E-commerce

Advantages of E-commerce to Organizations

- Using e-commerce, organizations can expand their market to national and international markets with minimum capital investment.
- Business can be started with least amount of capital. Therefore, high initial cost is not required.
- E-commerce improves the brand image of the company.
- Build customer loyalty.
- Reduce marketing and advertising costs.
- E-commerce increases the productivity of organizations.

Advantages to Customers

- Available 24/7/365 - never close.
- E-commerce application provides users with more options to compare and select the cheaper and better options.
- E-commerce application provides users with a quick delivery of products.
- E-commerce provides options of virtual auctions.
- Customers can easily compare the prices of goods.
- E-commerce increases the competition among organizations and as a result, organizations provides attractive offers and substantial discounts to customers.

- E-commerce helps organizations to provide better customer service.
- Customers can easily select products from different providers without moving around physically.
- E-commerce saves both time and money for buyers as they do not need to go to the store physically.

Disadvantages of e-commerce

- Users may not trust the site being an unknown faceless seller.
- Lack of security and privacy: It is difficult to ensure the security or privacy on online transactions.
- Quality of products is not assured.
- Unable to examine products personally.
- Internet access is still not cheap.
- Not everyone is connected to the Internet.

E-commerce business models

- **A business model:** Set of planned activities designed to result in a profit in a marketplace.
- **A business model** describes how a company make a plan to generate revenue and make a profit from operations.
- A business model is at the center of the **business plan** which is a document that describes a firm's business model.
- **E-commerce business model**: aims to use the unique qualities of the Internet and the World Wide Web .

Key elements of business model

1. Value proposition.
2. Revenue model.
3. Market opportunity.
4. Competitive environment.
5. Competitive advantage.
6. Market strategy.
7. Organizational development plan.

1. Value proposition

- **Value proposition** defines how a company's product or service fulfills the needs of customers.
- To develop and/or analyse a firm's value proposition: The firm should identify the reasons that drive customers to buy from it instead of another firm. It should also identify what it provides that other firms do not and cannot.
- Example: Amazon's primary value propositions are incomparable selection and convenience.

Successful e-commerce value propositions include:

- Personalization and customization of product offering.
- Reduction of product search costs.
- Reduction of price discovery costs.
- Facilitation of transactions by managing product delivery.

2. Revenue model

- Revenue model describes how the firm will earn revenue, produce profits, and produce a superior return on invested capital.
- The revenue model can be used interchangeably with financial model.
- Most companies rely on one, or some combination, of the following major ecommerce revenue models:
  A. Advertising (e.g. Yahoo)
  B. Subscription (e.g. WSJ)
  C. Transaction fee (e.g eBay)
  D. Sales (e.g. Amazon)
  E. Affiliate (e.g. MyPoints)

A. The advertising revenue model

- **The advertising revenue model**: a web site that offers its users content, services and/or products also provides the opportunity to advertise and receives fees from advertiser.
- **In this model,** a company provides a medium for advertisements and receives fees from advertisers. i.e. it involves getting fees from advertiser in exchange for advertisements.

- The web sites that are able to attract the greatest viewership or that have a highly specialized and differentiated viewership and are able to retain user attention are able to charge higher advertising rates.
- E.g. Yahoo makes a significant amount of revenue from search engine and online advertising.

B. Subscription revenue model

- **Subscription revenue model:** a web site that offers its users contents or services charges a subscription fee for access to some or all of its offerings.
- **Subscription revenue model** involves getting fees from subscriber in exchange for access to content or services. Example, accesses to online books or online Journals require subscriptions.

C. Transaction fee revenue model

- **Transaction fee revenue model:** a company receives fees (commissions) for enabling or executing a transaction. Example, eBay provides online auction marketplace and receives a transaction fee from a seller if the seller is successful in selling the item.

D. **Sales revenue model: it involves that** companies derive revenue by selling goods, information ‘or services to consumers. **Example,** Amazon which sells books, music and other products has sales revenue model.

