


Ecommerce Business Models

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Business models for Ecommerce

- **Developing business models** 
 - What is a business model
 - What to consider
 - How it can affect the organization
 - Benefits to the organization
- **Types of business models**
 - Business → consumer
 - Business → business
 - Transaction based
- **Business model issues**

What is a business model?

- **The structure, processes and actions by which an organization operates in its marketplace**
- **A business model is a representation of the activities of a business.**
- **In very general terms, the three basic modeling products are:**
 - Activity models – what a business does
 - Process models – how a business accomplishes (does) what it does
 - Data models – ensure that activities and processes behave as intended

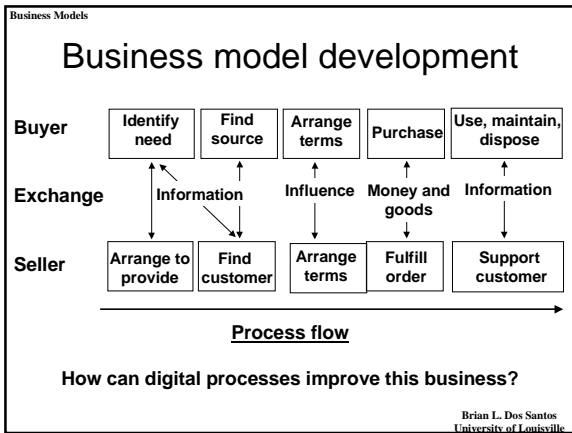
Business Models

What to consider?

A business model must consider three segments

- Buy-side } Payment direction
- Sell-side }
 - With whom is commerce being conducted (suppliers or customers?) Business may be transacted with both
- Product – the “stuff” of the transaction
 - What is it?
 - How will it be priced?
 - How will it be advertised?
 - How will it be sold, delivered and supported?

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Business Models

Developing an Ecommerce Business Model

- Ecommerce strategies are best when driven by business, not technology, concerns.
 - One way is to dissect the buying/selling process into its various elements, from the buying side and the selling side, and with your customers and suppliers.
 - Then, think about how you can apply each to the Web
 - Determine how your customer needs are changing from a business perspective
 - Then think about how the Web can help you address them

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Affect on the Organization

- **A new business model can enable a firm to**
 - Generate growth opportunities
 - Respond flexibly
 - Capture new opportunities quickly and profitably
- **It can be an effective in managing knowledge and people processes**
- **It is characterized by the interdependence, rather than independence, of its parts**
 - Each part of the firm is a contributor to value
 - This requires new roles for each of the firm's parts so that they can work together in new ways to help the company's resource base grow.

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Who should handle it?

- **Ecommerce efforts must be handled by a separate "Ecommerce Group"**
 - If IT drives, the customer focus will be short-changed
 - If marketing drives, the effort necessary to build and maintain a presence will be short-changed
- **The Ecommerce group must maintain strong links to other corporate functions**
 - It needs to manage the intermediaries involved
 - It must, in effect, become the central source for best practices in the company and help propagate new practices within the organization

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Benefits of an Ecommerce business model

- **Distribution**
 - The use of the Web as a distribution channel reduces distribution costs, or cost-of-sales shrink to near-zero.
 - Examples include: publishing, information services or digital products categories
 - Products/services can be delivered immediately
 - This may lead to massive disintermediation or even the eventual elimination of middlemen
 - Buyers and sellers can access and contact each other directly, potentially eliminating some costs and constraints of phone, letter and fax


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Benefits of an Ecommerce business model

- **Selling**
 - More of the selling function is in the hands of the customer, through online ordering and the use of fill-out forms
 - This also allows the capture of customer information
 - Firms can engage in a “dialog” or communications with buyers
- **Competitive intelligence**
 - Web technology allows one to gather market intelligence and monitor consumer choices through customers’ revealed preferences when browsing and buying

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Business → Consumer

- **The type of Ecommerce business model that most of us are familiar with is the B2C model. Examples include:**
 - E-shops
 - E-malls
 - 3rd party marketplace
 - Virtual communities
 - Information brokerage and other services

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The E-shop

Web marketing of a company or shop

- The primary objective is to promote the goods or services of the company and to take orders and accept payment (extend reach & increase convenience) (e.g., Servicemerchandise.com)
 - It is often combined with traditional marketing channels
 - Challenge is to develop strategies to increase demand
 - Other objectives include cost-reduction of promotion and sales
 - Revenues are from reduced cost, increased sales, and possibly advertising

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The E-mall

- It is a collection of e-shops, under a common umbrella, for example of a well-known brand (e.g., eMall.com)
 - Might be enriched by a common, guaranteed, payment method.
 - Might have a single entry point to individual e-shops
 - Industry marketplace: When shops belong to a certain market segment
 - They can have virtual community features (FAQ, discussion forums, closed user groups, ...)
 - Revenues are from membership fee, advertising, and transactions fees (if payments are processed by the mall provider).

