

Electronic Commerce

Lecture 2

IT392

E-commerce Business Models and Concepts

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Chapter 2

- This chapter discusses the evolution and potential future of e-commerce platforms, from desktop and laptop computers to smartphones, tablets, and smart cars.
- The success of an e-commerce business, however, doesn't solely depend on the usage of new technologies.
- Businesses also need to provide value to customers, optimize operations, manage legal and social issues, and ensure profitability and scalability.
- Learning about components of an e-commerce business plan, types of business models, and fundamental business concepts and strategies is key to understanding how to create a successful e-commerce business.

Learning Objectives

- Identify the key components of e-commerce business models.
- Describe the major B2C business models.
- Describe the major B2B business models.
- Understand key business concepts and strategies applicable to e-commerce.

Chapter 2 E-COMMERCE BUSINESS MODELS AND CONCEPTS

E-commerce Business Models

Major Business-to-Consumer (B2C) Business Models

Major Business-to-Business (B2B) Business Models

How E-commerce Changes Business: Strategy, Structure, and Process

Eight Key Elements of a Business Model

Online Retailer (E-tailer)

Community Provider

Content Provider

Portal

Transaction Broker

Market Creator

Service Provider

E-distributor

E-procurement

Exchanges

Industry Consortia

Private B2B Networks

Industry Structure

Industry Value Chain

Firm Value Chains

Firm Value Webs

Business Strategy

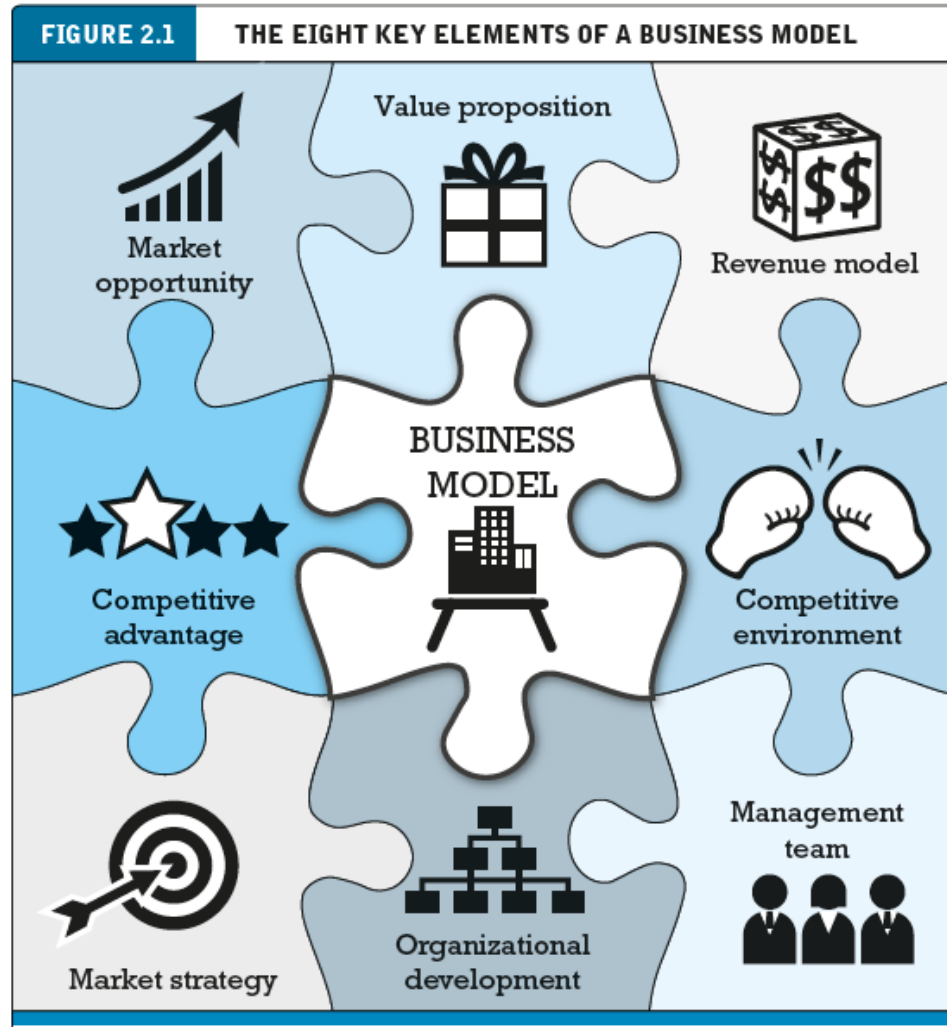
E-commerce Technology and Business Model Disruption

