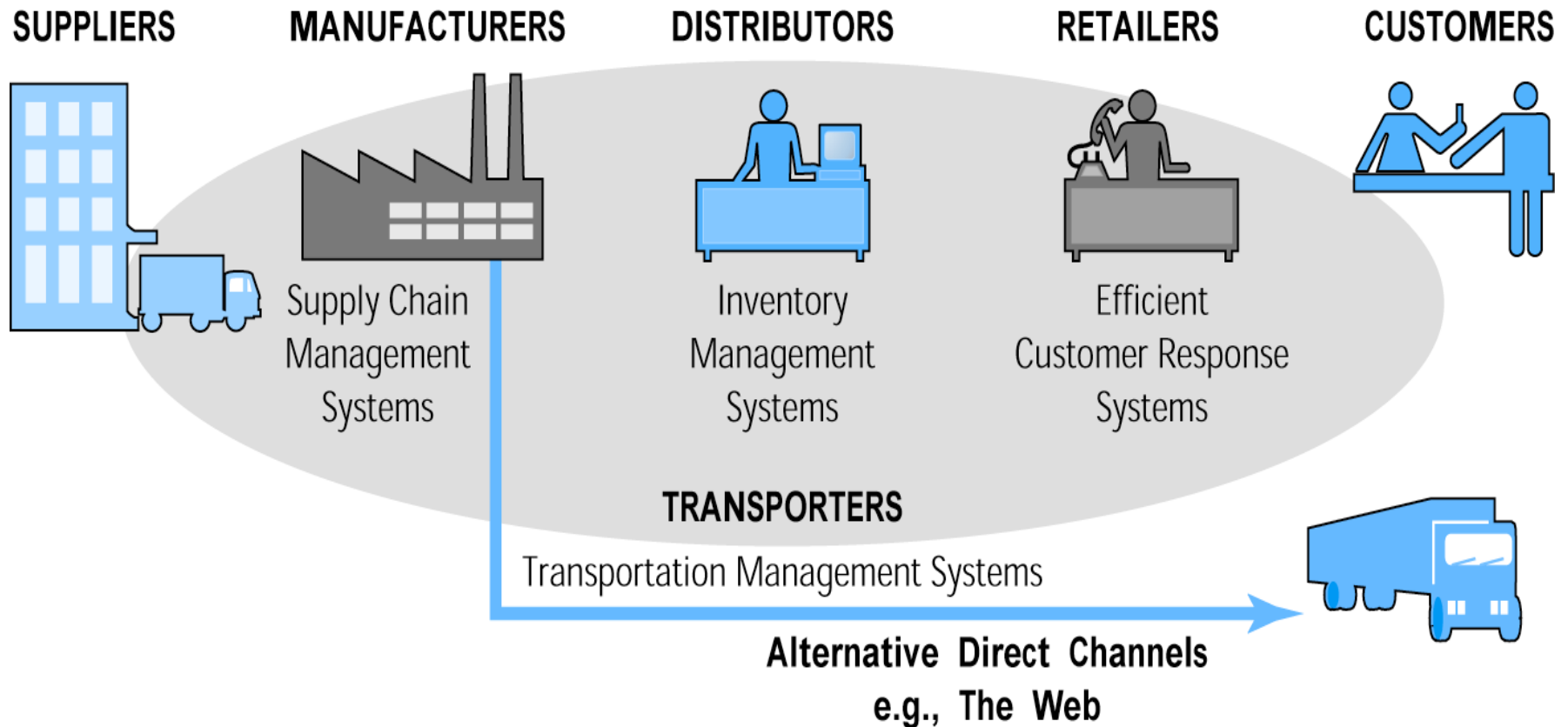
- E-commerce changes nature of players in an industry and their relative bargaining power by changing:
 - Basis of competition among rivals
 - Barriers to entry
 - Threat of new substitute products
 - Strength of suppliers
 - Bargaining power of buyers

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

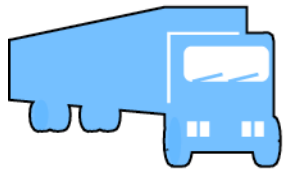
E-commerce and Firm Value Chains

Figure 2.6, Page 103

Administration
Human Resources
Information Systems
Procurement
Finance/Accounting

