E-COMMERCE BUSINESS MODELS :--

A Business model is a set of planned activities designed to result in a profit in a marketplace. A business model is not always the same as a business strategy although in some cases they are very close insofar as the business model explicitly takes into account the competitive environment. The business model is at the center of the business plan.

- **<u>Eight Key Ingredients of a Business Model</u> :-**

  If you hope to develop a successful business model in any area, not just e-commerce, you must make sure that the model effectively addresses the eight element.

(1) Value Proposition :-- A company's value proposition is at the very heart of its business model. A value proposition defines how a company's product or service fulfills the needs of customers. To develop or analyze a firms value proposition, you need to understand why customers will choose to do business with the firm instead of another company and what the firm provides that other firms do not and cannot. A successful value proposition include: personalization and customization of product offerings, reduction of product search cost, reduction of price discovery costs and facilitation of transactions by managing product delivery. Ex:-- Before Amazon.com existed, most customers personally traveled to book retailers to place an order. In some cases, the desired book might not be available and the customer would have to wait several days or weeks, and then return to the bookstore to pick it up. But Amazon makes it possible for book lovers to shop for virtually any book in print from the comfort of their home or office, 24 hours a day, and to know immediately whether a book is in stock.

(2) Revenue Model:-- A firms Revenue model describes how the firm will earn revenue, generate profits and produce a superior return on invested capital. The function of business organization is both to generate profits and to produce returns on invested capital that exceed alternative investments. Profits alone are not sufficient to make a company "successful". In order to be considered successful, a firm must produce returns greater than alternative investments. The profits from the business constitute the return on invested capital, and these returns must be greater than the merchant could obtain elsewhere say by investing in real estate or just putting the money into a savings account.

- **The Following are the Major Revenue Model :--**

(a) Advertising Revenue Model :-- A website that offers its users content, services, and products also provides a forum for advertisements and receives fees from advertisers. Those web sites that are able to attract the greatest viewer ship or that have a highly specialized, differentiated viewer ship and are able to retain user attention are able to charge higher advertising rates. Ex: yahoo..

(b) Subscription Revenue Model :-- A websites or company offers its users content or services and charges a subscription fee for access to some or all of its offerings.

(c) Transaction fee Revenue Model :-- A company receives a fee for enabling or executing a transaction. For Ex: an Online Stockbroker, receives transaction fees each time it executes a stock transaction on behalf of a customer.

(d) Sales Revenue Model :-- A company derives revenue by selling goods, information or services.

(e) Affiliate Revenue Model :-- A company steers business to an affiliate and receives a referral fee or percentage of the revenue from any resulting sales.

(3) Market Opportunity :-- The term Market Opportunity refers to the company's intended marketspace and the overall potential financial opportunities available to the firm in that marketspace. The market opportunity is usually divided into smaller market niches. The realistic market opportunity is defined by the revenue potential in each of the market niches where you hope to compete.

(4) Competitive Environment :-- A firms competitive environment refers to the other companies selling similar products and operating in the same marketspace. It also refers to the presence of substitute products and potential new entrants to the market, as well as the power of customers and suppliers over your business. Firms typically have both direct and indirect competitors. Direct competitors are those companies that sell products and services that are very similar and into the same market segment. For Ex. Priceline and Travelocity, both whom sell discount airline tickets online, are direct competitors because both companies sell identical product – cheap tickets. Indirect competitors are companies that may be in different industries but still compete indirectly because their products can substitute for one another. For instance, automobile manufacturers and airline companies operate in different industries but still compete indirectly because they offer consumers alternative means of transportation.

(5) Competitive Advantage :-- Firms achieve a competitive advantage when they can produce a superior product and bring the product to market at a lower price than most, or all, of their competitors. For following reason firm achieve competitive adventage.

(a) Asymmetry :-- An asymmetry exists whenever one participant in a market has more resources than other participants which is like financial backing, knowledge, information or power than other participants.

(b) First mover advantage :-- A competitive market advantage for a firm that results from being the first into a marketplace with a serviceable product or service.

(c) Complimentary resources :-- Resources and assets not directly involved in the production of the product but required for success such as marketing, management, financial assets and reputation.

(d) Unfair Competitive Advantage :-- its occurs when one firm develops an advantage based on a factor that other firms cannot purchase.

(e) Perfect Market:-- A market in which there are no competitive advantages or asymmetries because all firms have equal access to all the factors of production.

(f) Leverage :-- When a company uses its competitive advantages to achieve more advantage in surrounding markets.