E-commerce business models

INTRODUCTION

- A **business model** is a set of planned activities (sometimes referred to as business processes) designed to result in a profit in a marketplace.
- The business model is at the center of the business plan.
- A **business plan** is a document that describes a firm's business model.
- A business plan always takes into account the competitive environment.
- An **e-commerce business model** aims to use and leverage the unique qualities of the Internet, the Web, and the mobile platform.

E-commerce business models



E-commerce business models

EIGHT KEY ELEMENTS OF A BUSINESS MODEL

1. **Value proposition** defines how a company's product or service fulfills the needs of customers.
2. **Revenue model** describes how a business will earn revenue, generate profits, and produce a superior return on invested capital
3. **Market opportunity** refers to a company's intended **marketspace** (i.e., an area of actual or potential commercial value) and the potential financial opportunities available to the business in that marketspace.



E-commerce business models

EIGHT KEY ELEMENTS OF A BUSINESS MODEL

4. **Competitive environment** refers to the other businesses selling similar products in the same marketplace. It also refers to the presence of substitute products and potential new entrants to the market as well as to the power of customers and suppliers over the business.
5. **Competitive advantage** achieved by a business when they can produce a superior product and/or bring the product to market at a lower price than most, or all, of their competitors.



E-commerce business models

EIGHT KEY ELEMENTS OF A BUSINESS MODEL

6. **Market strategy** is the plan a business puts together that details exactly how it intends to enter a market and attract customers.
7. **Organizational development** describes how the business will organize the work that needs to be accomplished.
8. **Management team** the employees of the business responsible for making the business model work.



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Major business-to-consumer (B2C) business models

- **Online retailer (E-tailer):** is a business that enables customers to shop and purchase via a website and/or mobile app, examples
 - ❖ Virtual Merchant (Amazon)
 - ❖ Omnichannel merchant (Walmart)
 - ❖ Manufacturer-Direct (Dell, Nike)
- **Community provider** creates an online environment where people can “meet” online to connect and communicate; share interests, photos, and videos; and, increasingly, transact (buy and sell goods and services) without the limitations of geography and time to hinder participation. (Facebook, Instagram, TikTok, Twitter,...)

The Amazon logo, featuring the word "amazon" in a lowercase, sans-serif font with a curved orange arrow underneath it.The Walmart logo, consisting of the word "Walmart" in blue, bold, sans-serif font, followed by a yellow six-pointed starburst icon.

Major business-to-consumer (B2C) business models

- **Content provider** distributes digital content, such as news, information, music, photos, and video. Content providers can make money via a variety of different revenue models, including advertising, subscription fees, and sales of digital goods it might be traditional like Netflix, or Creators like youtubers and TikTokers
- **Portals:** such as Yahoo, MSN, and AOL offer users an integrated package of content and services, such as news, e-mail, shopping, music, video streaming, and more, all in one place.

Major business-to-consumer (B2C) business models

- **Transaction broker:** provides online processing for transactions that were previously normally handled in person, by phone, or by mail. The primary industries using this model are financial services and travel services. The online transaction broker's primary value propositions are savings of money and time.
- **Market creator** builds a digital environment (market) in which buyers and sellers can meet, display and search for products and services, and establish prices. (Uber, Airbnb)

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Major business-to-business (B2B) business models

- An **E-distributor** is a company that provides an online catalog of products from many different manufacturers that are available for purchase by individual businesses (Amazon Business).
- An **E-procurement company** helps businesses automate their procurement process (the range of activities involved in obtaining goods and services). Companies such as Ariba, for instance, have created software that helps large firms organize their procurement process by creating mini-digital markets for a single firm.

Major business-to-business (B2B) business models

- **Exchange** is an independent digital marketplace that connects hundreds to potentially thousands of suppliers and buyers in a dynamic, real-time environment.
- Exchanges, which have a business model very similar to that of a B2C market creator, are typically owned by independent firms whose business is making a market, and they generate revenue by charging a commission or fee based on the size of the transactions conducted among trading parties.

