E Commerce 2019 15th edition Laudon Solutions Manual

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Instructor's Manual: Chapter 2
E-commerce Business Models and Concepts

Learning Objectives

After reading this chapter, your students should be able to:

- 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.

Key Terms

advertising revenue model, p. 60
affiliate revenue model, p. 61
angel investors, p. 69
asymmetry, p. 66
B2B service provider, p. 84
barriers to entry, p. 76
business model, p. 58
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value proposition, p. 58
value web, p. 92
venture capital investors, p. 69

Brief Chapter Outline

Tweet Tweet: Will Twitter Ever Find a Business Model That Works?

2.1 E-commerce Business Models
- Introduction
- Eight Key Elements of a Business Model
  - *Insight on Society: Foursquare: Check Your Privacy at the Door*
- Raising Capital
  - *Insight on Business: Crowdfunding Takes off*
- Categorizing E-commerce Business Models: Some Difficulties

2.2 Major Business-to-Consumer (B2C) Business Models
- E-tailer

Figures

Tables

Teaching Suggestions

This chapter attempts to briefly summarize the variety of ways that the Internet, Web, and mobile platform can be used to build new business firms—firms that generate revenue and hopefully a profit. The challenge in this chapter is to focus on some simple, unchanging realities of the business world that have nothing to do with the Internet, and then to understand how the Internet can be used within this framework to develop new businesses. What pundits now say about the Internet is, "The Internet changed everything, except the rules of business."

The chapter starts out with the tale of Twitter's business model in the opening case, *Tweet Tweet: Will Twitter Ever Find a Business Model That Works?* Twitter has amassed some very significant online assets in the form of a large audience and behavioral data on this audience. Twitter is now monetizing these assets by selling online advertising space in the form of Promoted Tweets, Promoted Trends, and Promoted Accounts, as well as other methods detailed in the case. However, Twitter is having difficulty developing a business model that will deliver the profits expected by Wall Street. Class discussion questions for this case might include the following:

- What characteristics or benchmarks can be used to assess the business value of a company such as Twitter?
- What are Twitter's most important assets?
- Which of the various methods described for monetizing Twitter's assets do you feel might be most successful?
- Why has Twitter had such a tough time developing a business model that works?

Key Points

Business Models. One of the most abused phrases in the e-commerce lexicon is "business model." Put simply, a business model is a plan for making money. Like all models, a business model has several components that we describe in Section 2.1: value proposition, revenue model, market opportunity, competitive environment, competitive advantage, market strategy, organizational development, and management team. Students need to have a good understanding of each of these elements.

We discuss both business and social issues in the *Insight on Society* case, *Foursquare: Check Your Privacy at the Door*, which focuses on Foursquare's location-based services business. Location-based services, which involve the merger of geo-positioning technology (GPS) and the Internet, promise to deliver advertising and useful content to users based on their location. However, this same technology results in the ability for a company to track a user's whereabouts. While encouraging users to engage with their friends by posting their locations, these services pose significant privacy issues that users should consider. Class discussion questions include the following:

- What revenue model does Foursquare use? What other revenue models might be appropriate?
- Are privacy concerns the only shortcoming of location-based mobile services?
- Should business firms be allowed to text or call mobile devices with advertising messages based on location?

Raising Capital. This section provides an overview of the primary ways that e-commerce startups raise capital, including seed capital, incubators, angel investors, venture capital investors and crowdfunding, a new method recently enabled by the Jumpstart Our Business Startups (JOBS) Act.

The *Insight on Business* case, *Crowdfunding Takes Off,* provides a further look at the crowdfunding phenomenon. Some of the class discussion questions you might want to pose to your students include the following:

- What types of projects and companies might be able to use crowdfunding most successfully?
- Are there any negative aspects to crowdfunding?
- What obstacles are presented in the use of crowdfunding as a method of funding startups?

E-commerce Business Models. With several million commercial websites to consider, there is a vast variety of e-commerce business models. Many firms pursue multiple business models at once. Nevertheless, there clearly are dominant patterns to all this variety on the Web. We describe seven different and typical e-commerce B2C business models in Section 2.2: E-tailers, Community Providers (including social networks), Content Providers, Portals, Transaction Brokers, Market Creators, and Service Providers. Students should be able to describe how each of these models typically expects to generate revenue and earn profit.

The *Insight on Technology* case, *Connected Cars and the Future of E-commerce,* examines how changes in Internet technology, such as the Internet of Things, are driving the emergence of new business models in the online content market. Some questions that might help drive class discussion of this case include the following:

- What value does the Internet of Things (IoT) have for businesses?
- What impact does the IoT have on the content industry?
- What impact does the IoT have on vehicles?
- Are there any issues to "connected" cars?

B2B Models. B2B e-commerce is several orders of magnitude larger than B2C e-commerce. In Section 2.3, we describe the major generic types of B2B e-commerce: e-distributors, e-procurement companies, exchanges, industry consortia, and private industrial networks. Each of these models has a distinct revenue model, described further in Table 2.7.

How E-commerce Changes Business. In Section 2-4, we look at how e-commerce can change business in three major areas:

- Industry Structure
- Industry Value Chain
- Firm Value Chain

E-commerce can change industry structure by introducing substitute products, increasing the bargaining power of suppliers or of consumers and buyers, and by changing existing barriers to entry. Figure 2.3 provides a graphic illustration of these concepts. The Internet can change industry value chains insofar as suppliers, manufacturers, distributors, retailers, and customers can interact in new and different ways. You can use Figure 2.4 to review this concept. Firm value chains (see Figure 2.5) can be directly affected by e-commerce through its potential impact on how the business performs various business processes such as warehousing, manufacturing, sales, and customer support. For instance, Amazon uses the Internet to provide consumers with access to a much larger inventory of books than traditional retailers and to accomplish order entry, provide post-sales support, and offer ordering from its suppliers.

Finally, e-commerce and the Internet can change business strategies by allowing the firm to develop new ways of differentiating its products in the marketplace, lowering costs, or changing the scope of its operations. For instance, Dell uses e-commerce as a way of achieving lower costs in the PC business and has created an entirely new way of organizing large-scale production—build to order. Table 2.9 summarizes the basic business strategies with which your students should be familiar.