(6) Market Strategy :-- The best business concept or idea will fail if it is not properly marketed to potential customers. Everything you do to promote your company's products and services to potential customers is known as marketing. Market Strategy is the plan you put together that details exactly how you intend to enter a new market and attract new customers. Ex: CDs with free trial offers in magazines and newspapers across the country is the market strategy for increase sale.

(7) Organizational Development :-- Organizational development that describes how the company will organize the work that needs to be accomplished. Typically, work is divided into functional departments, such as production, shipping, marketing, customer support, and finance. Jobs within these functional areas are defined and then recruitment begins for specific job titles and responsibilities.

(8) Management Team :-- The single most important element of a business model is the management team responsible for making the model work. A strong management team gives a model instant credibility to outside investors, immediate market specific knowledge, and experience in implementing business plans. A strong management team may not be able to salvage a weak business model, but the team should be able to change the model and redefined the business as it becomes necessary.

- **<u>Major Business to Consumer (B2C) Business Models</u> :--** Business to consumer e-commerce, in which online businesses seek to reach individual consumers, is the most well known and familiar type of E-Commerce.

(A) <u>Portals</u> :-- Portals such as Yahoo MSN/ Windows Live, AOL offer users powerful web search tools as well as an integrated package of content and services, such as news, e-mail, instant messaging, calendars, shopping, music downloads, video streaming and more, all in one place. Portals are marketed as places where consumers will want to start their web searching and hopefully stay a long time to read news, find entertainment, and meet other people. Portal do not sell anything directly. Portal generate revenue primarily by charging advertisers for ad placement, collecting referral fees for steering customers to other sites and charging for premium services. The top five sites Google, Yahoo, MSN/ Windows Live, AOL, and Ask.com gather more than 92% of the search engine traffic because of their superior brand recognition.

(B) E-Tailer :-- Online retail stores often called E-tailers, come in all sizes, from large Amazon to small local stores that have web sites. Some e-tailers which are referred to as “bricks-and-clicks” are subsidiaries or divisions of existing physical stores and carry the same products. JCPenny, Wal-mart and Staples are examples of companies with complimentary online stores. Others operate only in the virtual world, without any ties to physical locations. Amazon, Bluenile.com are examples of this type of e-tailer. The e-tail revenue model is product based with customers paying for the purchase of a particular item.

(c) <u>Content Provider</u> :-- Content Providers distribute information content, such as digital video, music, photos, text, and artwork, over the web. Content providers make money by charging a subscription fee. A monthly subscription fee provides users with access to thousands of song tracks. Other content providers such as WSJ.com, Harvard Business Review, and many others, charge customers for content downloads in addition to or in place of a subscription fee. Not all online content providers charge for their information: just look at sportsline.com, CIO.com, and the online versions of many newspapers and magazines. Users can access news and information at these sites without paying a cent. These popular sites make money in other ways, such as through advertising and partner promotions on the site. Increasingly however “free content” is limited to headlines and text, where as premium content- in depth articles or video delivery is sold for a fee.

(D) <u>Service Provider</u> :-- While e-tailers sell products online, service providers offer services online. Web 2.0 application such as photo sharing, video sharing and user generated content are all services provided to consumer. Service provider use a variety of revenue models. Some charge a fee, or monthly subscriptions while others generate revenue from other resources, such as through advertising and by collecting personal information that is useful in direct marketing. Some services are free but are not complete. For instance, Google Apps basic edition is free, but a “Premier” model with virtual conference rooms and advanced tools costs $50 per employee a year. Much like retailers who trade products for cash, service providers trade knowledge, expertise and capabilities for revenue. Providers may offer computer services such as information storage, provide legal services such as at BlueFlag.com or offer advice and services to high-net worth individuals such as MyCFO.com. Ex: Travel Broker also provide vacation planning services.

❖ **<u>Major B2B Business Model</u> :--**

(1) E-Distributor :-- Companies that supply products and services directly to individual businesses are e-distributors. W.W Grainger for example is the largest distributor of maintenance, repair and operation supplies. E-distributors are owned by one company seeking to serve many customers. With e-distributors the more products and services a company makes available on its site, the more attractive that site is to potential customers. One stop shopping is always preferable to having to visit numerous sites to locate a particular part or product.

(2) B2B Service Provider :-- B2B service providers make money through transaction fees, fees based on the number of work stations using services or annual licensing fees. They offer purchasing firms a sophisticated set of sourcing and supply chain management tools that permit firms to reduce supply chain costs.