Major business-to-business (B2B) business models

- **Industry consortia** are industry-owned *vertical marketplaces* that serve specific industries. **Vertical marketplaces** supply companies with products and services of specific interest to their industry, while **horizontal marketplaces** supply companies in different industries with a particular type of product and service, such as marketing-related, financial, or computing services.
- **Private B2B network** is a digital network designed to coordinate the flow of communications and supply chains among firms engaged in business together.
- The network is owned by a single large purchasing firm.
- Participation is by invitation only to trusted, long-term suppliers of direct inputs

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How e-commerce changes business: strategy, structure, and process

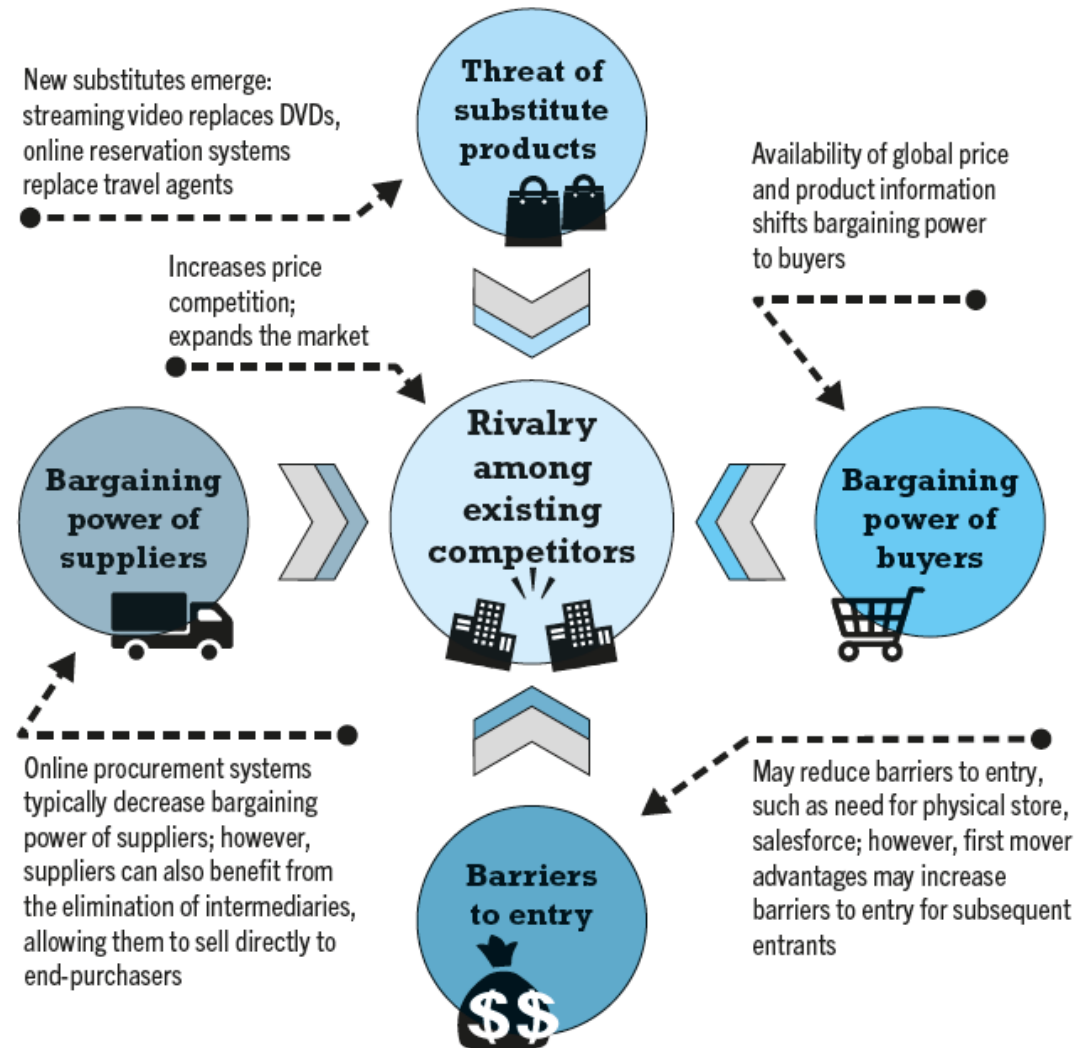
- E-commerce has changed the business environment, including industry structures, business strategies, and industry and business operations (business processes and value chains), over the last few decades.
- The Internet tends to intensify competition. Because information is more readily available, the Internet inherently shifts power to buyers, who now can discover the lowest-cost provider much more easily than in the past.
- The Internet also provides many opportunities for creating value, for branding products and charging premium prices, and for enlarging an already powerful offline physical business.

