Class : **S.Y.B.B.A. – ITM (SEMESTER – III)**

Subject : **E-Commerce**

Unit : **E-Commerce Business Models**

Faculty Name : **Kalpesh N. Patel**

❖ INTRODCTION:

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.

An e-commerce business model aims to use and control the unique qualities of the Internet and the World Wide Web.

❖ EIGHT KEY INGREDIENTS OF A BUSINESS MODEL:

If you hope to develop a successful business model in any arena, not just e-commerce, you must make sure that the model effectively addresses the eight elements listed in Below Table.

Many writers focus on a value proposition and revenue model. While this may be the most important and easily identifiable aspects of a company's business model, the other elements are equally important when evaluating business models and plans, or when attempting to understand why a particular company has succeeded or failed.

BUSINESS MODEL COMPONENTS	KEY QUESTIONS
Value Proposition	Why should the customer buy from you?
Revenue Model	How will you earn money?
Market Opportunity	What marketspace do you intend to serve, and what is its size?
Competitive Environment	Who else occupies your intended marketspace?
Competitive Advantage	What special advantages does your firm bring to the marketspace?
Market Strategy	How do you plan to promote your products or services to attract your target audience?
Organizational Development	What types of organizational structures within the firm are necessary to carry out the business plan?
Management Team	What kinds of experiences and background are important for the company's leaders to have?

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 and/or analyze a value proposition, you need to answer the following key questions:

Why will customers choose to do business with your firm instead of another company? What will your firm provide that other firms do not and cannot?

From the consumer point of view, successful e-commerce value propositions include: personalization and customization of product offerings, reduction of product search costs, and reduction of price discovery cost and facilitation of transactions by managing product deliveries.

Kozmo.com, for instance, sold the same snacks, entertainment and toiletries that other businesses did, but kozmo made speedy home deliveries.

Although convenience stores, restaurants and pharmacies could also offer home delivery to their customers, another kozmo advantage was that they could bundle items from types of businesses and drop them off within an hour. Convenience and speed, kozmo's two main value proposition.

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 customer would have to wait several days or weeks, and then return to the bookstore to pick it up.

Amazon made 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. Amazon's primary value propositions are unparalleled selection and convenience.

In many cases, companies develop their value proposition based on current market conditions or trends. Consumers increasing reliance on delivery services was surely a trend kozmo.com's founders took note of, just as Starbucks founders saw the growing interest in and demand for coffee bars nationwide.

Both companies watched the market and then developed their proposition to meet what they perceived to be consumers demand for certain products and services.

Revenue Model:

A firm's revenue model describes how the firm will earn revenue, generate profits, and produce superior return on invested capital.

Terms revenue model and financial model are used interchangeably.

The function of business organizations 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. Firms that fail this test go out of existence.

Retailers, for example, sell a product, such as personal computer, to a customer who pays for the computer using cash or a credit card. This produced revenue. The merchant typically charges more for the computer than it pays out in operating expenses, producing a profit.

But in order to go into business, the computer merchant had to invest capital either by borrowing or dipping into personal savings. 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.

Although there are many different e-commerce revenue models that have been developed, most companies rely on one, or some combination, of the following major revenue models: the advertising model, the subscription model, the transaction fee model, the sales model and the affiliate model.

In the **advertising revenue model,** a web site that offers its users content, services and/or products also provides a forum for advertisement and receives fees from advertisers.

Those web sites that are able to attract the greatest viewership or that have a highly specialized, differentiated viewership and are able to retain user attention ("stickiness") are able to charge higher advertising rates.

Yahoo.com, for instance, derives revenue from selling advertising such a banner ads.

This model originally one of the primary revenue models for the web has fallen somewhat into disfavor, although it remains a primary source for web based revenue.

In the **subscription revenue model**, a web site that offers its users content or services charges a subscription fee for access to some or all of its offerings.

For instance, Consumer Reports Online provides access to its content only to subscribers who have a choice of paying a $3.95 monthly subscription fee or $24.00 annual fee.

Experience with the subscription revenue model indicates that to successfully overcome the disinclination of users to pay for content on the web, the content offered must be perceived as a high value added, premium offering that is not readily available elsewhere nor easily replicated.

In the **transaction fee revenue model** a company receives a fee for enabling or executing a transaction.

For example eBay.com created an online auction marketplace and receives a small transaction fee from a seller if the seller is successful in selling the item.

E- Trade.com an online stockbroker, receives transaction fees each time it executes a stock transaction on behalf of a customer.

In the **sales revenue model** companies derive revenue by selling goods, information or services to customers.

Companies such as Amazon.com, which sells music, and other products, Double click.net which gathers information about a users and then sells it to other companies, and Salesforce.com which sells sales management services over the web, all have sales revenue models.

In the **affiliate revenue model** sites that steer business to an "affiliate" receive a referral fee or percentage of the revenue from any resulting sales.

For example Mypoints.com makes money by connecting companies with potential customers by offer special deals to its members. When they take advantage of an offer and make a purchase, members earn "points" they can redeem for freebies, and Mypoints.com receives a fee.

Below Table summarizes these major revenue models.

