Online business models
B2C INTERNET MARKETING:
CATEGORIES OF PLAYERS
E-commerce: players

Dot.com \rightarrow Pure Player

Old Economy \rightarrow Click & Bricks

\rightarrow Click & Mortar
E-commerce: players

Dot.com

Old Economy

Pure Player

Click & Bricks

Click & Mortar
Access through multiple channels beyond traditional brick-amp-mortar stores: Internet, catalogs, phone, text-messaging, kiosk, stores, etc.

These strategies are based on the belief that multichannel customers have a higher annual purchase volume than single-channel customers.
What is a business model?

“A method of doing business by which a company can generate revenue to sustain itself” (Turban et al., 2002)

A business model consists of two elements:
(a) what the business does
(b) how the business makes money doing these things.

PROFITS = REVENUE - COSTS

Understanding how an organisation creates sustainable revenues and profits => competitive advantage

Online B2C business models

Value for the customers

Customer value proposition: sum of benefits we can offer to our customers
Why should customer choose our offering?

REVENUE

Value for the firm
Online B2C business models

1. Brokerage
2. Merchant
3. Advertising
4. Subscription
5. Infomediary
6. Affiliate
7. Community
8. Manufacturer
9. Utility

What are the impacts on revenues and relationships in the long period?
1. Brokerage

- Bringing buyers and sellers together to facilitate a transaction
- Brokers charge a fee or a commission for each transaction they enable
  - Fee: percentage of the transaction / flat fee
  - Paid by the buyer / paid by the seller
- Brokers do not take possession of goods and services

- Ebay
1. Brokerage

- **Virtual Mall**: a site that hosts many online merchants, e.g. http://shopping.yahoo.com
- **Auction Broker**: www.ebay.com
- **Reverse Auction**: e.g. "name-your-price" www.priceline.com, broker’s fee?
- **Transaction Broker**: provides a third party payment mechanism for buyer and seller to conduct a transaction (e.g. PayPal)
- **Search agent**: an agent used to search out the best price for a good or service specified by the buyer (www.flightlowcost.com)
- **Marketplace**: e.g. http://www.chemconnect.com/
- **Buyer aggregator**

**Disintermediation or hypermediation?**
1. Brokerage
2. Merchant

- A wholesaler or a retailer of goods and services, selling them at some markup

- The merchant is taking a certain amount of business risk (e.g. inventory)

- Dealing with distribution: handling products, matching them to customer orders, shipping

- Huge investments, it takes time to start generating profits (Amazon.com, founded in 1994, profitable in 2001)
2. Merchant

- Virtual Merchant or e-tailer: a retail merchant that operates only over the web

- Catalog Merchant: mail-order business with a web based catalog (e.g. Avon)

- Click and mortar establishment with web storefront (e.g. Gap)

- Bit vendors selling digital products and services (iTunes)
3. Advertising

- Print, newspaper, magazines, radio, tv => online

- The broadcaster produce or distribute content and look for businesses that will pay to place advertisements within the content (e.g. entertainment supported by advertising)

- High volume of traffic is needed

- Banner advertisement => clicking through

- Rich media

- Paid placement approach (Google, Yahoo, etc.) of advertising within search and the placement of links within various kinds of websites
3. Advertising

- **Portal**: a search engine that may include several content or services (e.g. Yahoo)
  - **personalized portal** (e.g.: My.Yahoo!) allows interface and content customization
  - **niche portal**

- **Classifieds**: list items for sale or wanted for purchase (e.g. houses; e.g. monter.com)

- **Bargain Discounter**: e.g. Buy.com selling its goods typically at or below cost, and seeks to make a profit largely through advertising.
4. Subscription

- The customer is charged a **periodic fee** (daily, monthly, annual, etc.) regardless of actual usage rates
- From product to services => subscription (e.g. software)
- Premium content
- Advantage of predicting the future revenue stream
4. Subscription
5. Infomediary

- **Information intermediaries**: collecting and selling information, assisting buyers or sellers to understand a given market. (e.g. eopinions.com)

- **Registration Model**: free content-based sites which require users to register. Registration allows inter-session tracking of users' site usage patterns and thereby generates data of greater potential value in targeted advertising campaigns.

- **Audience measurement services**: e.g. Nielsen Netratings
In contrast to the generalized portal, the affiliate model, provides **purchase opportunities wherever people may be surfing**

Offering financial incentives to **affiliated partner sites**, providing purchase-point click-through to the merchant.

If an affiliate does **not generate sales**, it represents **no cost** to the merchant. (www.amazon.com)

Variations of this model include, banner exchange, revenue sharing programs, etc.
6. Affiliate
7. Community

- Model based on users loyalty
- Sometimes users are regular contributors of content and/or money (wikipedia).
- Advertising, infomediary or specialized portal opportunities.
- Micro-communities
- The community model may also be based on a subscription fee for premium services.
7. Community
8. Manufacturer

- Manufacturers reaching buyers directly without intermediaries e.g. Dell

- The manufacturer model can be based on efficiency (cost-savings that may or may not be passed on to consumers), improved customer service, and a better understanding of customer preferences.

- Multichannel conflicts
9. Utility

- The utility model is a pay as you go approach
- E.g. internet service provider
Models can / should be combined together: one revenue stream is inadequate

Creativity within generic models

Continuous development of new business models

If the company is not a dot.com pure player, the online business model must be coordinated with the offline business model