- **Industry structure** refers to the nature of the players in an industry and their relative bargaining power.
- An industry's structure is characterized by five forces: *rivalry among existing competitors*, the *threat of substitute products*, *barriers to entry into the industry*, the *bargaining power of suppliers*, and the *bargaining power of buyers*.
- E-commerce has the potential to change the relative strength of these competitive Forces.

How e-commerce changes business: strategy, structure, and process

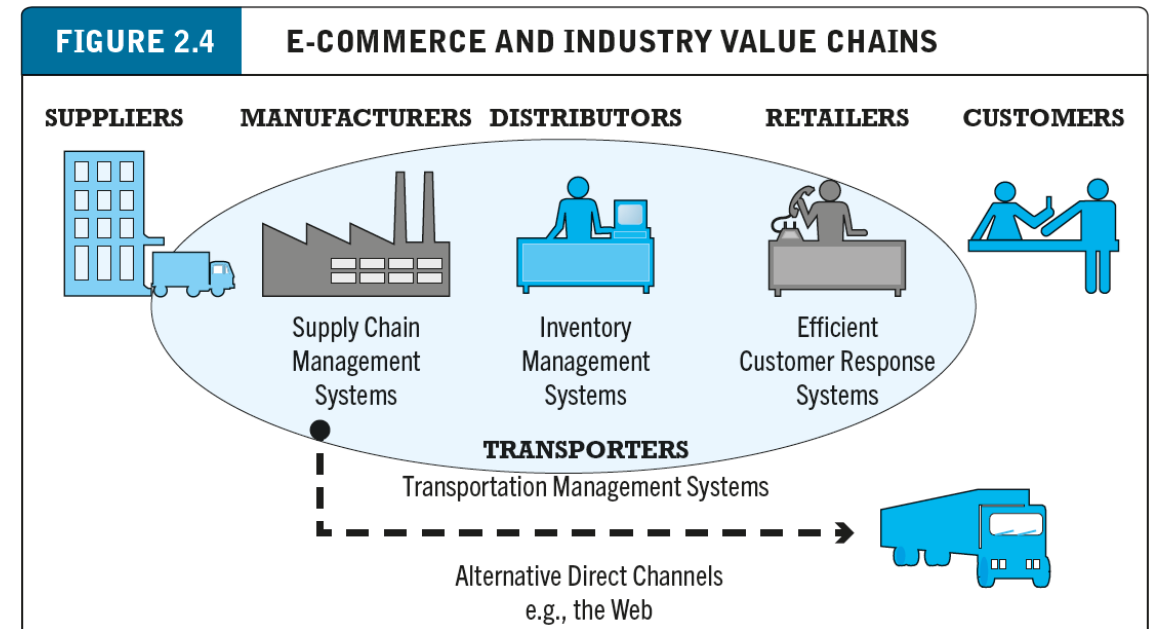
FIGURE 2.3

HOW E-COMMERCE INFLUENCES INDUSTRY STRUCTURE



How e-commerce changes business: strategy, structure, and process

- A **value chain** is the set of activities performed in an industry or in a firm that transforms raw inputs into final products and services.
- Each of these activities adds economic value to the final product; hence, the term *value chain* as an interconnected set of value-adding activities.



Industry value chain

Manufacturers can reduce the costs they pay for goods by developing Internet-based B2B exchanges with their suppliers.

- Manufacturers can develop direct relationships with their customers, bypassing the costs of distributors and retailers.
- Customers in turn can search for the best quality, the fastest delivery, and the lowest prices.
- Finally, the operational efficiency of the entire industry can increase, thus lowering prices, adding value for consumers, and helping the industry compete with alternative industries.