Students will likely have heard or seen reference to the terms “disruptive technologies” and “digital disruption.” A section on business model disruption examines how e-commerce technology has radically changed entire industries, driving incumbent firms out of business, spawning new firms, and in some cases, radically changing the entire industry.

In Section 2.5, we offer students information and tips about how the concepts they’ve learned in this chapter can help them prepare for an interview for an entry-level position as an assistant manager of e-business.

Students should enjoy reading the chapter-ending case study in Section 2-6 about Dollar Shave Club. Dollar Shave Club is one of the pioneers and most successful examples of the online sales of products via a subscription revenue model, and was acquired in 2016 by Unilever for $1 billion. The company went from start-up to exit in just 5 years, effectively leveraging social media such as YouTube videos and CRM in its marketing plan. The case study should provide rich material for in-class discussion.

Case Study Questions

1. What is Dollar Shave's business model and how does it differ from its competitors?

Dollar Shave Club is an e-tailer, but unlike many other e-tailers, it is both the manufacturer and distributor of its products, eliminating the cost of distribution through physical retail channels, allowing the firm to reduce the cost to the consumer. Its competitors use traditional bricks-and-mortar retailing to sell razors and blades as needed.

2. What are the key elements of Dollar Shave Club's value proposition for consumers?

Dollar Shave Club provides value to consumers by bypassing retail outlets and passing those savings on. The company has also positioned itself as a lifestyle brand, in contrast with its competitors, and provides high-quality customer service for its subscribers.

3. What revenue model does Dollar Shave Club use and why does it work for them?

Dollar Shave Club uses a subscription-based sales revenue model. Subscription models work best for products that require periodic replacement and are routinely purchased on a regular schedule. Subscription models reduce the cognitive and physical energy required for customers to purchase a product in stores or on an ad hoc basis online, as opposed to a traditional retailing model used by its competitors, such as Gillette and Schick.

4. How would you characterize Dollar Shave Club's online business strategy?

Dollar Shave Club uses a variety of business strategies. It claims to offer a "simple razor": without all the bells and whistles of store-bought razors (a differentiation strategy), at a far lower cost (cost/price competition strategy), with a focus on young men who often shop online (focused market niche strategy), and a marketing strategy based on establishing a personal relationship with consumers using online videos, superior online and telephone support, and Club Pros to offer advice (customer intimacy strategy).

5. *How have Dollar Shave Club's competitors responded?*

Unilever, one of Dollar Shave Club's primary competitors, responded by purchasing Dollar Shave Club, effectively eliminating it as a competitor. Gillette, another primary competitor, introduced a subscription service of its own to compete with Dollar Shave Club, as well as lowering the price of its blades in bricks-and-mortar stores.

End-of-Chapter Questions

1. *What is a business model? How does it differ from a business plan*?

A business model is a set of planned activities (business processes) that are designed to result in a profit in the marketplace. A business plan, on the other hand, is a document that outlines the details of a business model.

2. *What are the eight key components of an effective business model?*

The eight key components of an effective business model are:

- Value proposition
- Revenue model
- Market opportunity for the firm (the marketspace and how big it is)
- Competitive environment for the firm (who the competitors are in the marketspace)
- Competitive advantage the firm brings to the marketspace (the unique qualities that set the firm apart from others in the marketspace)
- Market strategy the firm will use to promote its products and services
- Organizational development of the firm that will enable it to carry out its business plan
- Capabilities of the management team to guide the firm in its endeavors

3. *What are Amazon's primary customer value propositions?*

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

4. *Describe the five primary revenue models used by e-commerce firms.*

The five primary revenue models used by e-commerce firms are:

- advertising revenue model
- subscription revenue model
- transaction fee revenue model
- sale revenue model
- affiliate revenue model

The advertising model derives its profit by displaying paid advertisements on a website. The goal is to convince advertisers that the site can attract a sizeable viewership, or a viewership that meets a marketing niche sought by the advertiser. Firms that use the subscription model offer users access to some or all their content or services for a subscription fee. Firms that use the transaction fee model derive profit from enabling or executing transactions. For instance, transaction fees are paid to eBay when a seller is successful in auctioning off a product. E*Trade receives a transaction fee when it executes a stock transaction for a customer. In the sales revenue model, companies draw profit directly from the sale of goods, information, or services to consumers. In the affiliate model, sites receive referral fees or a percentage of the revenue from any sales that result from steering business to the affiliate.

5. *Why is targeting a market niche generally smarter for a community provider than targeting a large market segment?*

Targeting a market niche is generally a smarter strategy for a community provider than targeting a large market segment because targeting large market segments will only pit a company against bigger and more established competitors. Small sub-segments of larger markets have a greater potential for growth without the intense competitive pressure. Communities that place a strong emphasis on the advertising revenue model will find marketers more interested in placing ads on a site that targets a specific niche.

6. *Would you say that Amazon and eBay are direct or indirect competitors? (You may have to visit the websites or apps to answer.)*

Amazon and eBay are direct competitors because they sell products and services that are very similar, and they sell to the same market segment. They both sell books, music, computers and software, games and toys, electronics, tools, movies and DVDs, and camping equipment. The two compete for essentially the same market segment of consumers. eBay may attract the bargain hunter variety of shopper who would not stop at Amazon first, but it is still essentially the same market segment.

7. *What are some of the specific ways that a company can obtain a competitive advantage?*

Some specific ways a company can obtain a competitive advantage are by developing a global market while its competitors only have a national or regional market; by obtaining favorable terms from shippers, suppliers, or labor sources that its competitors do not have; by developing a more experienced, knowledgeable, and loyal employee base than its competitors; by obtaining a patent on a product that its competitors will not be able to imitate; by having an inside track to investors willing to put up capital; by establishing a powerful brand name or a popular image that it will be difficult for competitors to duplicate; and by any type of asymmetry that will give it more resources than its competitors in any area such as financial backing, knowledge, information, and/or power.