- **Introduction to M-Commerce :--** M-commerce or mobile commerce refers to the use of wireless digital devices to enable transactions on the web. M-commerce involves the use of wireless networks to connect call computers to the web. Once connected, mobile consumers can conduct transaction including stock traders, in store price comparisons, banking, travel reservations and more. Thus for M-commerce is used most widely in Japan and Europe, where cell phones are more prevalent than in the united states.

  Wireless mobile devices such as PDAs (Personal digital assistants) and cell phones can be used to conduct commercial transaction.

- **Marketspace Components :--** In a marketspace sellers and buyers exchange goods and services for money, but they do it electronically. The major components of a marketspace is a written below.

1. **Customers :--** The millions of people worldwide that surf the Web are potential buyers of the goods and services offered or advertised on the internet. These customers are looking for bargains, customized items, collectors items, entertainment and more. They can search for detailed information, compare, bid, and sometimes negotiate.
2. **Sellers :**-- Millions of storefronts are on the Web, advertising and offering a huge variety of items. Every day it is possible to find new offering of products and services. Sellers can sell direct from their Web site or from e-marketplaces.

3. **Products** :-- One of the major differences between the marketplace and the marketspace is the possible digitization of products and services in a marketspace. Although both types of markets can sell physical products, the marketspace also can sell digital products, which are goods that can be transformed to digital format and delivered over the internet. Digital products have different cost curves than those of regular products. In digitization most of the costs are fixed and the variable cost is very small. Thus profit will increase very rapidly as volume increases, once the fixed costs are paid for.
4. **Infrastructure:--** An electronic market infrastructure includes hardware, software, networks and more.

5. **Front end:**--- customers interact with a marketspace via a front end. The infrastructure in the front end includes the seller’s portal, electronic catalogs, a shopping cart, a search engine and a payment gateway.

6. **Back end:**-- All the activities that are related to order aggregation and fulfillment, inventory management, purchasing from suppliers, accounting and finance, payment processing, packaging, and delivery are done in what is termed the back end of the business.

7. **Intermediaries:**-- an intermediary is a third party that operates between sellers and buyers. Intermediaries of all kinds offer their services on the Web. Online intermediaries create and manage the online markets. They help match buyers and sellers, provide some infrastructure end services and help customers and sellers to institute and complete transactions. most of these online intermediaries operate as computerized systems.
8. **Other business partners :**-- there are several types of partners such as shippers, that collaborate on the internet, mostly along the supply chain.
9. **Support services:**-- many different support services are available, ranging from certification and trust services which ensure security, to knowledge providers. These services address implementation issues.

- **Types of Electronic Markets:--** There are several types of electronic marketplaces. E-marketplaces are Storefronts and Internet malls.

(A) Electronic Storefronts :-- An electronic or Web storefront refers to a single companys Web site where products and services are sold. It is an electronic store. The storefront may belong to a manufacturer to a retailer, to individuals selling from home or to another type of business.

A storefront includes several mechanisms that are necessary for conducting the sale. The most common features are electronic catalogs, a search engine that helps the consumet to find products in the catalog. An electronic cart for holding items until chechout, e-auction facilities, a payment gateway where payment arrangements can be made. A shipment court where shipping arrangements are made and customer services, including product information and a register for warranties.

- **(B) Electronic Malls :--** in addition to shopping in individual storefronts, consumers can shop in electronic malls. Similar to malls in the physical world, an e-mall is an online shopping location where many stores are located. For Ex. Hawaii.com is an e-mall that aggregates Hawaiian products and stores. It contains a directory of product categories and the stores in each category. When a consumer indicates the category they are interested in, they are transferred to the appropriate independent storefront to conduct their shopping.

- **<u>Types of Stores and Malls</u> :--** There are several types of stores and malls.

(1) General Stores/ Malls:-- These are large marketspaces that sell all types of products. Example are amazon.com, Choicemall.com, shop4.com and major public portal like yahoo.com, aol.com. All major departments and discount stores fall into this category.

(2) Specialized Stores/ Malls :-- These sell only one or a few types of products, such as books, flowers, cars or pet toys. Amazon.com started as a specialized e-bookstore, but today is generalized store. At buy.com you can purchase only computers and consumer electronic products. 1800flowers.com you can buy flowers and related gifts.

(3) Regional versus Global stores :-- some stores such as e-grocers or sellers of heavy furniture, serve customers that live nearby. for example parknshop.com serves the Hong Kong community. It will sell to customers in other countries if the customer will pay the shipping, insurance and other costs.