FIVE PRIMARY REVENUE MODELS

REVENUE MODEL	EXAMPLE	REVENUE SOURCE
Advertising	Yahoo.com	Fees from advertisers in exchange for advertisements
Subscription	WSJ.com, Consumerreports.org, Sportsline.com	Fees from subscribers in exchange for access to content or services
Transaction Fee	eBay.com, E-Trade.com	Fees (commissions) for enabling or executing a transaction
Sales	Amazon.com, DoubleClick.net, Salesforce.com	Sales of goods, information or services
Affiliate	Mypoints.com	Fees for business referrals

Market Opportunity:

The term market opportunity refers to the company's intended marketspace (i.e an area of actual or potential commercial value) 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.

For instance, let's assume you are analyzing a software training company that creates software learning systems for sale to corporations over the Internet. The overall size of the software training market for all market segments is approximately $70 billion.

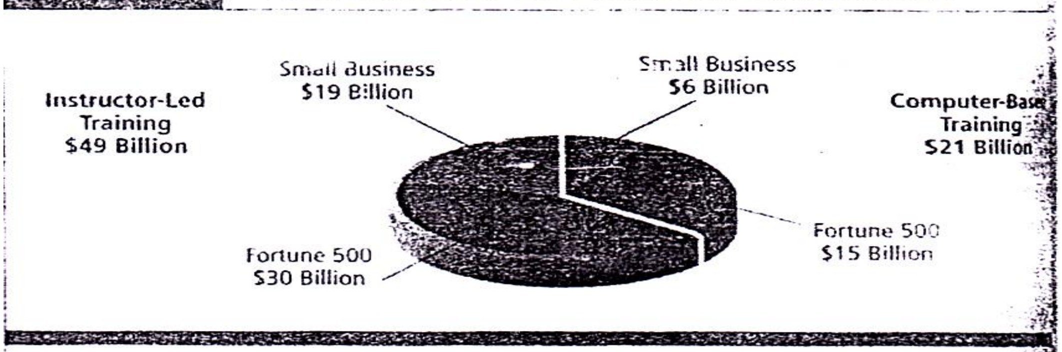
The overall market can be broken down however into two major market segments: instructor-led-training products which comprise about 70% of the market ($49 billion in revenue) and computer-based training which accounts for 30% ($21 billion).

Within each of those major market segments there are further market niches, such as the Fortune 1000 computer based training market and the small business computer based training market.

Because the firm is a start-up firm, it cannot compete effectively in the large business, computer based training market (about $15 billion). Large brand – name training firms dominate this niche.

Its real market opportunity is to cell to the thousands of small business firms who spend about $6 billion on computer based software training and who desperately need a cost effective training solution. This then is the size of the firm's realistic market opportunity.

FIGURE 2.1 MARKETSPACE AND MARKET OPPORTUNITY IN THE $70 BILLION SOFTWARE TRAINING MARKET



Market spaces are composed of many market segments. Your realistic market opportunity will typically focus on one or a few market segments.

Competitive Environment:

A firm's competitive environment refers to the other companies operating in the same marketspace selling similar products.

The competitive environment for a company is influenced by several factors: how many competitors are active, how large their operations are, what the market share of each competitor is, how profitable these firms are and how they price their products.

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 example priceline.com and Hotwire.com, both of whom sell discount airline tickets online, are direct competitors because both companies sell products that can be considered close substitutes for one another.

Indirect competitors are companies that may be in different industries but still compete indirectly.

Priceline.com and Amazon.com for instance, can be considered indirect competitors. While Amazon.com currently does not offer airline tickets, its expertise in developing online commerce and in facilitating Internet traffic, either alone or in conjunction with other e-commerce or offline companies, gives it the ability to quickly do so.

Automobile manufacturers and airline companies operate in different industries but they still compete indirectly because they offer consumers alternative means of transportation.

The online music service provided by MyMp3.com competes indirectly with Amazon.com's book sales because both web sites offer consumers alternative modes of entertainment.

Tea and Coffee manufacturer competes indirectly because both provide an alternative means of refreshing drink.

The existence of a large number of competitors in anyone segment may be a sign that the market is saturated and that it may be difficult to become profitable.

On the other hand, a lack of competitors cold either signal an untapped market niche ripe for the picking or a market that has already been tried without success because there is no money to be made.

Analysis of the competitive environment can help you decide which it is.

Competitive Advantage:

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

Firms also compete on scope. Some firms can develop global markets while other firms can only develop a national or regional market.

Firms that can provide superior products at lowest cost on a global basis are truly advantaged.

Firms achieve competitive advantages because they have somehow been able to obtain differential access to the factors of production that are denied to their competitors – at least in the short term.

1. Perhaps the firm has been able to obtain very favorable terms from suppliers, shippers or sources of labor.
2. Or perhaps the firm has more experienced, knowledgeable, loyal employees than any competitors.
3. Perhaps the firm has a patent on a product that others cannot imitate.
4. Or access to investment capital through a network of former business colleagues or a brand name and popular image that other firms cannot duplicate.

An **Asymmetry** exists whenever one participant in a market has more resources - financial backing, knowledge, information and/or power than other participants.

Asymmetries lead to some firms having an edge over others, permitting them to come to market with better products, faster than competitors, and sometimes at lower cost.

For instance when papa john's pizza began advertising that its founder was the former founder of pizza Hut, the company earned instant credibility.