8. *Besides advertising and product sampling, what are some other market strategies a company might pursue?*

   One market strategy is to form strategic alliances with business partners who will help you to attract new customers and extend your market reach. Another market strategy is to use product name, packaging, and advertising to create a distinct mood or feeling about each of your product lines, and carefully target each line to a specific audience. Some firms may choose to pursue a marketing strategy that positions them as a "one-stop shop," which carries a broad-based line of products, saving the customer search time. Others may choose to position themselves as category experts who have an in-depth and "personal" knowledge of their customers. Such firms will offer extensive customer support networks to assist their customers in their purchasing decisions and will advertise themselves accordingly. One critical factor is that a company needs to find a way to differentiate itself from the competition.

9. *How do venture capitalists differ from angel investors?*

   Angel investors are typically wealthy individuals (or a group of individuals) who invest their own money in exchange for an equity share in the stock in the business. In general, angel investors make smaller investments (typically $1 million or less) than venture capital firms, are interested in helping a company grow and succeed, and invest on relatively favorable terms compared to later stage investors. Venture capital investors typically become more interested in a start-up company once it has begun generating some revenue, even if it is not profitable. Venture capital investors invest funds they manage for other investors such as investment banks, pension funds, insurance companies, or other businesses, and usually want to obtain a larger stake in the business and exercise more control over the operation of the business. Venture capital investors also typically want a well-defined "exit strategy," such as a plan for an initial public offering or acquisition of the company by a more established business within a relatively short time (typically 3 to 7 years), that will enable them to obtain an adequate return on their investment.

10. *Why is it difficult to categorize e-commerce business models?*

   It is difficult to categorize e-commerce business models because the number of models is limited only by the human imagination, and new business models are being invented daily. Even within the broad-based generic types there are overlaps, and fundamentally similar business models may appear in more than one. The type of e-commerce technology used can also affect the classification of a business model. Also, some companies may employ multiple business models. For example, eBay is a C2C marketplace, but also functions as a B2C market maker, and in addition, has an m-commerce business model.

11. *Besides the examples given in the chapter, what are some other examples of vertical and horizontal portals in existence today?*

Some other examples of vertical portals (vortals) include ESPN (sports), Bloomberg (business), NFL (sports), WebMD (medical issues), Gamers (games), Away (travel), and Sina (China and Chinese communities). Some other examples of horizontal or general portals include Lycos and Sympatico.ca (Canadian). Note that many of these can also be considered community providers as well.

12. *What are the major differences between virtual storefronts, such as Bluefly, and bricks-and-clicks operations, such as Walmart? What are the advantages and disadvantages of each?*

The major difference between virtual storefronts and bricks-and-clicks operations is that virtual storefronts do not have any ties to a physical location. The major advantages of the virtual storefronts are that they have low barriers to entry into the online e-tail market and that they do not bear the costs associated with building and maintaining physical stores. The disadvantages are that they must quickly build a brand name from scratch and become profitable with no prior brand name or experience, which can be very difficult. The major advantages of the bricks-and-clicks operations are that they have an already established brand name, an established customer base, an established sales force, and the resources to operate on the very thin margins associated with the retail industry. It is also much less expensive for them to acquire new customers than it is for the virtual storefronts. The major disadvantages of the bricks-and-clicks firms are that they face new competition in an extremely competitive environment from new firms who may have more expertise at building credible websites, and who can focus exclusively on building rapid response order systems.

13. *Besides news and articles, what other forms of information or content do content providers offer?*

Besides news and articles, content providers may also supply music, photos, video, artwork, educational materials, or games.

14. *What is a reverse auction? What company is an example of this type of business?*

A reverse auction is one in which a consumer offers to pay a certain price for a product or service and the bid is either accepted or not. The premier example of this type of business is Priceline, in which the consumer makes an offer for airline tickets, hotel rooms, car rentals, and other travel accommodations.

15. *What are the key success factors for exchanges? How are they different from portals?*

The key factor to success for exchanges is size—the size of the industry and the number of registered users. If the industry the exchange seeks to serve is not large enough, the site will most likely not survive. The site must also be able to reach a critical mass by attracting both a large number of sellers and buyers, or customers will go elsewhere. An exchange is a digital electronic marketplace where suppliers and commercial purchasers can converge to conduct transactions. Most portals operate in the B2C sector rather than the B2B sector and their primary business objective is to be a destination site for consumers. Although some portals provide a shopping component, that is not their core business objective.

16. *How have the unique features of e-commerce technology changed industry structure in the travel business?*

The ubiquity of e-commerce has created new marketing channels and expanded the size of the overall market. The global reach of e-commerce has changed industry structure by lowering barriers to entry, but at the same time expanding the market. The costs of industry and firm operations have decreased, enabling global competition. The universal standards of e-commerce have also lowered barriers to entry and intensified competition. However, firms have cheaper costs for computing and communication enabling broad-scope business strategies.

The richness of e-commerce reduces the strength of distribution channels, decreases a firm's reliance on traditional sales forces, and helps a firm develop better post-sales support strategies. Firms can use the interactive properties of e-commerce to develop differentiation strategies and customization techniques to reduce the threat from substitutes. Interactivity, personalization, and customization techniques also decrease a firm's reliance on traditional sales forces, helping them to reduce operational costs. Using these techniques, some firms are successful in differentiating themselves from the competition, thereby raising barriers to entry for potential competitors. The information density of e-commerce weakens powerful sales channels, shifting some bargaining power to consumers. It also lowers the operational costs for firms associated with obtaining, processing, and distributing information about suppliers and consumers.

17. *Who are the major players in an industry value chain and how are they impacted by e-commerce technology?*

The major players in an industry value chain are the suppliers, manufacturers, distributors, transporters, retailers, and customers. E-commerce technology has helped manufacturers to reduce the costs they pay for goods using web-based B2B exchanges. Some manufacturers have also developed direct relationships with their customers online thereby eliminating the distributors and the retailers from the value chain. Distributors can develop highly efficient inventory management systems to reduce their costs and retailers can develop highly efficient customer relationship management systems to strengthen their services to customers. Customers can use the Web to search for the best quality, delivery, and prices, thereby lowering their overall transaction costs and reducing the final price they pay for goods.