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3rd party marketplace

- It is an emerging model - for companies wishing to leave the Web marketing end of the operations to a 3rd party (Yahoo)
 - It frequently is an add-on to their other channels.
 - It is a user interface to a company's product catalogues
 - It can be enhanced by special marketing features, branding, payment, logistics, ordering, and the full scale of secure transactions
 - Revenues can be generated on the basis of one-off membership fee, service fees, or percentage on transaction value

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Virtual communities

- **The value added is to the members (customers or partners)**
 - They add their information into a basic environment provided by the virtual community company
 - Membership fees and advertising generate revenues
 - Virtual communities can also be an important addition to other marketing operations
 - It can be used to build customer loyalty and receive customer feedback

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Information brokerage and other services

- **These companies add value to data available on the open networks or coming from integrated business operations**
 - Examples include customer profiling, business opportunities brokerage, investment advice, competitive intelligence
 - Usually information and consultancy are directly paid for either through subscription or on a pay-per-use basis
 - Some companies are experimenting with advertising schemes

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Business — Business

- **A less familiar Ecommerce business model to most of us is the B2B model. Examples include:**
 - E-procurement
 - Value-chain service provider
 - Value chain integrators
 - Collaboration platforms
- **Most knowledgeable observers concur that this is the segment where most of the action will be over the next few years.**

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E-procurement

- They help with electronic procurement
- Electronic Data Interchange is the model
 - Value added is the key
- Typical EDI applications have focused on an industry
- Opportunities exist for expanding the scope to go across multiple industries
- Create new, specialized markets

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Value chain service provider

- They provide a specific function for the value chain
- It could be secure electronic payments, credit card processing, or logistics
 - For example, banks have done this offline
- New approaches are also emerging in production/stock management where the specialized expertise required to analyze and tune production
- A fee or percentage based scheme is the basis for revenues

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Value chain integrators

- They focus on integrating multiple steps of the value chain
- They will provide several business processes within a single corporate entity
 - Secure transactions, credit card processing, and server log analysis
- Revenues are obtained from consultancy fees, long term contracts, or possibly pay-as-you-go transaction fees.

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Collaboration platforms

- A company provides a sets of tools, expertise, and an information environment for collaboration between enterprises
 - Focus on specific functions, such as collaborative design and engineering
 - Provide technologies such as net audio/video conferencing, shared whiteboards, distributed GDSS
 - One business opportunity is managing the platform and collecting membership and usage fees
 - Another is charging for providing expertise
 - A third is selling or licensing the specialist tools (e.g. for design, workflow, document management)

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Transaction based business models

- The merchandise sales model
- The per use model
- The timed usage model
- The subscription model
- The advertising model
- The auction model
- The sponsorship model
- The public support model

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The merchandise sales model

- This is organized around the sale of goods or services in exchange for money or other value given at the time of the transaction.
 - Examples are “virtual storefronts” and “on-line catalogs”
 - This model is probably the most common type of on-line commerce today because of its ease of use and familiarity to consumers

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The per use model

- **This is similar to the Merchandise Sales model except that consumers do not own the goods or services they use**
 - Technology has not yet evolved to allow widespread deployment of this model
 - It will become increasingly prevalent on-line when hardware and bandwidth advances to the point where customers can access resources on-line cheaply and easily
 - Purchase of a product will no longer be necessary
 - Video or music “on demand”
 - Software

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The timed usage model

- **This model is appropriate for service businesses providing customized information or recreational opportunities which require more than one visit**
 - It works well when consumers are interested in frequent or prolonged access to the resources and will invest time in customizing and/or exploring the service
 - Commercial ISPs use this to build on-line communities where people spend long periods of time
 - They also seek repeat users to maximize their revenue
 - Examples are interactive gaming environments or news searching functions for which people are willing to pay

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The subscription model

- **Subscription models are borrowed from publishing**
 - It is primarily applicable to businesses offering products (as opposed to services)
 - Consumers are interested in receiving various versions of the merchandise offered on an on-going basis
 - It is based on the assumption that the products offered will be modified or updated on a continuing basis.
 - It is most effective for internetpreneurs interested in providing information-based products which require regular updating.
 - Magazines with commentary or serialized entertainment are common examples

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The advertising model

- **This model is familiar to most consumers**
- **Two primary factors**
 - The business must be one which provides space for the advertiser to place its logo or somehow convey its message to customers
 - The business must provide the advertiser with a consumer audience which it finds attractive and appropriate for the products it is promoting
- **Advertising is a business model with application appropriate primarily for service-oriented on-line businesses**