Similarly when Geraldine Laybourne left her senior position at Disney to start the online women's network, Oxygen.com, her company was given better than average odds of success simply because of her background and her connections, which included several larger investors who were willing to invest significant capital to start the company.

One rather unique competitive advantage derives from being **first mover**.

A **first mover** advantage is a competitive market advantage for a firm that results from being the first into a maketplace with a serviceable product or service.

If first movers develop a loyal following or a unique interface that is difficult to imitate, they can sustain their first mover advantage for long periods. Amazon.com provides a good example.

However in the history of technology driven business innovation most, first movers lack the resources to sustain their advantages and often following firms reap the largest rewards.

Some competitive advantages are called "unfair". **An unfair competitive advantage** occurs when one firm develops an advantage based on a factor that other firms cannot purchase.

For instance, a brand name cannot be purchased and is in that sense an "unfair" advantage.

Brands are upon loyalty, trust, reliability and quality. Once obtained, they are difficult to copy or imitate and they permit firms to charge premium prices for their products.

In perfect markets, there are no competitive advantages or asymmetries because all firms have access to all the factors of production (including information and knowledge) equally.

However, real markets are imperfect and asymmetries leading to competitive advantages do exist at least in the short term.

Most competitive advantages are short term, although some such as the competitive advantage enjoyed by Coca-Cola because of the coke brand name can be sustained for very long periods. But not forever coke's Sweet soft drink is increasingly challenged by fruit, health and unique flavor drinks.

Companies are said to leverage their competitive assets when they use their competitive advantages to achieve more advantages in surrounding markets.

For instance, Amazon.com's move into the online auction arena leveraged the company huge customer database, offering customers one more way to buy from Amazon and giving them new access to just about any item someone else had to sell.

Amazon's competitive advantages included the years of e-commerce experience the company had already amassed by the time it ventured into online auctions, plus its database of millions of customers.

Market Strategy:

No matter how tremendous firm's qualities, its marketing strategy and execution are often just as important. 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.

Part of kozmo.com's marketing strategy, for instance, was to use partners such as Starbucks Coffee to help attract new customers. By partnering with other companies that could benefit from fast customer deliveries, kozmo attempted to extend its reach.

Other companies such as Yahoo.com, have used a different marketing strategy. They invest heavily in advertising to get the word out about their site. Simply introducing someone to a new site can be all that is needed to encourage them to use it.

AOL, in contrast, used sampling to attract new users. AOL enclosed CDs with a free trial offer in magazines and newspapers across the country. By distributing a huge volume of samples, AOL hoped that at least a small percentage would opt to try the software and decide to become a new subscriber. The strategy has proven to be very successful for AOL and today they have almost 30million subscribers.

Organizational Development:

Although many entrepreneurial ventures are started by one visionary individual, it is rare that one person alone can grow an idea into a multi- million dollar company.

In most cases, fast- growth companies - especially e-commerce businesses - need employees and a set of business procedures.

In short, all forms - new ones in particular - need an organization to efficiently implement their business plans and strategies.

Many e-commerce firms and many traditional firms who attempt an e-commerce strategy have failed because they lacked organization structures and supportive cultural values required to support new forms of commerce.

Companies that hope to grow and thrive need to have a plan for organization development that describes how the company will organize the wok 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.

Typically, in the beginning, generalists who can perform multiple tasks are hired. As the company grows, recruiting becomes more specialized.

For instance, at the outset, a business may have one marketing manager. But after two or three years of steady growth, that one marketing position may be broken down into seven separate jobs done by seven individuals.

For instance, eBay.com founder Pierre Omidyar started an online auction site to help his girlfriend trade pez dispensers with other collectors, but within a few months the volume of business had far exceeded what he alone could handle. So he began hiring people with more business experience to help out. Soon the company had many employees, departments and managers who were responsible for overseeing the various aspects of the company.

Management Team:

Arguably, the single most important element of 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 weak business model, but they should be able to change the model and redefine the business as it becomes necessary.

Eventually, most companies get to the point of having several senior executives or managers. How skilled managers are, however, can be a source of competitive advantage or disadvantage.

The challenge is to find people who have both the experience and the ability to apply that experience to new situations.

To be able to identify good managers for a business start up, first consider the kinds is experiences that would be helpful to a manger joining your company.

1. What kind of technical background is desirable?
2. What kind of supervisory experience is necessary?
3. How many years in a particular function should be required?
4. What job functions should be fulfilled first: marketing, production, finance or operations? Especially in situations where financing will be needed to get a company off the ground, do prospective senior managers have experience and contacts for raising financing from outside investors?

❖ CATEGORIZING E-COMMERCE BUSINESS MODELS:

There are many e-commerce business models and more are being invented every day. The number of such models is limited only by the human imagination. There is no one correct way to categorize these business models.

But business models can be categorized according to the different e-commerce sectors – B2C, B2B, C2C etc. - in which they are utilized. Similar business models may appear in more than one sector.

For example the business models of online retailers (often called e-tailers) and e-distributors are quite similar. However they are distinguished somewhat by the market focus of the sector in which they are used.

In the case of e-tailers in the B2B sector, the business models focuses on sales to the individual consumer, while it case of the e-distributor, the business model focuses on sales to another business.