18. *What are five generic business strategies for achieving a profitable business?*

Generic business strategies for achieving a profitable business include differentiation, cost, scope, focus, and customer intimacy. Differentiation involves setting your firm or product apart from the competition by establishing some unique property or consumption experience that your competitors do not have. A firm that adopts a cost strategy must have a unique set of business processes, a unique resource, or a low-cost supplier. It is essential that other firms in the marketplace do not have access to, or cannot duplicate, this because it will allow them to charge a lower price while still making a profit. A scope strategy sets out to compete in all markets around the globe, rather than just locally or regionally. A focus strategy, on the other hand, is a plan to compete within a narrow market segment or product segment. Specialization strategists seek to become the premier provider in a small market segment or niche. A customer intimacy strategy focuses on developing strong ties with customers to increase their switching costs.

19. *What is the difference between a market opportunity and a marketspace?*

Marketspace is the area of actual or potential commercial value in which a company intends to operate. Market opportunity refers to the overall potential financial opportunities available to the firm in that marketspace.

20. *What is crowdfunding and how does it help e-commerce companies raise capital?*

Crowdfunding involves using the Internet to enable individuals to collectively contribute money to support a project. The concepts behind crowdfunding have been popularized by Kickstarter and Indiegogo, but they were not able to be used for equity investments in for-profit companies in the United States due to securities regulations. However, the passage of the Jumpstart Our Business Startups (JOBS) Act in 2012 and issuance of enabling regulations by the Securities and Exchange Commission in 2013 has enabled companies to use the Internet to solicit wealthy ("accredited") investors to invest in small and early-stage start-ups in exchange for stock. Regulation A+, which enables equity crowdfunding investments by non-accredited investors (people with a net worth of less than $1 million and who earned less than $200,000 a year in the previous two years), took effect in 2015. Regulations implementing even broader-based equity crowdfunding authorized by the JOBS Act, which would allow investments by people with annual income or net worth of less than $100,000, took effect in 2016.

Projects

1. *Select an e-commerce company. Visit its website or mobile app and describe its business model based on the information you find there. Identify its customer value proposition, its revenue model, the marketspace it operates in, who its main competitors are, any comparative advantages you believe the company possesses, and what its market strategy appears to be. Also try to locate information about the company's management team and organizational structure. (Check for a page labeled "The Company," "About Us," or something similar.)*

   Instructors may want to provide some parameters for students in choosing a company (i.e., sector [B2C, B2B, etc.]; industry [retail, services, etc.]) to limit student search time. Students can be asked to provide either a written report or an oral report accompanied by a slide presentation.

   A student choosing a company such as PetSmart might provide the following information:

   PetSmart is a B2C e-tailer. Its main customer value proposition is that it offers the broadest assortment of pet supplies at the lowest prices. PetSmart uses a sales revenue model; it operates in the specialty retail marketspace, and focuses on the pet supplies niche. PetSmart is a leading pet supply company; many of its original online competitors, such as Pets.com and Petstore.com, have gone out of business. Its main competitors appear to be local pet stores and pet supply catalogs and PetSmart's main comparative advantage is its brand name. PetSmart uses a "bricks-and-clicks" market strategy; it started as a traditional pet supplies retailer with hundreds of physical "superstores" and leveraged its brand to the online environment. Its marketing strategies include: pricing (low prices); providing interesting content and community on its website for its target market; affiliate marketing; and e-mail marketing through free e-mail newsletters. Information about PetSmart's management team and organizational structure is available if the student follows the "Investor Relations" link from its "About Us" page.

2. *Examine the experience of shopping online versus shopping in a traditional environment. Imagine that you have decided to purchase a digital camera (or any other item of your choosing). First, shop for the camera in a traditional manner. Describe how you would do so (for example, how you would gather the necessary*

information you would need to choose a particular item, what stores you would visit, how long it would take, prices, etc.). Next, shop for the item on the Web or via a mobile app. Compare and contrast your experiences. What were the advantages and disadvantages of each? Which did you prefer and why?

The purpose of this assignment is to help students understand how e-commerce differs from traditional commerce. In reporting on this project, students should identify the product they shopped for and detail how they traditionally shopped for the product. For example, they might have gathered information about the product from newspapers and magazine articles, advertisements, called or visited one or more stores, or perhaps shopped for the product via mail-order catalog. They should note what stores, if any, they visited or catalogs they looked at; how long it took them to find the product they were seeking; the level of service; the stores' policies (e.g., on returns); and how long it took them to find and purchase the product.

For their online shopping experience, students should prepare a comparable analysis. They should explain their strategy for finding information on the product (e.g., identify the search engines, if any used, the searches performed, and links followed), and then describe the shopping experience at the company from which they have decided to "purchase" the product.

They should report which shopping experience was quicker, easier, more convenient, which offered better prices, and any other specific advantages or disadvantages of each type noted. They should explain which experience they preferred and why.

3. *During the early days of e-commerce, first-mover advantage was touted as one way to success. On the other hand, some suggest that being a market follower can yield rewards as well. Which approach has proven to be more successful—first mover or follower? Choose two e-commerce companies that prove your point, and prepare a brief presentation to explain your analysis and position.*

For students that argue for first-mover advantage as a way to success, examples might include Amazon, Yahoo, Travelocity, eBay, VeriSign, Priceline, E*Trade, and PayPal. Although each of these has encountered competition, their early arrival and commitment to becoming the predominant player in their respective marketspace have helped to assure their continuing success.

Those who argue for market followers can point to the demise of many of e-commerce's first movers. Examples might include Pets.com, Garden.com, Webvan, eToys.com, Kozmo.com, and theGlobe.com. They might point instead to companies who were not among the first on the Web, but today are successful such as Walmart, JCPenney, PetSmart, Williams-Sonoma, Fidelity, and Blue Nile.

4. *Select an e-commerce company that has participated in an incubator program such as Y-Combinator, TechStars, DreamIt, Capital Factory, or another of your choosing, and write a short report on its business model and the amount and sources of capital it has raised thus far. Include your views on the company's future prospects for success. Then create an elevator pitch for the company.*

   Student answers will vary depending on the company chosen. The pitch should include all key elements listed in Table 2.4 (introduction, background, industry size/market opportunity, revenue model/numbers/growth metrics, funding, and exit strategy).