(4) Pure online organizations versus click and mortar stores:-- stores can be pure online organizations, such as Amazon.com, Buy.com or Cattoys.com. They do not have physical stores. Others are physical stores that also sell online. (Walmart.com, 1800flowers.com) this second category is called click-and-mortar.

- **Portals** :--

  A portal is an information gateway. It attempts to address information overload through an intranet based environment in which to search and access relevant information from disparate IT systems and the internet using advanced search and indexing techniques. An information portal is a single point of access through a Web browser to critical business information located inside and outside of an organization and it can be personalized.

-> **<u>Types of Portals</u> :--** it distinguish in six types of portals.

(1) Commercial (public) Portals :-- These portals offer content for diverse communities and are the most popular portals on the Internet. Although they offer customization of the user interface, they are still intended for broad audiences and offer fairly routine content, some in real time. Ex. Yahoo.com, msn.com.

(2) Corporate Portals :-- Corporate portals coordinate rich content within the relatively narrow corporate and partners communities. They are also known as enterprise portals or enterprise information portals.

(3) Publishing Portals :-- These portals are intended for communities with specific interests. These portals involve relatively little customization of content but they provide extensive online search and some interactive capabilities. Examples of such sites are techweb.com and zdnet.com.

(4) Personal Portals :-- These target specific filtered information for individuals. They offer relatively narrow content but are typically much more personalized, effectively having an audience of one.

(5) Mobile Portals :-- Mobile portals are portals that are accessible from mobile devices. Example of such a mobile portal is i-mode.

(6) Voice Portals :-- Voice portals are Web sites usually portals with audio interfaces. This means that they can be accessed by a standard or cell phone. AOL by Phone is an example of a service that allows users to retrieve e-mail, news, and other content. It uses both speech recognition and text-to-speech technologies.

- **<u>Role of Intermediaries in E-markets</u> :--** Intermediaries can address the following five important limitations of direct interaction.

(1) Reduce Search Cost :-- It may be expensive for providers and consumers to find each other. In electronic marketplaces, thousands of products are exchanged among thousands of vendors and millions of people. Producers may have trouble accurately getting consumer demand for new products, many desirable items may never be produced simply because no one recognizes the demand for them. Some intermediaries maintain databases of customer preferences and they can predict demand and reduce search cost by selectively routing information from providers to consumers and by matching customers with products.

(2) Lack of Privacy :-- Either the buyer or seller may wish to remain protect some information related to a trade. Intermediaries can relay messages and make pricing and allocation decisions without revealing the identity of one or both parties.

(3) Incomplete information :-- The buyer may need more information than the seller is able or willing to provide such as information about product quality, competing products, or customer satisfaction. An intermediary can gather product information from sources other than the product provider, including independent evaluators and other customers.

(4) Contract Risk :-- A consumer may refuse to pay after receiving a product or a producer may provide inferior products or give inadequate postpurchase service. Intermediaries have a number of tools to reduce such risks. First the broker can disseminate information about the behavior of providers and consumers. Here both producers and consumers to meet the brokers standard for fair dealing or the broker may accept responsibility for the behavior of parties in transactions it arranges and act as a policeman on its own. Third the broker can provide insurance against bad behavior.For Ex. The online auction area, intermediaries accepting and holding payment from the buyer while the seller completes delivery of the product or service to the intermediary. Then if the product is satisfactory, the intermediary release payment to the seller and the product to the buyer.

(5) Pricing inefficiencies :-- intermediary can use pricing mechanism that induce just the appropriate trades, for Ex. Dealing with an imbalance of buy and sell orders in stock markets.

- **E- Market Competitive Factors**:--

1. Many buyers and sellers must be able to enter the market at little or no entry cost
2. Large buyers or sellers are not able to individually influence the market
3. Products must be homogeneous (no product differentiation)
4. Buyers and sellers must have comprehensive
5. information about the products and about the market participants demands, supplies, and conditions
6. Lower search costs for buyers
7. Speedy comparisons

- **<u>E-Market Success Factors</u> :--** E-market success factor that fall within one of four categories.

(1) Product :-- Digitizable products are particularly suited for e-markets because they can be electronically distributed to customers, resulting in very low distribution costs. Digitization also allows the order fulfillment cycle time to be minimized.

A products price may also be an important determinant to its success. The higher the product price, the greater the level of risk involved in the market transaction between buyers and sellers who are geographically separated and may have never dealt with each other before. Therefore some of the most common items currently sold through e-markets are low priced items such as CDs and books.