The type of e-commerce technology involved can also affect the classification of a business model. M – commerce, for instance, refers to e-commerce conducted over wireless networks. The e-tail business model, for instance, can also be used M-commerce and while the basic business model may remain fundamentally same as that used in the B2B sector, it will nonetheless have to be adapted to the special challenges posed by the M-commerce environment.

Some companies use multiple business models.

For instance eBay.com can be considered as a B2C market maker. At the same time eBay can also be considered as having a C2C business model. If eBay adopts wireless mobile computing, allowing customers to bid on auctions from their telephone or wireless web machines, then eBay may also be as described as having a M-commerce business model.

Many companies will have closely related B2C, B2B and M-commerce variations on their basic business model. Such is the expanding nature of e-commerce on the Web.

❖ MAJOR BUSINESS-TO-CONSUMER (B2C) BUSINESS MODELS:

Business to consumer (B2C) e-commerce, in which online businesses seek to reach individual consumers, is the most well-known and familiar type of e-commerce.

Table illustrates the major business models utilized in the B2C arena.

BUSINESS MODEL	VARIATIONS	EXAMPLES	DESCRIPTION	REVENUE MODEL
Portal	Horizontal/ General	Yahoo.com, AOL.com, MSN.com, Excite@horne.com	Offers an integrated package of services and content such as search, news, e-mail, chat, music downloads, video streaming and calendars. Seeks to be a user's home base.	Advertising, subscription fees, transaction fees.
	Vertical/ Specialized (Vortal)	iBoats.com	Offers services and products to specialized marketspace.	Advertising, subscription fees, transaction fees.
E-tailer	virtual Merchant	Amozon.com	Online version of retail store where customers can shop at any hour of the day or night home or office.	Sales of goods.
	Clicks and Mortar	Walmart.com	Online distribution channel for company that also has physical stores.	Sales of goods.
	catalog merchant	landsEnd.com	Online version of direct mail catalog	Sales of goods
	online Mall	Fashionamll.com	Online version of mall	Sales of goods, transaction fees.
	Manufacturer – direct	Dell.com	Online sales made directly by manufacturer	Sales of goods
Content Provider		WSJ.com, Sportslin.com, CNN.com	Information & entertainment providers such as newspapers, sports sites and other online sources that offer customers up to date news and special interest, how to guidance and tips and/or information sales.	Advertising, subscription fees, affiliate referral fees.
Transaction Broker		E-Trade.com, Expedia.com, monster.com	Processors of online sales transactions, such as stock brokers and travel agents that increase customers productivity by helping them get things done faster.	Transaction fees.

Market Creator	Auction and other forms of dynamic pricing	eBay.com, Priceline.com	Web-based businesses that use Internet technology to create markets that bring buyers and sellers together	Transaction fees.
Service Provider		xDrive.com, whatsitwortoyou.com myCFO.com	Companies that make money by selling users a service, rather than a product	Sales of services.
Community Provider		About.com, iVillage.com, Blackplanet.com	Sites where individuals with particular interest, hobbies and common experiences can come together and compare notes.	Advertising, subscription, affiliate referral fees.

PORTAL:

Portals such as yahoo.com, AOL.com and MSN.com 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.

While five years ago, portals sought to be viewed as “gateways” to the Internet, the portal business model is to be a destination site.

Portals do not sell anything directly or so it seems and in that sense they can present themselves as unbiased.

The market opportunity is very large in 2001 about 170 million people in the United States had access the Internet.

Portals generate revenue primarily by charging advertisers for ad placement, collecting referral fees for steering customers to other sites and charging for premium services.

AOL and MSN which in addition to being portals are also Internet Service Providers (ISPs) to provide access to the Internet and the web add an additional revenue stream: monthly subscription fees of around $22-$24 per month.

Although there are numerous portal/ search engine sites, the top ten sites more than 90% of the search engine traffic because of their superior brand recognition.

Many of the top sites were among the first to appear on the web and therefore had first mover advantages. Being first confers advantage because customers come to trust a reliable provider and experience switching costs if they change to late arrivals in the market.

By garnering a large chunk or the marketplace, first movers - just like a single telephone network - can offer customers access to commonly shared ideas, standards and experiences.

Yahoo, AOL, MSN and others like them are considered to be **Horizontal portals** because they define their marketspace to include all users of the Internet.

Vertical portals (sometimes called vortals) attempt to provide similar services as horizontal portals, but are focused around a particular subject matter or market segment.

For instance iBoats.com specializes in the consumer boating market that contains about 16 million Americans who own or rent boats.

Although the total number of vortal users may be much lower than the number of portal users, if the market segment is attractive enough, advertisers are willing to pay a premium in order to reach a targeted audience.

E-TAILER:

Online retail stores, often called e-tailers, come in all sizes and shapes, from giant Amazon.com to tiny local stores who have a web site.

E-tailers are much like the typical brick and mortar storefront, except that customers only have dial into the Internet to check their inventory and place an order.

Some e-tailers, sometimes referred to as "**clicks and mortar**" or "**clicks and bricks**" are subsidiaries of existing physical stores and carry the same products.

JCPenney, Barnes & Noble, Wal-mart and Staples are four examples of companies with complementary online stores.

Other, however, operate only in the virtual world, without any ties to physical location. Amazon.com, iBaby.com and Marthastewart.com are examples of these.

Several other variations of e-tailers - such as online versions of direct mail catalogs, online malls and manufacturer - direct online sales - also exist.