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The auction model

- **The site provides the “virtual space” for an ongoing auction**
- **People register with the site to participate**
 - All types of digital and non-digital products are being sold
- **The site makes money by taking a commission on all sales**
- **The development of trust is essential to the success of this business model**
 - There are different strategies for managing trust in e-auctions

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The sponsorship model

- **Sponsorship is an ideal way to launch a business**
- **The on-line environment must be so attractive that advertisers are willing to invest money for the courtesy of public acknowledgement of their support**
 - It generally suggests that the sponsor is seeking to create an affiliation with your business in the minds of customers rather than directly attempting to push its own products
 - Also, the recipient has less obligation to the sponsor than it would to an advertiser in terms of showcasing the sponsor’s own products or services


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The public support model

- **Public service-oriented organizations should consider adopting this model to fund their operations**
 - The on-line world will generate demand for alternative information, entertainment, and other resources which will best be supported by contributions directly from the public
 - This model can ensure that less advantaged members of society receive their share of access to on-line resources

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III. Business model issues

- **Assumption: The net is causing disruption in very many sectors of the economy**
- **Challenge: To act in the face of this disruption (instead of react)**
- **Issues:**

Revenue balance	Cost of business
Customer loyalty	Organizational models
Lock-in	Customer value
Partnerships	Investments

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Revenue balance

- **What percentage of your revenues will you generate from the web by next year?**
- **5 years hence? 10 years hence?**
 - This is an indication of the importance of the web as a sales channel in your overall organization
- **Cost: The more you rely on the web, the more likely it is that you will be disrupting traditional distribution and sales channels**
 - Disintermediation
 - Changes in organizational structure and process

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Cost of business

- **How much can costs be lowered using the web?**
 - Administration, Sales, Customer support, Advertising, Accounting, Human resources, suppliers
- **Strategy: Force them to use the web:**
 - Ex: moving customer support to the web and discontinuing phone support
- **Cost: There will be a period of adjustment for employees, suppliers and customers**

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Customer loyalty

- **How can you build and maintain relationships with customers?**
 - Assumption: customers are important and the main goals are to draw them in and make them return
- **Strategy: engage in activities designed to build trust and encourage repeated visits**
 - Ex: 24/7 customer support
 - Ex: Clear privacy policies
- **Cost: The expense of finding out about customers**

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Organizational models

- **How must you change your organizational structure and culture to handle Ecommerce**
 - **Strategy: Develop digital business processes**
 - Ex: link the customer transaction cycle to both financial services and inventory control
 - Ex: use web-based technologies to allow HR to deliver real-time digital training
- **Cost: There will be a disruption of business as usual as new workflow processes, job functions, and patterns of organizational communication replace old ones**

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Lock-in

- **Stickiness**
 - How do you get them to stay?
- **Lock-in**
 - What do you provide for them that makes it hard for them to leave?
- **Switching costs**
 - How do you estimate the threshold at which it's worth it for your customer to go elsewhere?

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Customer value

- **What kinds of digital services can be created for customers, partners, suppliers?**
 - **Strategy: Taking advantage of new technologies to provide new ways to interact**
 - **Ex: personalized content, order tracking, interactive catalogs, real-time education, customer support, return policies, web conferencing**
- **Cost: There will be new processes and work functions that will be needed to support these activities**

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Partnerships

- **What kinds should you pursue and with whom?**
 - **Assumption:** these will be both long and short term alliances
- **Strategy: Develop a good understanding of those businesses that are “synergistic” and those that compete with you**
 - **You may be partnering with both!!!**
 - Ex: co-branding for specific market segments, joining sales or industry associations (CommerceNet)
 - Ex: partner with companies in your virtual value chain

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Investments

- **How much money should you commit to digital ventures?**
 - **Strategy:** Think strategically about the greatest returns on investment (ROI)
 - Ex: Some \$ goes into R&D and some to seed startups
 - This is a way to use the marketplace as a large R&D lab
- **Even when a company goes under, you should be learning from their failure**
- **Cost: You’ll lose some money**

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What this means for a small business?

- **Avoid over-engineering**
 - A common mistake is to attempt to develop a site that turns out to be too complex to ever be implemented
- **Don’t bite off more than you can chew**
 - Go with a high-quality store-hosting service so they can worry about security, hardware, and software issues
- **Forcing a square peg into a round hole**
 - Just because a product sells well in retail doesn’t mean it sells on the net

http://www.Ecommercetimes.com/small_business/getting_started/deadly-sins-a.shtml

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Design faux-pas

- A well-designed interface is essential
- Without a professional, marketing-oriented and easy-to-use page layout, even the most sophisticated back-end technologies will be of no use in driving sales
- Neglecting the telephone number
 - For many online stores the point-of-sale is not online
 - A typical scenario is that the shopper browses through the site, researches and compares values
 - The actual purchase order is placed over the phone

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Summary

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