SECONDARY ACTIVITIES

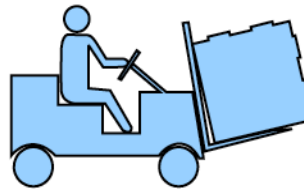
PRIMARY ACTIVITIES



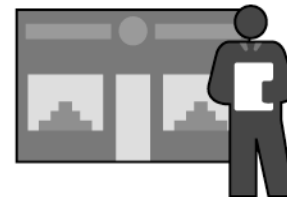
Inbound
Logistics



Operations



Outbound
Logistics



Sales and
Marketing



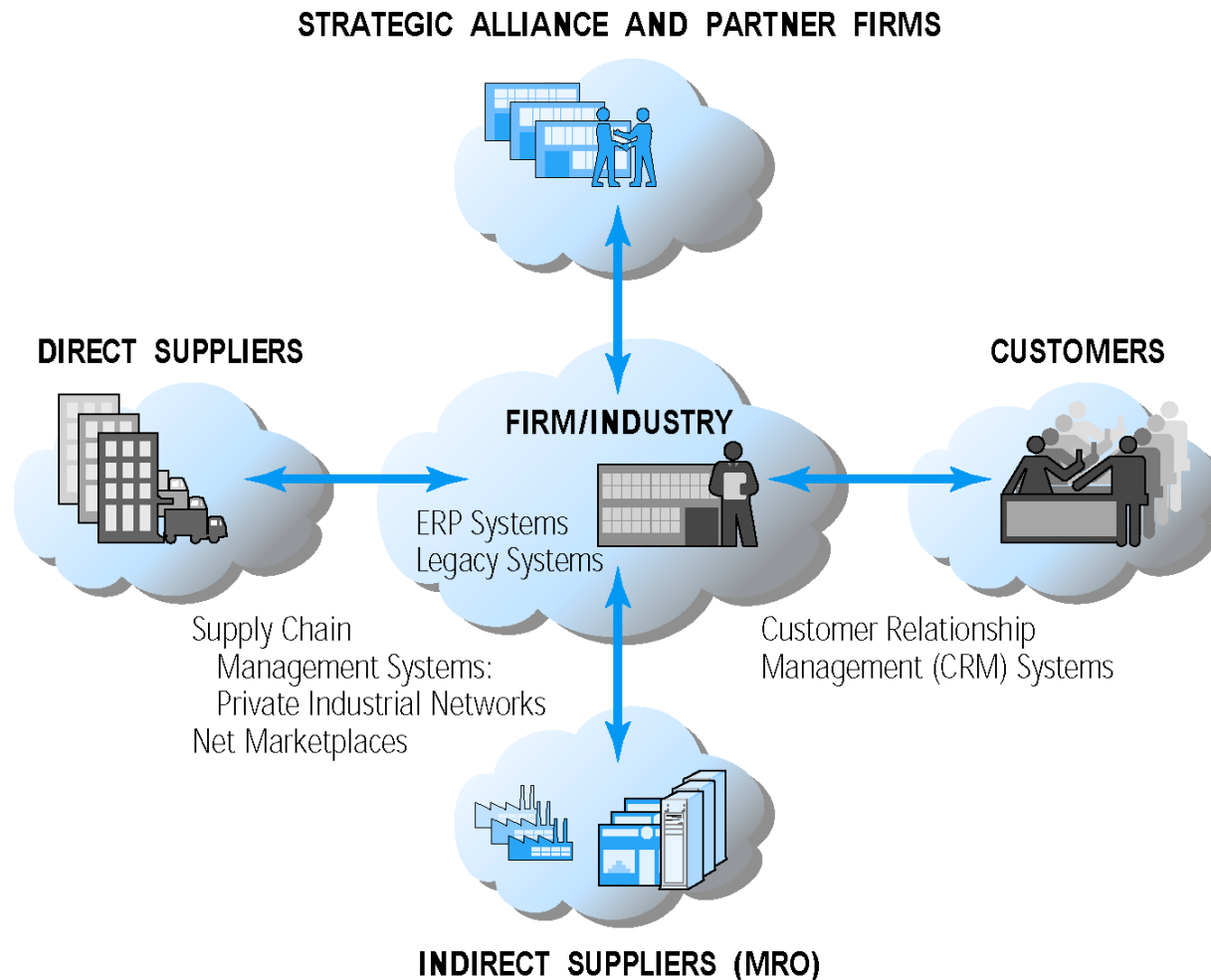
After Sales
Service

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

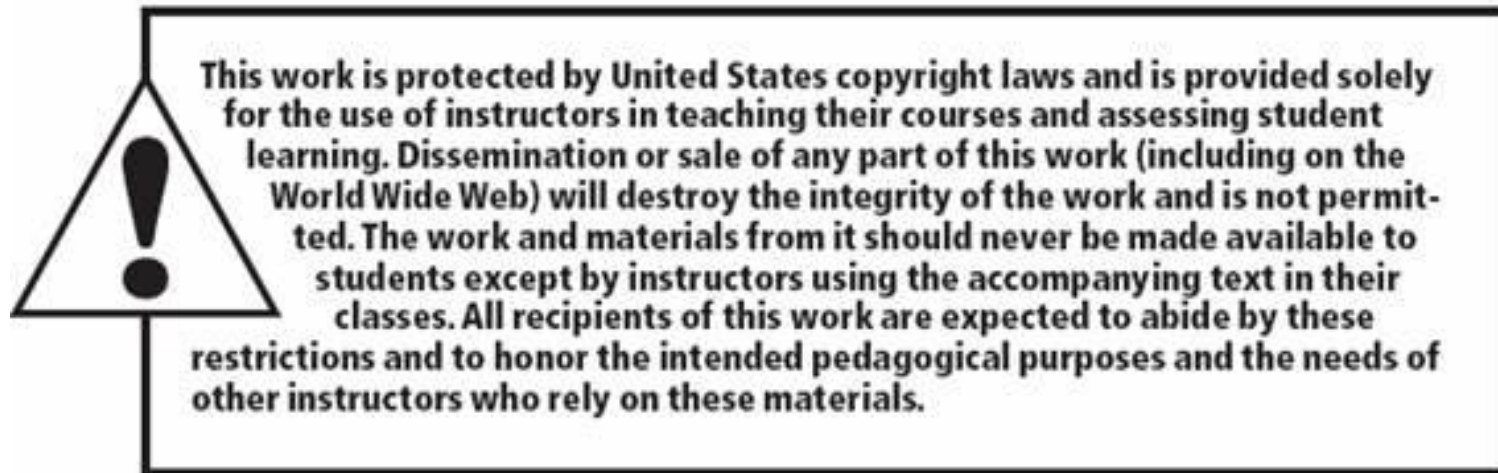
Internet-Enabled Value Web

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



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Publishing as Prentice Hall