Given that the overall retail market in the United States in 2000 was estimated to be about $3.2 trillion dollars, the market opportunity for e-tailers is very large.

With the growing population of Internet users approaching about 60% of U.S households in 2001 representing about 170 million potential consumers, there has literally been an explosion in B2C e-tailers.

Every Internet user is a potential customer. Customer who feel time starved are even hotter prospects, since they want shopping solutions that will eliminate the need to drive to the mall or store.

The e-tail revenue model is product based, with customers paying for the purchase of a particular item.

This sector is extremely competitive, however. Since barriers to entry (the total cost of entering a new marketplace) into the web e-tail market are low, tens of thousands of small e-tail shops have sprung up on the web.

Becoming profitable and surviving is very difficult for e-tailers with no prior brand name or experience.

Since 1999, hundreds, if not thousands, of e-tailers have failed and closed shop.

The e-tailer's challenge is differentiating its business from existing stores.

How is a new e-tailer going to perform better than or differently from e-Toys.com and 0nline toy e-tailer for example, which was well funded and still couldn't survive?

Companies that try to reach every online consumer are likely to deplete their resources quickly. Those that develop a niche strategy, clearly identifying their target market and its needs, are best prepared to make a profit.

Keeping expenses low, selection broad and inventory controlled are keys to success in e-talling, with inventory being the most difficult to gauge.

The holiday season of 1999 proved to be a fiasco for e-tailers that were caught without adequate inventory, for instance, eToys.com was one of the hardest hit, causing a public relations nightmare and thousands of disgruntled customers who were unlikely to trust the business again when holiday gifts were not delivered on time, as promised. That slip-up is one of the reasons for e-Toys big sell off of inventory, little more than year later - they lost their customers' trust.

CONTENT PROVIDER:

Although there are many different ways the Internet can be useful "information content", which can be defined broadly to include all forms of intellectual property, is one of the largest types of Internet usage.

Intellectual Property refers human expression that can be put into a tangible medium such as text, CDs, or the web.

Content providers distribute information content, such as digital news, music, photos, video and artwork over the web.

Retrieving and paying for content is the second largest revenue source for B2C e-commerce, accounting for 14.9% of online sales in 2000.

More Internet users go on the web to retrieve information than to purchase products (70% versus 53%)

Content providers make money by charging subscribers a subscription instance, in the case of MP3.com, a monthly subscription fee provides users access to thousands of song tracks.

Other content providers, such as WSJ.com (the Wall Street journal’s online newspaper), Harvard Business Review and many others charge customers for content downloads in addition to or in place of a subscription fee.

Micropayment systems technology such as the Qpass system, provides providers with a cost effective method for processing high volumes of very small monetary transactions (anywhere from $.25 to $5.00 per transaction)

Micropayment systems have greatly enhanced the revenue model prospects of content providers who wish to charge by the download.

Content providers such as MP3.com all money by selling advertising space on their sites.

Of course, not all online contain providers charge for their information - just look at Sportsline.com, CIO.com, thestandard.com and the online versions of many other 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.

The key to becoming a successful content provider is owning the content. Traditional owners of copy righted content - publishers of books and newspapers, broadcasters of radio and television content, music publishers and movie studios - have powerful advantages over newcomers to the Web.

Some content providers, however, do not own content, but syndicate (aggregate) and then distribute content produced by others. **Syndication** is a major variation of the standard content provider model.

Into Networks.com and intertainment.com for instance, license content such as games, videos and software training programs from owners and then distribute the content on high speed Internet connections to small businesses and homes.

Any e-commerce start up that intends to make money by providing content is likely to face difficulties unless it has unique information source that others cannot access. For the most part, this business category is dominated by traditional content providers.

One example of a successful content provider start-up is drudgereport.com, a political and entertainment site started by a would be journalist with no training or experience.

Through word - of – mouth, its founder Matt Drudge, garnered support and a long list of information tipsters. Ultimately a tipster leaked word of the Monica Lewinsky scandal and the Drudge Report was the first media source anywhere to report it. Since then the site has grown tremendously and has inked licensing deals with AOL and TV radio shows.

Despite Matt Drudge's lack of experience and business savvy, the Drudge report has attracted thousands of regular readers through smart promotional moves - and luck.

TRRANSACTION BROKER:

Sites that process transactions for consumers normally handled in person by phone or mail are transaction brokers.

The largest industries using this model are financial services, travel services and job placement services.

Online stockbrokers such as E-Trade.com, Ameritrade.com and Schwab.com for instance have captured about 20% of retail stock transactions.

The online Transaction broker's primary value propositions are savings of money and time. In addition most transaction brokers provide timely information and opinion.

Sites such as Monster.com offer job searchers a national marketplace for their talents and offer employers a national resource for talent. Both employers and job seekers are attracted by the convenience and currency of information.

Online stock brokers charges commissions that are considerably less than traditional brokers, with many offering substantial deals such as cash and a certain number of free trades to lure new customers.

Given rising consumer interest in financial planning and the stock market, the market opportunity for online transaction brokers appears to be large. However, while millions of customers have shifted to online brokers, many have been wary to switch from their traditional broker who provides personal advice and a brand name.

