

E-Commerce

Business models for e-commerce

Module 2

- Business model is a set of planned activities designed to result in a profit in a marketplace.
- In order to develop a successful business model, it is essential that the model effectively addresses the eight elements :
 - Value proposition
 - Revenue model
 - Market opportunity

- Competitive environment
- Competitive advantage
- Market strategy
- Organizational development
- Management team

Value proposition

It defines how a company's product or service fulfils the needs of customers.

Revenue model

It describes how the firm will earn revenue, make profits, and produce a better return on invested capital.

The major revenue models are : advertising model, subscription model, transaction fee model, sales model, affiliate model

Market opportunity

It refers to the company's proposed market space and the overall potential financial opportunities available to the firm in that market space.

Competitive environment

It refers to the state where other companies selling similar products and operating in the same market space.

Competitive advantage

Firms achieve a competitive advantage when they can produce a superior product and/or bring the product to market at a lower price than their competitors

Organizational development

All firms need an organization to effectively implement their business plans and strategies.

- **Market strategy**

It is the plan that details exactly how we can enter a new market and attract new customer.

- **Management team**

The most important element of a business model is the management team responsible for making the model work.

E-commerce models

E-commerce models can be classified as :

- E-business models based on the relationship of transaction parties
- E-business models based on the relationship of transaction types

E-business models based on the relationship of transaction parties

- **Business to Consumer (B2C)**
- **Business to Business (B2B)**
- **Business to Government (B2G)**
- **Consumer to Consumer (C2C)**
- **Consumer to Business (C2B)**

Business to Consumer (B2C)

- It consists of the sale of products or services from business to the general public.
- Here, businesses directly sell to the end customer. However these websites require huge investment in terms of advertisement effort, hardware and software required to support the many millions of hits that they experience.
- To maintain consumers always with company's website, the company must update the information on the web regularly.

B2C process

B2C model involves the following process :

- Consumer visits site
- Customer register
- Ordering
- Payment
- Shipment and delivery
- Service and support

Examples of B2C companies include:

1. Amazon
2. Google
3. Facebook
4. Tencent
5. Walmart
6. Target
7. Alibaba
8. Flipkart
9. eBay
10. Netflix

Benefits of B2C e-commerce

- Lower marketing cost

Expenses relating marketing is comparatively cheap in electronic medias than traditional medias. It can also catch the attention of large number of consumers with minimum expenses.

- Lower order processing cost

Business firms can check orders from customers and ensure its accuracy before proceeding delivery goods.

- Better customer service

Customers can visit the website at any time on other convenience and get all information regarding various matters online.

- Lower customer support cost

Customers can refer to the website for basic questions and doubts, so that number of customer service staff can be reduced.

- Wider markets

The website is open and accessible at any time on any day that reaches customers all over the world.

Major B2C business models

- **Portal**

A web portal is a specially designed website that brings information from diverse sources, like emails, online forums and search engines, together in a uniform way. Portals do not sell anything directly. Portals make income mainly through advertisement, collecting referral fees for directing customers to other sites, and charging for premium services.

- **E-tailer**

Those firms who engaged in online retailing are called e-tailers. E-tailers are very similar to an ordinary retail store, except that customers only have to connect to the internet to check their inventory and place an order. Amazon.com is an example.

- **Content provider**

An Internet content provider is a website or organization that handles the distribution of online content such as blogs, videos, digital news, photos, music or files. Content providers make money by charging a subscription fee.

- **Transaction broker**

A transaction brokerage provides third-party real estate services to buyers and sellers. Instead of acting as an agent for the buyer or seller, the transaction broker can be described as a professional assistant. Middleman roles of facilitating search, contract, regulation and maintenance. The brokers earned commissions each time a sales transaction is made.

- **Market creator**

Market creators provide a digital environment in which buyers and sellers can meet, display products, search for products and fix prices. Example : eBay.com

- **Service provider**

Service providers offer services online. Some service providers charge a fee for their service, while others make income from other sources such as through advertising and by collecting personal information that is useful in direct marketing. The successful service providers on the web are the search engines like Google, Yahoo, etc.

- **Community provider**

Community provider site is for like minded individuals to meet and converse beyond geographical boundaries.

Business to Business (B2B)

- Business-to-business (B2B) is a situation where one business makes a commercial transaction with another business.
- Business-to-business (B2B) is a form of transaction between businesses, such as one involving a manufacturer and wholesaler, or a wholesaler and a retailer. Business-to-business refers to business that is conducted between companies, rather than between a company and individual consumer.

Major B2B business models

- **E-distributor**

Companies that supply products and services directly to individual businesses are e-distributors.

- **E-procurement**

E-procurement is the B2B purchase and sale of supplies work and services through internet. Elements for e-procurement include request for information, request for proposal, request for quotation etc.