How e-commerce changes business: strategy, structure, and process



How e-commerce changes business: strategy, structure, and process

Firm value chains

- Firms can use the Internet's communications tools to outsource some activities to specialized, more efficient providers without such outsourcing being visible to the consumer.
- firms can use e-commerce to coordinate the steps in the value chains more precisely and reduce their costs.
- Firms can use e-commerce to provide users with more differentiated and high-value products. For instance, Amazon provides consumers with a much larger inventory of products to choose from, at a lower cost, than physical retail stores.

Firm value webs

- A **value web** is a networked business ecosystem that uses e-commerce technology to coordinate the value chains of business partners.
- A value web coordinates a firm's suppliers with the firm's production needs using an Internet-based supply chain management system.
- Firms also use the Internet to develop close relationships with their logistics partners.

Business strategy

- **Differentiation** refers to the ways producers can make their products or services unique and distinguish them from those of competitors.

E-commerce businesses can differentiate products and services by:

- Making it possible to purchase the product from home, work, or on the road (**ubiquity**);
- Making it possible to purchase anywhere in the world (**global reach**);
- Creating unique interactive content, videos, and reviews by users (**richness and interactivity**);
- Storing and processing information for consumers of the product or service, such as warranty information on all products purchased or income tax information online (**information density**).

Business strategy

- **Profit** is simply the difference between the price a business is able to charge for its products and the cost of producing and distributing goods.
- Why would anyone pay more for a product than it costs to produce? There are multiple answers.
 - ❖ The product may be unique (there are no other suppliers),
 - ❖ it may be the least costly product of its type available,
 - ❖ consumers may be able to purchase the product anywhere in the world
 - ❖ it may satisfy some unique needs that other products do not.

How e-commerce changes business: strategy, structure, and process

E-commerce offers some ways to compete on cost, at least in the short term.

- Businesses can leverage **ubiquity** by lowering the costs of order entry (the customer fills out all the forms, so there is no order entry department)
- leverage **global reach** and universal standards by having a single order entry system worldwide
- leverage **richness, interactivity, and personalization** by creating customer profiles online and treating each individual consumer differently—
- leverage **information intensity** by providing consumers with detailed information on products, without maintaining either expensive catalogs or a sales force.

How e-commerce changes business: strategy, structure, and process

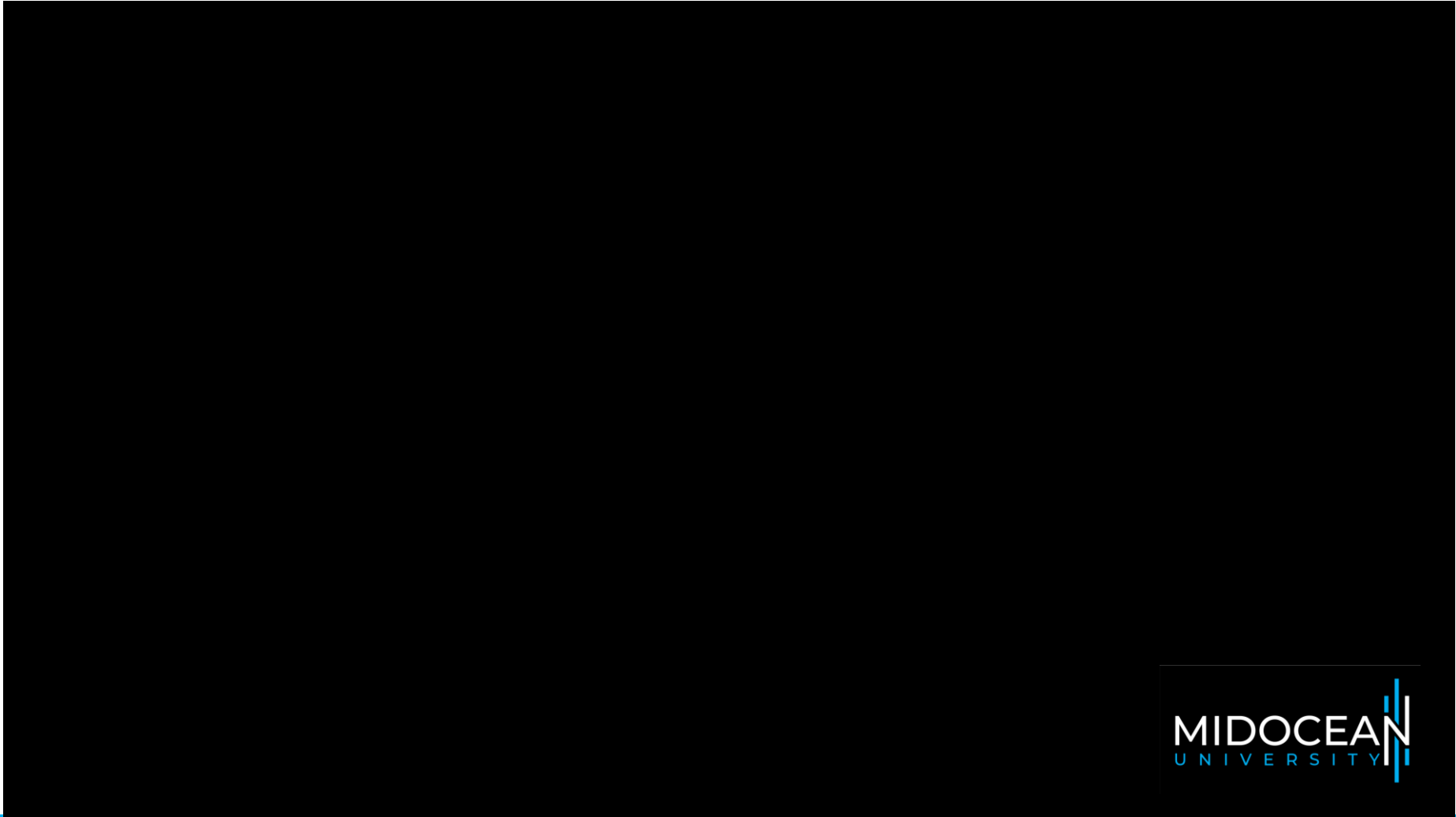
- A **scope strategy** is a strategy to compete in all markets around the globe
- The Internet's global reach, universal standards, and ubiquity can certainly be leveraged to assist businesses in becoming global competitors.
- eBay, for instance, along with many of the other top e-commerce companies, has readily attained a global presence.
- A **focus/market niche strategy** is a strategy to compete within a narrow market segment or product segment.
- This is a specialization strategy with the goal of becoming the premier provider in a narrow market.