E. **Affiliate revenue model**: involves fees for business referrals. In this model, a company guides a business to an affiliate and receives a referral fee or percentage of the revenue from any resulting sales. **Example**, My points makes money by connecting companies with potential customers by offering special deals to its members.

Revenue model	Example	Revenue source
Advertising	Yahoo	Fees from advertisers in exchange for advertisements
Subscription	Consumerreports.org	Fees from subscribers in exchange to content or services
Transaction fee	eBay	Fees for enabling or executing a transaction.
Sales	Amazon	Sales of goods, information, or services
Affiliate	My point	Fees for business referral

3. Market opportunity

- **Market opportunity:** the company’s intended marketspace and the overall potential financial opportunities available to the firm in that marketspace.
- **Marketspace** is an area of actual or potential commercial value in which a company intend to operate.
- The market opportunity is usually divided into smaller market niches. The realistic market opportunity is defined by the revenue potential in each of the market niches where you hope to compete.

4. Competitive Environment

- Competitive environment refers to the other companies selling similar products and operating in the same marketspace.
- It also refers to the presence of substitute products and potential new entrants to the market, as well as the bargaining power of customers and suppliers over your business.

Factors affect competitive environment

- The competitive environment for a company is influenced by several factors:
  - The number of active competitors.
  - The size of competitor's operations.
  - The market share of competitors.
  - The profitability and the pricing policy of competitors.

The types of competitors

- Firms typically have both direct and indirect competitors:

  1. Direct competitors :are those companies that sell products and services that are very similar and into the same market segment. For example, Travelocity and Priceline .
  2. Indirect competitors: are those companies that may be in different industries but still compete indirectly because their products can substitute for another. For example, automobile manufacturer and airlines companies operate in different industries, but they still compete indirectly because they offer consumers alternative means of transportation.

5. Competitive advantages

- **Competitive advantage**: Achieved by a firm when it can produce a superior product and/or bring the product to market at a lower price than most, or all, of its competitors.
- Firms also compete on scope which means that the company can develop global markets, while other firms can only develop a national or regional market.
- Firms also can compete when they provide superior products at lowest cost on a global basis.

Firms achieve competitive advantages because:

1. The firm has been able to obtain very favorable terms from suppliers.
2. The firm has more experienced, loyal and knowledgeable employees than any competitors.
3. The firm has a patent on a product that others cannot have.
4. The firm has a brand name and popular image that other firms cannot duplicate.

6. Market strategy

- **Market strategy:** is the plan a firm puts that details exactly how it intends to enter a new market and attract new customers.
- YouTube and Twitter have a social network marketing strategy which encourages users to post their content on the sites for free, build personal profile pages, contact their friends and build a community. This turn customers into marketing staff.

7. Organizational development plan

- **Development plan** describes how the company will organize the work that needs to be accomplished.
- Work typically divided into functional departments, e.g., production, shipping, marketing, customer support, and finance. Jobs within these functional areas are defined and recruitment begins for specific job titles and responsibilities .

Major B2C business models

- **Business-to-consumer e-commerce** involves that online businesses seek to reach individual consumers. It is the most well-known and familiar type of e-commerce. **The major B2C business models involve:**

  A. **Service Provider**: Companies that make money by selling users a service rather than a product.

  B. **Community Provider**: Sites where Individuals with a particular interests, hobbies, common experiences, or social networks come together and “meet” Online. E.g. Facebook.com.

C. **Market Creator**: Web-based business that use internet technology to create markets that bring and seller together. E.g Ebay, Priceline

D. **Content Provider**: Information and entertainment provider such as newspaper, sports sites that offers customer Up-to-date news and special Interests. E.g. CNN.com, Sportsline.com

E. **Portal**: offers users powerful Web search tools as well as an integrated package of content and services all in one place. E.g. Yahoo, MSN.

B2B Business Models

A. **E-distributor:** Supplies products and services directly to individual businesses. Owned by one company seeking to serve many customers.

B. **E-procurement**: Creates and sells access to digital E-markets.it Includes: B2B service providers.

C. **Exchanges**: Electronic digital marketplace where hundreds of suppliers meet a smaller number of very large commercial buyers.