5. *Select a B2C e-commerce retail industry segment such as pet products, sporting goods, or toys, and analyze its value chain and industry value chain. Prepare a short presentation that identifies the major industry participants in that business and illustrates the move from raw materials to finished product.*

   Instructors may want to suggest industries to limit student research time and provide an example that shows the type of information that should be included in a presentation. A sample presentation on the industry for gourmet gift baskets would include some of the top industry participants: iGourmet, Harry & David, GiftTree, as well as mention many independent, small gourmet gift-basket companies. The firm value chain of a small gourmet gift basket would involve primary activities of designing the gift baskets (identifying which gift baskets to produce and the items in each basket), ordering wholesale items to include in gift baskets, repackaging items into separate gift baskets and wrapping gift baskets, selling gift baskets, and mailing or delivering finished gift baskets. For the industry value chain, the value chains of suppliers and manufacturers of gourmet food items, such as chocolate and cheese, would be included, along with the third parties involved in sales and retail (Internet service providers), and distribution (such as the USPS, UPS, and FedEx).

Companion Website, Learning Tracks, and Video Cases
You can also direct your students to the Companion Website for the book, located at www.e-commerce2019.com. There they will find a collection of additional projects and exercises for each chapter; links to various technology tutorials; information on how to build a business plan and revenue models; information on careers in e-commerce, and more. Learning Tracks that provide additional coverage of various topics and a collection of video cases that integrate short videos, supporting case study material, and case study questions are also available for download from the book's Online Instructor Resource Center at www.pearsonhighered.com/irc. Video Cases for this chapter include:

- Video Case 2.1 Twitter for Business
- Video Case 2.2 Angel Investing
- Video Case 2.3: Deals Galore at Groupon

video case

chapter 2 E-commerce Business Models and Concepts

case 2.1 **From Startup to Success**

watch the video at https://www.youtube.com/watch?v=OcPaTYmBNhg; L: 3:11

summary In this video, the co-founders of Away, a direct-to-consumer luggage company, discuss the inspiration behind the founding of Away, and the steps they followed in developing the company's products, as well as advice for fellow entrepreneurs.

case Direct-to-consumer retail companies have become all the rage, with companies like Warby Parker (eyeglasses), Harry's (razors), Glossier (makeup), and Casper (mattresses) all disrupting established industries. These companies have used e-commerce to bypass traditional retail sales channels, allowing consumers to purchase high-quality goods for extremely low prices. Luggage manufacturer Away is poised to become the next prominent example of direct-to-consumer e-commerce.

Away manufacturers carry-on luggage in China and sells it online. Away's founders, Jen Rubio and Stephanie Korey, both previously worked at Warby Parker; Korey also spent time at Casper. The two sought to use their experience at these companies to create a luggage brand in the same vein that would excite consumers and inspire loyalty. Both felt that the

continued

existing luggage marketplace, expected to be as large as $34 billion by 2020, was not doing enough to serve their customers, creating an opportunity for Away.

Away's flagship carry-on costs $225, far less than the $525 price tag of a similar model from Tumi, a high-end brand owned by industry leader Samsonite. The carry-on features a hard polycarbonate shell with 360-degree spinning wheels, high-quality YKK zippers, a compression pad to help squeeze in extra items, and even a removable lithium-ion battery for charging phones. The low price point for such a high quality item is only achievable because of the company's direct-to-consumer model, allowing Away to avoid splitting revenues with department stores and other middlemen.

Away is on track to earn $150 million in revenue in 2018, and the company is already profitable, often a rarity among start-up companies. Away has raised $81 million in venture capital to date and its latest funding was secured at a valuation of $700 million, bringing Away very close to the coveted $1 billion "unicorn" milestone. The company has 200 employees and expects to add over 200 more jobs in the next five years. Away has also opened several brick-and-mortar stores in major metropolitan markets, such as New York, Los Angeles, San Francisco, and Austin, with plans to open more overseas in London, Berlin, Paris, Milan, and Copenhagen. To date, the company has sold over 500,000 suitcases. Away's revenue and sales statistics are impressive for a relatively new company, and investors have taken note.

Away has found that establishing physical stores in high-traffic locations improves online sales in those markets, just as it has for Warby Parker and other similar direct-to-consumer brands. Away is also very active on social media channels, including Instagram, where the company has hundreds of influencers that market the product. Away has also launched several innovative marketing campaigns, including a pop-up hotel in Paris, a travel magazine, and a podcast, all of which furthers the company's goal of creating exciting travel experiences for its customers.

video case questions

1. What event inspired the founders of Away to create their company?
2. What did Away expect from its launch into brick-and-mortar storefronts? How did the reality defy their expectations?
3. What is the objective of Away's customer experience team?
4. Does Away see itself as purely a luggage company?
5. What advice do Away's founders have for fellow entrepreneurs?

video case

chapter 2 E-commerce Business Models and Concepts

case 2.2 **Angel Investing**

watch the video at https://www.youtube.com/watch?v=40ra9LtmKfM

summary Angel investors are key to the growth of new companies. Here, Elizabeth Crowell, of the angel investing group eLuminate, discusses how entrepreneurs can find and work with angel investors. L: 16:47.

case While angel investors for online startups are a hot topic today, angel investors have actually been key to economic development for much longer, and for all types of industries. In fact, without angel investors, few companies would make it past the startup stage and to the venture capital investment stage, let alone private equity or IPO funding. Companies that found early funding through angel investors include Home Depot, Microsoft, Amazon, and Best Buy.

Although individual angel investments are far smaller than venture capital investments, angel investments overall contribute similar amounts to the economy as do venture capitalists. And the importance of startups to the economy can't be overstated: Startup companies are key to job creation.

continued

Angel investors do more than just provide cash. They are typically experienced business professionals and entrepreneurs, and also mentor a startup, serve as board members or executives help develop relationships with venture capital firms, and more.

Today, angel investment has become a trend in the arena of individual investing; and angel groups and networks have formed to take a professional approach to startup investment. In an angel network, members work as a team in screening deals, valuating firms, and due diligence (research, reporting, firm assessments). However, compared with individual investors, they are typically much slower to act, requiring more time to manage the investment process.

video case questions

1. What types of people are angel investors, and how are they different from venture capitalists?
2. Explain Angel math and the 10X formula
3. Why is it recommended that a startup exhaust all other forms of investment before turning to angel investors?