(2) Industry :-- Electronic markets are most useful when they are able to directly match buyers and sellers. Some industry require transaction brokers, thus they may be affected less by e-markets than industries where no brokers are required. Stockbrokers, insurance agents, and travel agents may provide services that are still needed, but in some cases software may be able to reduce the need for these brokers. This is particularly true as intelligent systems become more available to assist consumers.

(3) Seller :--Electronic markets reduce search costs, allowing consumers to find sellers offering lower prices. In the long run, this may reduce profit margins for seller that compete in e-markets, it may also increase the number of transactions that take place. If sellers are unwilling to participate in this environment, then the impact of e-markets may be reduced.

(4) Consumer :-- E-markets required a certain degree of effort on the part of the consumer, e-markets are more conductive to consumers who do some comparison and analysis before buying. Analytical buyers can use the internet to evaluate a wide range of information before deciding where to buy.

- **Impact of E-Market on Organizations** :-- Impact of E-markets is divided into Four major categories.

(A) Impact on Marketing :-- following impact of e-markets on direct marketing.

(1) Product Promotion :-- The existence of e-markets has increased the promotion of products and services through direct marketing. Contact with customers has become more information rich and interactive.

(2) New Sales Channel :-- Because of the direct reach to customers and the bidirectional nature of communications in EC, a new distribution channel for existing products has been created.

(3) Direct Savings :-- The cost of delivering information to customers over the internet results in substantial savings to senders of messages. Major savings are also realized in delivering digitized products (such as music and software) versus delivery of physical products.

(4) Reduced cycle time :-- The delivery time of digitized products and services can be reduced to seconds. Also the administrative work related to physical delivery, especially across international borders, can be reduced significantly, cutting the cycle time by more than 90 percent.

(5) Improved Customer Service:-- Customer service can be greatly enhanced by enabling customers to find detailed information online. For Ex. Autoresponders can answer standard e-mail questions in seconds.

(6) Brand or Corporate image:-- on the Web, newcomers can establish corporate images very quickly. A good corporate image facilities trust, which is necessary for direct sales.

(7) Advertising :-- With direct marketing and customization comes one-to-one or direct advertising which can be much more effective than mass advertising.

(8) Ordering System :-- Taking customer orders can be improved if it is done online, reducing both processing time and mistakes. Electronic order can be quickly routed to the appropriate order processing site. This process reduces expenses and also saves time, freeing salespeople to sell products.

(B) Impact on Manufacturing :-- EC is changing manufacturing systems from mass production lines to demand driven, just-in-time manufacturing. These new production systems are integrated with finace, marketing and other functional systems as well as with business partners and customers. Using Web-based enterprise resource planning systems, companies can direct customer orders to designers or to the production department within seconds. Production cycle time is cut by 50 percent or more in many cases, especially if production is done in a different country from where the designers and engineers are located.

An interesting organizational concept is that Virtual Manufacturing- the ability to run multiple manufacturing plants as though they were at one location. Companies such as IBM, General Motors, General Electronic and Boeing assemble products from components that are manufactured in many different locations, even different countries. Subassemblers gather materials and parts from their vendors, and they may use one or more tiers of manufacturers.

Build-to-order : The biggest change in manufacturing will be the move to build-to-order systems. In these systems manufacturing or assembly will start only after an order is received. This will change not only the production planning and control, but also the entire supply chain and payment cycle.

(C) Impact on finance and Accounting :-- E-markets require special finance and accounting systems. Most notable of these are electronic payment systems. Traditional payment systems are ineffective or inefficient for electronic trade. The use of new payment systems such as electronic cash is complicated because legal issues and agreements on international standards are involved.

- Executing an electronic order triggers an action in what is called the back office. Back-office transactions include buyers credit checks, product availability checks, order confirmation, changes in accounts payable, receivables, billing and much more. These activities must be efficient, synchronized and fast so that the electronic trade will not be slowed down. An example of this is online stock trading. In most cases orders are executed in less than one second, and the trader can find an online confirmation of the trade immediately.
- One of the most innovative concepts in accounting and finance is the "virtual close" which would allow companies to close their accounting records within a day.

(D) Impact on Human Resource :-- EC is changing how people are recruited, evaluated, promoted and developed. EC also is changing the way training and education are offered to employees. Online distance learning is exploding, providing opportunities that never existed in the past.

New e-learning systems offer two-way video, on the fly interaction, and application sharing. Such systems provide for interactive remote instruction systems, which link sites over a high speed intranet. At the same time, corporations are finding that e-learning may be their ticket to survival as changing environments, new technologies and continuously changing procedures make it necessary for employees to be trained and retrained constantly.