Fears of privacy invasion and the loss of control over personal financial information also contribute to market resistance. Consequently, the challenge for online brokers is to overcome consumer fears by emphasizing the security and privacy measures in place.

Transaction brokers make money each time transaction occurs. Each stock trade for example nets the company a fee based either on a flat rate or a sliding scale related to the size of the transaction.

Attracting new customers and encouraging them to trade frequently are the keys to generating more revenue for these companies.

Job sites generate listing fees from employers up front, rather than a fee when a position is filled.

Competition among brokers has become more fierce in the past few years, due to new entrants offering ever more appealing offers to consumers to sign on, those who prospered initially were the first movers such as E-Trade.com, Ameritrade.com, datek.com and Schwab.com.

During the E-commerce I era, many of these firms engaged in expensive marketing campaigns and were willing to pay up to $400 to acquire a single customer.

However, online brokerages are now in direct competition with traditional brokerage firms who have now joined the online marketspace. Significant consolidation is occurring in this industry.

The number of job sites has also multiplied, but the largest sites – those with the largest number of job listings - are pulling ahead of smaller niche companies.

In both industries, only a few, very large firms are likely to survive in the long term.

MARKET CREATOR:

Market creators build a digital environment where buyers and sellers can meet, display products, search for products, and establish a price for products.

Prior to the Internet and the web, market creators relied on physical places to establish a market.

Beginning with the medieval marketplace, extending to today's New York Stock Exchange, a market has meant a physical space for transacting.

There were few private digital network marketplaces prior to the web. The web changed this by making it possible to separate markets from physical space.

A prime example is Priceline.com which allows consumers to set the price they are willing to pay for various travel accommodations and other products (sometimes referred to as reverse auction) and eBay.com the online auction site utilized by both businesses and consumers.

For example eBay's auction business model is to create a digital electronic environment for buyers and sellers to meet agree on price and transact. This is different from transaction brokers who actually carry out the transaction for their customers, acting as agents in larger markets.

At eBay the buyers and sellers are their own agents. Each sale on eBay nets the company a fee, in addition to a listing fee upfront.

eBay is one of the few web sites that has been profitable virtually from the beginning. Why? One answer s that eBay has no inventor r production costs. It is a simply a middleman.

The market opportunity for market creators is potentially vast, but only if the firm has the financial resources and marketing plan to attract sufficient sellers and buyers to the marketplace. About seven million people use eBay each month and this makes for an efficient market:

There are many sellers and buyers for each type of product, sometimes for the same product, for example, laptop computer models.

New firms wishing to create a market require an aggressive branding and awareness program to attract a sufficient critical mass of customers.

Some very large web based firms such as Amazon.com have leveraged their large customer base and started auctions.

Many other digital auctions have sprung up in smaller, more specialized vertical market segments such as jewelry and automobiles.

In addition to marketing and branding, a company's management team and organization can make difference in creating new markets, especially if some managers have had experience in similar businesses.

Speed is often the key in such situations. The ability to become operational quickly can make the difference between success and failure.

SERVICE PROVIDER:

While e-tailers sell products online, service providers offer services online. Some charge a fee, while others generate revenue from other sources, such as advertising and by collecting personal information that is useful in direct marketing.

Obviously, some services cannot be provided online; plumbing and car repair, for example, cannot be completed via the Internet. Arrangements can be made, however, for car repair and for plumbing via the Internet.

Many service providers are

1. computer related, such as information storage at xDrove.com,
2. or provide consulting services, such as at whatsitworthoyou.com, where consumers can have an antiques and collectibles appraises online,
3. or my CFO.com, which provides advice and services to high net worth individuals.

Grocery shopping services such as Netgroce.com can also be considered service providers.

Most financial transaction brokers (described above) provide services such as college tuition and pension planning.

Travel brokers also provide vacation - planning services, not just transaction with airlines and hotels.

The basic value proposition of service providers is that they offer consumers a valuable, convenient, time-saving and low cost alternative to traditional service providers.

Research has found, for instance, that a major factor in predicting online buying behavior is **Time starvation**. Time starved people tend to be busy professional who work long hours and simply do not have the time to pick up packages or buy groceries.

Service providers make money through subscription fees (if there is recurring need for the service), through one time payments for single use of the service, or through commissions on items pure delivered.

When a new subscriber signs on for monthly information storage xDrive.com makes money.

Much like retailers, who trade products for cash, service providers trade knowledge, expertise and effort for revenue.

The market opportunity for service providers is as large as the variety of that can be provided and potentially is equal to the market opportunity for physical goods.

We live in as a service - based economy and society; witness the growth of fast food restaurants, package delivery services, and wireless cellular phone services. Consumers increasing demand for convenience products and services bodes well for current and future service providers.

Marketing of service providers must allay consumer fears about hiring online, as well as build confidence and familiarity among current and potential customers. Name recognition is the first challenge, in order to build comfort, with the second challenge being enticing consumers to try the service.

COMMUNITY PROVIDER:

Although community providers are not a new entity, the Internet made such like-minded individuals to meet and converse much easier, without the limitations of geography to hinder participation.

Community providers are sites that create a digital online environment where people with similar interests can transact (buy goods), communicate with like - minded people, receive interest - related information and even play out fantasies by adopting online personalities.

The basic value proposition of community providers is to create a fast, convenient, one - stop site where users can focus on their most important concerns and interests.