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How e-commerce changes business: strategy, structure, and process

- Another generic strategy is **customer intimacy**, which focuses on developing strong ties with customers.
- For example, Amazon's one-click shopping, which retains customer details and recommendation services based on previous purchases, makes it more likely that customers will return to make subsequent purchases.



E-commerce technology and business model disruption

- When new technologies are at the core of a change in the way business is done, they are referred to as **disruptive technologies**.
- When the technology involved is digital, the term **digital disruption** is used.
- The disruption occurs when an innovative business applies the technology to pursue a different business model and strategy than existing businesses pursue, perhaps discovering a whole new market that existing businesses did not even know existed

E-commerce technology and business model disruption

- For instance, personal computers using off-the-shelf, inexpensive processors and technologies disrupted the market for mainframe and minicomputers
- It's a whole new world that often confuses and surprises successful companies, who tend to ignore, dismiss, and/or mock the early disruptive products.
- Not all technologies are disruptive
- Most successful companies use technology to sustain their current business models

E-commerce technology and business model disruption

- This use of technology is referred to as **sustaining technology** because it helps companies cope with competitive pressures, improve their products, and serve their customers with less expensive, more powerful, or unique products.
- E-commerce has greatly transformed industries, changing their structures, processes, and strategies.

E-commerce and Disruptive Technologies

- **Digital disruption** occurs when an innovative business applies technology to pursue a different business model, sometimes discovering a new market.
- All elements of a business model - value proposition, revenue, market opportunity, competition, advantage, strategy, organizational development, and management - can be affected by disruptive technologies.

Examples of Disruption

- Personal computers disrupted the market for mainframe and minicomputers, causing many businesses to dissolve.
- Other industries impacted by disruption include communications (e.g. email), data storage, music, photography, publishing, and transportation.
- On-demand services like Uber and Airbnb have had significant effects on taxi and lodging industries.

Phases of Disruption

- In the **first** disruptive stage, disruptors introduce less expensive, simpler products to a niche market.
- In the **second** stage, disruptors rapidly improve their products and expand their market, shrinking the incumbents' market.
- In the **third** stage, new products and business models become good enough or superior to incumbent products.
- In the **fourth** stage, incumbent firms lose market share and either go out of business or are consolidated into other firms.