E-commerce 2019: business. technology. society.

KENNETH C. LAUDON AND CAROL G. TRAVER

video case

chapter 2 E-commerce Business Models and Concepts

case 2.3 **Deals Galore at Groupon**

watch the video at https://www.youtube.com/watch?v=iHWEXs6fOrw

summary Groupon is a location-based service that helps consumers find great local deals and assists merchants in attracting and managing customers. L= 3:40.

case

Groupon's business model is based on the theory that everyone loves a great deal. Groupon is a popular "deal of the day" website offering discounted gift certificates usable at local or national companies. Each day, Groupon e-mails its subscribers discounted offers for goods and services that are targeted by location and personal preferences.

Customers purchase Groupons through Groupon's website or mobile apps and redeem them with affiliated merchants. The discounts are huge—usually 50 to 90 percent off. Groupon makes money by keeping approximately half the money the customer pays for the coupon. Most deals are only valid for several days and have a limited quantity.

Groupon started as a group coupon-broker of services, and initially deals were only met if a certain number of people purchased them. However, enough deals are purchased that Groupon has been able to discard that tipping point for enabling deals. The company has grown rapidly to become more of a marketplace and has expanded its offerings. Groupon Goods is an online deal-of-the-day department-style store; Groupon Live offers deals on

continued

live events; Groupon Reserve has premium deals from prestigious brands and companies. A mobile app, Snap, offers cash rewards to consumers for purchasing specific grocery items and sending a photo of their store receipt from their phone.

Along with expanding services to consumers, Groupon has refocused also on services for merchants. With GrouponWorks (Grouponworks.com), it provides services that help small businesses manage the entire customer acquisition process and more. GrouponWorks services include comprehensive online ad campaign management, advice, deals on business supplies, point-of-sale iPad apps to replace cash registers, payment processing systems, inventory management, as well as post-purchase analytics.

video case questions

1. What features of contemporary e-commerce does Groupon utilize?
2. What value does this service provide subscribing merchants? What value does it provide customers?
3. What kinds of businesses are most likely to benefit from using Groupon?
4. Visit Groupon's website and enter your zip code. What kinds of deals are displayed? Would you use Groupon? Why or why not?
5. Are there any disadvantages to the merchant in using Groupon Works?

E-commerce 2019: Business. Technology. Society.

Fifteenth Edition

Chapter 2

E-commerce Business Models and Concepts

Pearson

Learning Objectives

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

2.2 Describe the major B2C business models.

2.3 Describe the major B2B business models.

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

Tweet Tweet: Will Twitter Ever Find a Business Model That Works?

- Class Discussion
  - What characteristics or benchmarks can be used to assess the business value of a company such as Twitter?
  - Have you used Twitter to communicate with friends or family? What are your thoughts on this service?
  - What are Twitter’s most important assets?
  - Which of the various methods described for monetizing Twitter’s assets do you feel might be most successful?

E-commerce Business Models

- Business model
  - Set of planned activities designed to result in a profit in a marketplace
- Business plan
  - Describes a firm's business model
- E-commerce business model
  - Uses/leverages unique qualities of Internet and Web

Eight Key Elements of a Business Model

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

1. Value Proposition

- "Why should the customer buy from you?"
- Successful e-commerce value propositions:
  – Personalization/customization
  – Reduction of product search, price discovery costs
  – Facilitation of transactions by managing product delivery

2. Revenue Model

- "How will you earn money?"
- Major types of revenue models:
  - Advertising revenue model
  - Subscription revenue model
    - Freemium strategy
  - Transaction fee revenue model
  - Sales revenue model
  - Affiliate revenue model

Insight on Society: Foursquare: Check Your Privacy at the Door

- Class discussion:
  - What revenue model does Foursquare use? What other revenue models might be appropriate?
  - Are privacy concerns the only shortcoming of location-based mobile services?
  - Should business firms be allowed to text or call mobile devices with advertising messages based on location?

3. Market Opportunity

- “What marketspace do you intend to serve and what is its size?”
  - Marketspace: Area of actual or potential commercial value in which company intends to operate
  - Realistic market opportunity: Defined by revenue potential in each market niche in which company hopes to compete
- Market opportunity typically divided into smaller niches

4. Competitive Environment

- "Who else occupies your intended marketspace?"
  - Other companies selling similar products in the same marketspace
  - Includes both direct and indirect competitors
- Influenced by:
  - Number and size of active competitors
  - Each competitor's market share
  - Competitors' profitability
  - Competitors' pricing

5. Competitive Advantage

- “What special advantages does your firm bring to the marketspace?”
  - Is your product superior to or cheaper to produce than your competitors’?
- Important concepts:
  - Asymmetries
  - First-mover advantage, complementary resources
  - Unfair competitive advantage
  - Leverage
  - Perfect markets

6. Market Strategy

- "How do you plan to promote your products or services to attract your target audience?"
  - Details how a company intends to enter market and attract customers
  - Best business concepts will fail if not properly marketed to potential customers

7. Organizational Development

- “What types of organizational structures within the firm are necessary to carry out the business plan?”
- Describes how firm will organize work
  - Typically, divided into functional departments
  - As company grows, hiring moves from generalists to specialists

8. Management Team

- “What kind of backgrounds should the company’s leaders have?”
- A strong management team:
  - Can make the business model work
  - Can give credibility to outside investors
  - Has market-specific knowledge
  - Has experience in implementing business plans

Raising Capital

- Seed capital
- Elevator pitch
- Traditional sources
  - Incubators, angel investors
  - Commercial banks, venture capital firms
  - Strategic partners
- Crowdfunding
  - JOBS Act

Insight on Business: Crowdfunding Takes off

- Class Discussion
  - What types of projects and companies might be able to most successfully use crowdfunding?
  - Are there any negative aspects to crowdfunding?
  - What obstacles are presented in the use of crowdfunding as a method to fund startups?