Community providers typically rely on a hybrid revenue model includes subscription fees, sales revenues, transaction fees, affiliate fees and advertising fees from other firms who are attracted by a tightly focused audience.

Community sites such as ParentSoup.com, Oxygen.com, and About.com make money through affiliate relationships with retailers and from advertising.

For instance, a parent might visit ParentSoup.com for tips on diapering a baby and be presented with a link to Huggies.com; if the parent clicks the link and then makes a purchase from Huggies.com, parentSoup gets a commission.

Likewise, banner ads also generate revenue.

At About.com, visitors can share tips and buy recommended books from Amazon.com, giving Abbout.com commission on every purchase.

Some of the oldest communities on the web are well.com, which provides a forum for technology and Internet-related discussions, and The MotleyFool (Fool.com), which the provides financial advice, news and opinions.

Consumers' interest in communities seems to be increasing, with the market opportunity expanding as well.

The key in developing a new community is to carve out a well defined niche that is currently not be being served. Targeting large market segments will only pit a company against bigger, better established competitors.

Small pockets - subbasements of larger markets - have the potential for future growth without as much competitive pressure.

The greatest challenge faced by community provider is balancing he cost of high quality content with the revenue derived from advertising. Currently, community sites are finding it difficult to make a profit and considerable consolidation in community sites will occur.

Firm qualities that are important among community providers are breadth and depth of knowledge.

Since the purpose of communities is to link consumers with similar interests and personal situation, having managers who can relate to such experiences is crucial.

Community members frequently request guidance and advice. Lack of experienced personnel can severely hamper the growth of a community which need facilitators and managers to keep discussions on course and relevant.

Enticing new participants to join community is the focus of most marketing strategies, with larger communities generating powerful word-of-mouth advertising and rising commissions.

The more community members, the higher the advertising rates that can be charged and the better the chances for sales at partner sites.

❖ **MAJOR BUSINESS TO BUSINESS (B2B) BUSINESS MODELS:**

Business-to-business (B2B) e-commerce is one in which business focus on selling to other businesses, is about three times the size of B2B commerce, even though most of the public attention has focused on B2C.

For instance, total revenues for all types of B2C e-commerce in 2001 were estimated to be about $65 billion, compared to an estimated $470 billion for all types of B2B commerce in 2001.

Experts predict that B2B purchasing will grow to $5.4 trillion by 2006, or about one - third of total inter - firm purchasing at that time.

Table lists the major business models utilized in the B2B arena.

BUSINESS MODEL	VARIATIONS	EXAMPLES	DESCRIPTION	REVENUE MODEL
Marketplace/ Exchange (B2B Hub)	Vertical	Direct Ag.com, e-Steel.com	Helps bring buyers and sellers together to reduce procurement cost for a specific industry	Transaction fees
	Horizontal	TradeOut.com	Same as vertical except focused on specific types of products and services	Transaction fees
E-distributor		Grainger.com	Connecting businesses directly with other businesses, reducing sales cycle and mark - up.	Sales of goods
B2B Service Provider	Traditional	Employeematters .com	Supports companies through online business services.	Sales of services
	Application Service provider (ASP)	Salesforce.com, Corio.com	Rents Internet - based software applications to businesses	Rental fees
Matchmaker		iShip.com	Helps businesses find what they want and need on the Web.	Transaction fees
Infomediary	Audience Broker	DoubleQick.net	Gathers information about consumers and uses it to help advertisers find the most appropriate audience.	Sales of information
	Lead Generator	AutoByTel.com	Gathers customer data and uses it to direct vendors to customers.	Referral fee

MARKETPLACE/EXCHANGE (B2B HUB):

Marketplace/exchanges, or B2B hubs, have garnered most of the B2B attention and funding because of their potential market size.

A Marketplace! exchange is a digital electronic marketplace where suppliers and commercial purchasers can conduct transactions.

GartnerGroup's Dataquest reports approximately 100 billion in business was handled by these all encompassing industry portals in 2000, with that figure expected to grow to $ 2.7 trillion by the year 2004.

For buyers, B2B hubs makes it possible to gather information, check out suppliers, collect prices and keep up-to-date on the latest happenings all in one place.

Sellers, on the other hand benefit from expanded access to buyers. The greater the number of potential buyers, the lower the sales cost and the higher the chances of making a sale. Some sites also have experienced higher average revenue per buyers, according to a Grainger Consulting Services study.

Marketplaces make it significantly less expensive and time consuming to identify potential suppliers, customers, and partners and to do business with each other. As a result, they can lower transaction costs – the cost of making a sale or purchase.

For instance, the cost for a corporate purchasing agent to place an order typically starts at $100. B2B hubs can also lower product costs and inventory – carrying costs - the cost of keeping a product on hand, or in warehouse.

Vertical marketplaces serve specific industries, such as the steel, automobile, chemical, floral or logging industry, while **Horizontal marketplaces** sell specific products and services to a wide range of companies.

Vertical marketplaces supply a smaller number of 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.

One of the largest vertical B2B marketplaces is Covisint, the auto parts exchange backed by DaimlerChrysler, ford, General Motors, Renault, commerceOne and oracle. Formed in October 2000, by December 2000, Covisint had logger over $350 million in transaction, conducted 100 auction and placed over catalogs 100 online.