Why Incumbents Fail to Change

- Successful incumbents often have significant capital reserves, cutting-edge technology, and sophisticated management consulting firms.
- What prevents them from adapting is complex and involves factors such as outdated training, shareholder expectations, and customer expectations.

Future of Disruptive Technologies

- Incumbents primarily operate on sustaining technology, while disruptive technology focuses on destroying existing business models.
- Incumbents like IBM have survived by repositioning to innovative fields like cloud computing and data mining.
- The technology industry is continuously evolving. The successful firms today like Apple and Google might face challenges in the future due to new digital disruptors.

REVIEW

Identify the eight key components of e-commerce business models.

- ***Value proposition***—how a company’s product or service fulfills the needs of customers. Typical e-commerce value propositions include personalization, customization, convenience, and reduction of product search and price delivery costs.
- ***Revenue model***—how a business plans to earn revenue, generate profits, and produce a superior return on invested capital. Major e-commerce revenue models include the advertising model, subscription model, transaction fee model, sales model, and affiliate model.
- ***Market opportunity***—the revenue potential within a company’s intended marketplace.
- ***Competitive environment***—the direct and indirect competitors doing business in the same marketplace, including how many there are and how profitable they are.

REVIEW

- ***Competitive advantage***—the factors that differentiate the business from its competition, enabling it to provide a superior product at a lower cost.
- ***Market strategy***—the plan a business develops that outlines how it will enter a market and attract customers.
- ***Organizational development***—the process of defining all the functions within a business and the skills necessary to perform each job, as well as the process of recruiting and hiring suitable employees.
- ***Management team***—the group of individuals retained to guide the company's growth and expansion.

REVIEW

Describe the major B2C business models.

- ***Online retailer (e-tailer)***—enables customers to shop and purchase via a website and/or mobile app; includes virtual merchants (online retail store only), omnichannel (online distribution channel for a company that also has physical stores), and manufacturers selling directly to the consumer.
- ***Community provider***—creates an online environment where people can “meet” online to connect and communicate; share interests, photos, and video; and, increasingly, transact (buy and sell goods and services); revenue is generated by advertising, subscription fees, transaction fees, and sales revenues and affiliate fees.
- ***Content provider***—distributes digital content; typically utilizes an advertising, subscription, or, particularly for creators, affiliate referral fee revenue model.

REVIEW

- ***Portal***—offers search tools plus an integrated package of content and services; typically utilizes a combined subscription/advertising revenue/transaction fee model
- ***Transaction broker***—processes online transactions; typically utilizes a transaction fee revenue model.
- ***Market creator***—builds a digital environment (market) in which buyers and sellers can meet, display, and search for products and services, establish prices, and transact; typically utilizes a transaction fee revenue model or charges merchants a fee for access to the market.

REVIEW

Describe the major B2B business models.

- ***E-distributor***—supplies an online catalog that includes the products of many different manufacturers directly to individual businesses.
- ***E-procurement company***—helps businesses automate their procurement process (the range of activities involved in obtaining goods and services).
- ***Exchange***—an independent digital marketplace that connects hundreds tot housands potentially of suppliers and buyers.
- ***Industry consortium***—industry-owned vertical digital market.
- ***Private B2B network***—digital network designed to coordinate the flow of communications and supply chains among firms engaged in business together.

REVIEW

Understand key business concepts and strategies applicable to e-commerce.

- ***Industry structure***—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; and the bargaining power of buyers.
- ***Industry value chains***—the set of activities performed in an industry by suppliers, manufacturers, transporters, distributors, and retailers that transform raw inputs into final products and services by reducing the cost of information and other transaction costs.

REVIEW

Understand key business concepts and strategies applicable to e-commerce.

- ***Firm value chains***—the set of activities performed within an individual firm to create final products from raw inputs by increasing operational efficiency.
- ***Business strategy***—a set of plans for achieving superior long-term returns on the capital invested in a firm by offering unique ways to differentiate products, such as strategies based on product/service differentiation, cost, scope, focus/market niche, or customer intimacy.
- ***Traditional business models***—the business models of many industries have been disrupted and, in some instances made totally obsolete, by e-commerce technologies.

Reference