Categorizing E-commerce Business Models

- No one correct way to categorize
- Text categorizes according to:
  - E-commerce sector (e.g., B2B)
  - E-commerce technology (e.g., m-commerce)
- Similar models appear in different sectors
- Companies may use multiple business models (e.g., eBay)
- E-commerce enablers

B2C Business Models

- E-tailer
- Community provider (social network)
- Content provider
- Portal
- Transaction broker
- Market creator
- Service provider

B2C Models: E-Tailer

- Online version of traditional retailer
- Revenue model: Sales
- Variations:
  - Virtual merchant
  - Bricks-and-clicks
  - Catalog merchant
  - Manufacturer-direct
- Low barriers to entry

B2C Models: Community Provider

- Provide online environment (social network) where people with similar interests can transact, share content, and communicate
  - Examples: Facebook, LinkedIn, Twitter, Pinterest
- Revenue models:
  - Typically hybrid, combining advertising, subscriptions, sales, transaction fees, and so on

B2C Models: Content Provider

- Digital content on the Web:
  - News, music, video, text, artwork
- Revenue models:
  - Use variety of models, including advertising, subscription; sales of digital goods
  - Key to success is typically owning the content
- Variations:
  - Syndication
  - Aggregators

Insight on Technology: Connected Cars and the Future of E-commerce

- Class Discussion
  - What is the Internet of Things (IoT)?
  - What value does the IoT have for businesses?
  - What impact does the IoT have on the content industry?
  - What impact does the IoT have on vehicles?
  - Are there any disadvantages to "connected" cars?

B2C Business Models: Portal

- Search plus an integrated package of content and services
- Revenue models:
  - Advertising, referral fees, transaction fees, subscriptions for premium services
- Variations:
  - Horizontal/general (example: Yahoo, AOL, MSN)
  - Vertical/specialized (vortal) (example: Sailnet)
  - Search (example: Google, Bing)

B2C Models: Transaction Broker

- Process online transactions for consumers
  - Primary value proposition-saving time and money
- Revenue model:
  - Transaction fees
- Industries using this model:
  - Financial services
  - Travel services
  - Job placement services

B2C Models: Market Creator

- Create digital environment where buyers and sellers can meet and transact
  - Examples: Priceline, eBay
  - Revenue model: Transaction fees, fees to merchants for access
- On-demand service companies (sharing economy): platforms that allow people to sell services
  - Examples: Uber, Airbnb

B2C Models: Service Provider

- Online services
  - Example: Google-Google Maps, Gmail, and so on
- Value proposition
  - Valuable, convenient, time-saving, low-cost alternatives to traditional service providers
- Revenue models:
  - Sales of services, subscription fees, advertising, sales of marketing data

B2B Business Models

- Net marketplaces
  - E-distributor
  - E-procurement
  - Exchange
  - Industry consortium
- Private industrial network

B2B Models: E-Distributor

- Version of retail and wholesale store, MRO goods, and indirect goods
- Owned by one company seeking to serve many customers
- Revenue model: Sales of goods
- Example: Grainger

B2B Models: E-Procurement

- Creates digital markets where participants transact for indirect goods
  - B2B service providers, SaaS and PaaS providers
  - Scale economies
- Revenue model:
  - Service fees, supply-chain management, fulfillment services
- Example: Ariba

B2B Models: Exchanges

- Independently owned vertical digital marketplace for direct inputs
- Revenue model: Transaction, commission fees
- Create powerful competition between suppliers
- Tend to force suppliers into powerful price competition; number of exchanges has dropped dramatically
- Example: Go2Paper

B2B Models: Industry Consortia

- Industry-owned vertical digital marketplace open to select suppliers
- More successful than exchanges
  - Sponsored by powerful industry players
  - Strengthen traditional purchasing behavior
- Revenue model: Transaction, commission fees
- Example: SupplyOn

Private Industrial Networks

- Digital network used to coordinate among firms engaged in business together
- Typically evolve out of large company's internal enterprise system
  - Key, trusted, long-term suppliers invited to network
- Example: Walmart's network for suppliers

