

A Trilogy: Transactions in Ecommerce Business Models

by
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The Customer Model

- Industrial Business Models typically bundle information with a physical product
- Have a customer focus
 - The conventional business model in an industrial economy has had the customer as the central figure and focus of a business.
- Where the customer
 - is the entity with which the firm trades what it produces.
 - pays for the output.

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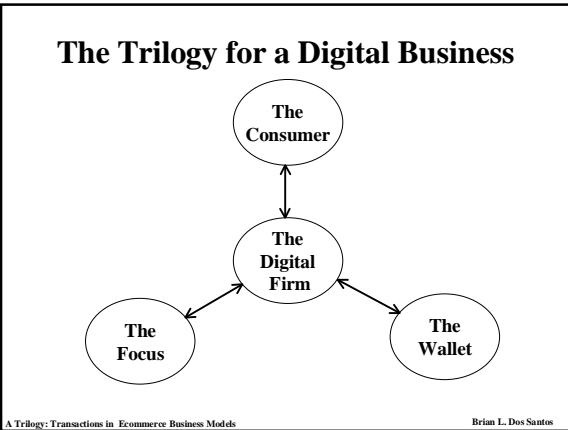
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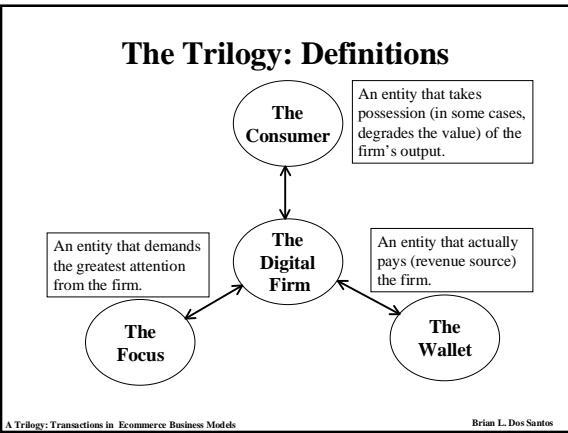
The Digital Economy

- Is rapidly reducing the efficacy of the customer model.
- Who is the customer if you are:
 - Yahoo, Inc.
 - Priceline.com
 - Name your dotcom
- Pre-Internet Analogy - who is the customer if you are:
 - NBC, ABC, ESPN?

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The Trilogy: Key Questions

- What determines whether we have three, distinct entities to deal with?

OR, at the other extreme,
- What determines whether we have just one entity to deal with?

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The Trilogy: Key Issues

- The economics of digital goods are critical.
 - Fixed/variable costs, network effects, lock-in, etc. are important to understand.
- Pricing is a critical issue.
 - Price at value, not cost.
 - But price is determined by: $\text{Minimum}\{\text{value, competitor's prices}\}$.

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The Trilogy: Consumer

- A consumer is an entity that
 - uses your product and degrades its value
 - e.g., you are the consumer, when you take delivery of an automobile and drive it off the lot.
 - not the automobile dealer (who takes delivery of the product, does something to it and increases its value).
 - visitors to your website often are your consumers

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The Trilogy: Focus

- A focus is an entity that you must pay the greatest attention to.
 - In the conventional business environment, we often refer to this entity as the customer.
 - It could be the consumer, but it does not have to be so. For example, if you are selling a “hot” toy, your focus is the toy manufacturer. The consumer will show up if you have the toy.
 - In an Ecommerce environment, we encounter many more instances where the consumer and the focus are separate entities.

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The Trilogy: Wallet

- A wallet is an entity that actually pays you, is the source of your revenues.
 - In the conventional business environment, this most often is the customer.
 - In an Ecommerce environment however, we encounter numerous instances where the consumer and the wallet are separate entities.

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Key Questions

- Under what conditions can the consumer and the wallet be the same entity?
- Under what conditions are the consumer and the focus the same entity?
- Under what conditions can the consumer, the focus and the wallet be the same entity?

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Key Considerations

- Factors that affect the Trilogy
 - Product characteristics
 - static versus dynamic
 - commodity versus unique
 - monopoly versus market
 - Firm characteristics
 - immediate financial needs or can survive for some time without significant revenue
 - long-term versus a hit-and-run business

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Key Considerations

- Factors that affect the Trilogy (contd.)
 - Consumer characteristics
 - have some common characteristics or cannot be characterized
 - deep versus shallow pockets
 - repeat versus one-time

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Examples

- Priceline.com
 - consumer is the buyer of its products
 - focus is the producer/vendor of the products it sells
 - wallet is the consumer and the producer/vendor
- Hotmail.com
 - Consumer/focus is the email user
 - wallet is the advertiser

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Examples

- Amazon.com
 - consumer is the buyer of the products it sells
 - wallet is the consumer and the advertiser
 - focus is the vendor and the consumer
- Netzero
 - consumer is the Internet user
 - wallet is the advertiser
 - focus is the consumer, the wallet and computer manufacturers

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