- **Exchanges (B2B hubs)**

A B2B hub is a digital marketplace where many suppliers meet a smaller number of very large commercial purchasers. Exchanges are owned by independent firms whose business is creating a market and they make profits by charging a commission or fee based on the size of the transactions conducted among trading parties.

Benefits of B2B e-commerce

- Helps to remove barriers raised by geographic fragmentation of the market.
- Suppliers discover new buyers.
- Enhances transparency.
- Both the buyers and sellers enjoy reduced order processing costs and lower cost of interacting with each other.

Consumer to Consumer (C2C)

- It consists of individuals using the internet to sell products and services directly to other individuals.
- A common example is the online auction, in which a consumer posts an item for sale and other consumers bid to purchase it. The third party generally charges a commission.
- The sites are only intermediaries, just there to match consumers.

- It is essential that both the seller and the buyer must register with the auction site.
- While the seller needs to pay a fixed fee to the online auction house to sell their products, the buyer can bid without paying any fee.
- The highest bidder at the end of the bidding period purchases the item. The site then provides connection between the seller and buyer to complete the transaction.
- Eg: eBay

Business to Government (B2G)

- Business-to-government (B2G) is a business model that refers to businesses selling products, services or information to governments or government agencies.
- B2G networks or models provide a way for businesses to bid on government projects or products that governments might purchase or need for their organizations.

- Public-sector organizations generally post tenders in the form of requests for proposals, requests for information, requests for quotations to which private suppliers respond.
- One of the main B2G activities is paying government taxes and fees online such as vehicle tax, property tax and income tax.

Consumer to Business(C2B)

- It is a business model in which consumers (individuals) create value and businesses consume that value. For example, when a consumer writes reviews or when a consumer gives a useful idea for new product development then that consumer is creating value for the business if the business adopts the input.
- Another form of C2B is the electronic commerce business model in which consumers can offer products and services to companies, and the companies pay the consumers

- It is a business model where an end user or consumer makes a product or service that an organization uses to complete a business process or gain competitive advantage.
- The C2B methodology completely transposes the traditional business-to-consumer (B2C) model, where a business produces services and products for consumer consumption.

E-business models based on the relationship of transaction types

- **Brokerage model**
- **Aggregator model**
- **Infomediary model**
- **Community model**
- **Value chain model**
- **Subscription model**
- **Affiliate model**

Brokerage model

- Brokers are market makers.
- They bring buyers and sellers together and facilitates transactions.
- Usually a broker charges a fee or commision for each transaction it enables.

Advantages of brokerage model

- Allow buyers and sellers to trade directly bypassing intermediaries.
- Reduces cost for both the parties
- Global reach
- Provide continuous up to date information

Aggregator model

- In the model a firm not produce or warehouse any item or products.
- They collect or aggregates information on goods and services from several competing sources at its website. They are known as information aggregators.
- Information aggregators are entities that collect information from a wide range of sources.

Types of aggregators

- Content aggregators
- Mainstream aggregators
- Event aggregators
- Shopping aggregators

Infomediary model

- An organiser of virtual community is called an information intermediary or infomediary, which helps sellers to collect, manage, and maximize the value of information about consumers.
- It is characterized by the capture and/or sharing of information.
- The simplest form of infomediary model is the registration model. Here, companies require users to register before gaining access to information on their website.
- Registration is a condition for viewing or downloading the articles so the company can capture contact information and other data and use it to make sales calls.

Classification of infomediaries

- Specialized agents
- Generic agents
- Supplier agents
- Buyer agents

Community model

- The e communities are formed when groups of people meet online to fulfil certain needs or serve their common interest, exchange information, share interests, trade goods and services, entertain and seek help.
- Communities utilize electronic tool such as forums, chat rooms, message board and other interactive internet mechanisms, which are usually designed to the particular community.

Value chain model

- A value chain for a product is the chain of actions that are performed by the business to add value in creating and delivering the product.
- For example, when you buy a product from a website the value chain includes the business selecting products to be sold, purchasing the components or tools necessary to build them from a wholesaler or manufacturer, arranging the display, marketing and advertising the product, and delivering the product to the client.

Subscription model

- Users are charged a periodic, say daily, monthly or annual fee to subscribe to service.
- The site may include both free content and “premium”(ie, subscriber or member only) content.

Affiliate model

- It is a popular ecommerce relationship in which an online merchant agrees to pay an affiliate in exchange for providing an advertisement and link to the merchant's site.
- Each sale generated as a result of a customer “clicking through” from an affiliate to the merchant results in a small commission for the affiliate.

Influencing factors of successful ecommerce

- Website presentation
- Accessible and easy to use website
- Use new technology
- User friendliness
- Offers
- Adequate stock
- Select suitable mode of delivery
- quickness

Reasons for the failure of ecommerce

- Poor management
- Poorly designed website
- Lack of marketing
- Selling the wrong product
- Poor order fulfilment
- Poor customer service

The End

Thank You

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