Likewise DirectAg.com, serves the agricultural market, providing farmers and suppliers with news, commodities pricing, and forecasts, as well as volume purchasing opportunities that help users save time and money on purchases.

TradeOut.com, in comparison, auction surplus equipment off to the highest bidder in any industry, which is why it is an example of a horizontal market place.

It specializes in helping companies with excess inventory and idle assets sell their products and services to other companies that have a need for them. Businesses cab and sell to each other, freeing up cash and unloading inventory that in no longer of any use to them.

The key to success with marketplaces is size – the size of the industry and the number of registered users. If the industry that the marketplace seeks to serve is not large enough, it is not likely that the site will be profitable.

Similarly, if the site can no reach critical mass by attracting a large number of buyers and sellers, users will elsewhere.

In the next few years, experts predict a sharp consolidation within e-marketplaces, with the number of such sites diminishing dramatically, leaving just a few major B2B hubs. In addition, the concept of a centralize hub may slowly be replaced by direct peer- to-peer exchanges similar to those enabled by Napster in the music marketspace.

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 (MRO) supplies. In the past it relied on catalog sales and physical distribution centers in metropolitan areas. Its catalog of equipment went online in 1995 at grainger.com, giving businesses access to more than 220,000 items.

Company purchasing agents can search by type of product, such as motors, or tv or by specific brand name.

Whereas B2B hubs pull together many businesses, making it possible for them to business with other companies, e-distributors are set up by one company seeking to serve many customers.

However, as with B2B hubs, critical mass is a factor. 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.

Although W.W. Grainger established its Web site in order to conduct business with customers, General electric Aircraft engines backed into its role as an e-distributor.

GE Aircraft Engines is such large purchaser of aircraft engine parts that other purchasers in the aircraft industry almost always need the same parts GE is ordering from vendors.

GE decided to make its internal procurement system public, allowing fellow buyers of industrial products and equipment to visit its site, geae.com in search of needed parts and machinery. GE And other purchasers can buy together and receive larger discounts for larger orders.

In setting itself up as a focal point for such purchasing inquiries, GE improved its own purchasing power and relationships. This decision has created a new profit center for GE and reduced its own cost of acquisition.

B2B SERVICE PROVIDER:

Just as e-distributors provide products to other companies, B2B service providers sell business service to other firms.

"Traditional" B2B service providers offer online equivalents to common business services, such as accounting, financial services, human resource management, printing and so on.

Application service providers are another type of B2B service provider. An application service provider (ASP) is a company that sells access to Internet based software applications to other companies.

Salesforce.com for instance, enables companies to manage their sales forces. Businesses license salesforce.com's software based on the number of sales people who will be accessing the system.

This eliminates the need for firms buy or install complex sales force automation system.

B2B service providers make money through transaction fees, fees based on the number of workstation using the service or annual licensing fees (the method used by Salesforce.com). They offer purchasing firms significant advantages.

Services tend to be knowledge-intensive, based on expensive professional employees.

Computer based software management systems are difficult to build or customize to one's business.

A B2B service provide such as Salesforc.com can build an expensive sales force management system and then spread the cost of the system over many users achieving what economists call **scale economies**.

Scale economies arise when large fixed-cost production systems (such as factories or software systems) can be operated at full capacity with no idle time.

In the case of software, the marginal cost of a digital copy of a software program is nearly zero, and finding additional buyers for an expensive software program is exceptionally profitable.

This is much more efficient than having every firm build its own sales force management system, and it permits Salesfrce.com to specialize in single type of system and offer the marketplace a "best of breed" system.

MATCHAMAKER:

Companies that make money by linking other businesses and taking a cut of any business that occurs via a transaction or usage fee are called matchmakers. They are a form of the transaction brokers familiar in the B2C area.

For example, iShip.com, acquired in May 2001 by United Parcel Service from Stamps.com, helps businesses find the cheapest shipper for their packages.

Although other companies sell expensive multicarrier shipping software, iShip lets companies access its Web site free of charge to compare the rates from several major carriers, including Federal Express, Airborne and the U.S. Postal Service.

Once a company has located the cheapest shipper for its particular package, it pays iShip a fee in proceed with the shipment.

INFOMEDIARY:

The term infomediary was originally coined by Hagel and Rayport to describe a new breed of company that would act as custodians, agents and brokers of customer information, marketing it to businesses on consumers behalf while protecting their privacy at the same time.

Today, although the privacy - protection aspects of their proposed definition have not necessarily come to fruition, there are a number of companies whose business model is premised upon gathering information about consumers and selling it to other businesses.

A vendor - oriented infomediary sells the information it gathers to vendors who use it to target products, services and promotions to particular consumer. Vendor - oriented infomediaries can be classified into two basic subcategories: audience brokers and lead generators.

Audience brokers capture information about customers and use it to help advertisers reach the most appropriate audiences for their advertising. A leading example is Doubleclick.

Lead generators gather customer data, from which they then create customer profiles and preferences. They then direct vendors of products and services that fit these customer profiles to the customers.

One example of a lead generator is AutoByTel which operates a national network of auto dealers to whom Web users are referred in return for a fee per lead.

NOTE: The basic objective of this material is to supplement teaching and discussion in the classroom in the subject. Students are required to go for extra reading in the subject through Library work.