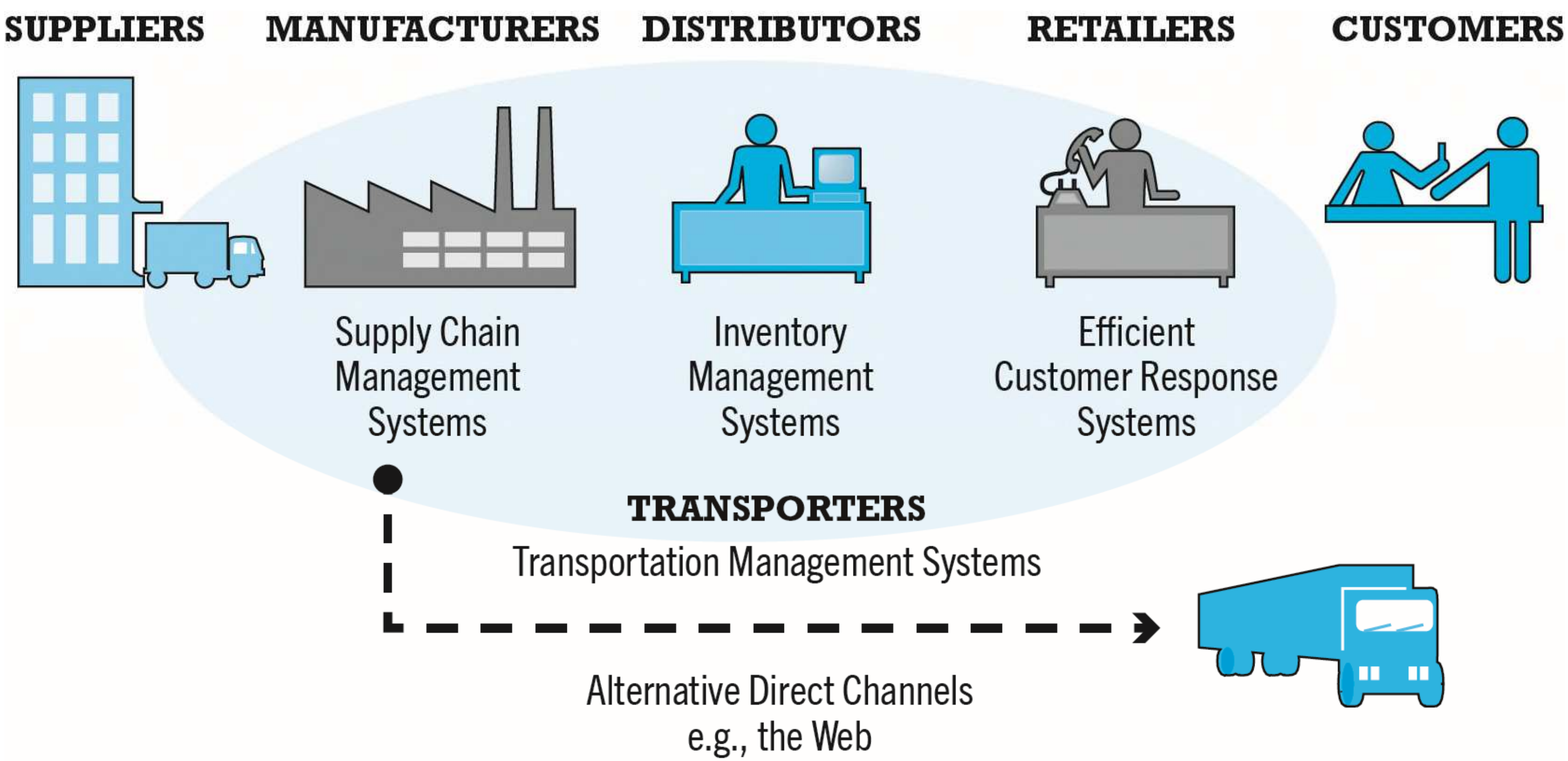
How E-commerce Changes Business

- E-commerce changes industry structure by changing:
  - Rivalry among existing competitors
  - Barriers to entry
  - Threat of new substitute products
  - Strength of suppliers
  - Bargaining power of buyers
- Industry structural analysis

Industry Value Chains

- Set of activities performed by suppliers, manufacturers, transporters, distributors, and retailers that transform raw inputs into final products and services
- Internet reduces cost of information and other transactional costs
- Leads to greater operational efficiencies, lowering cost, prices, adding value for customers

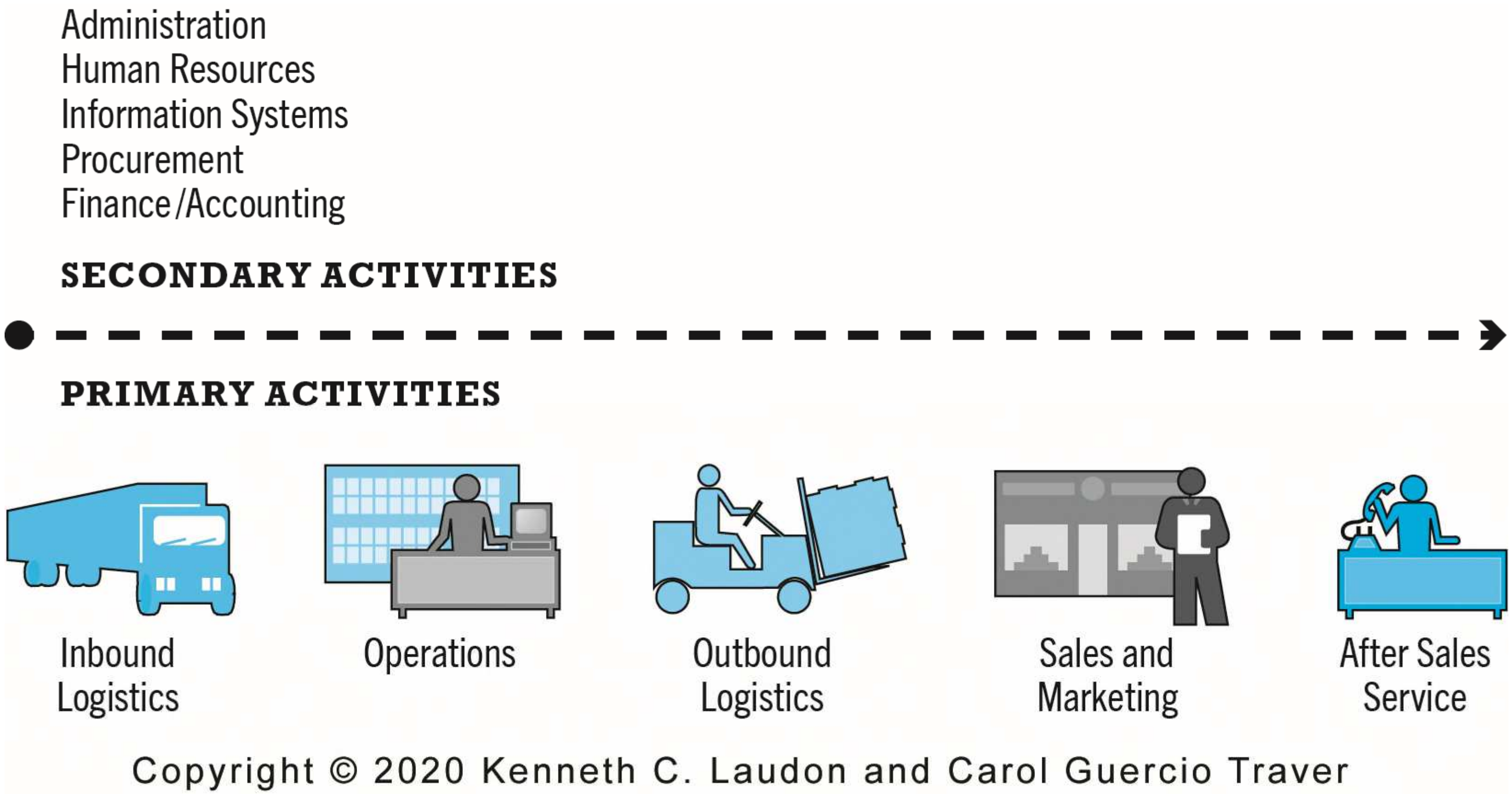
Figure 2.4 E-commerce and Industry Value Chains



Firm Value Chains

- Activities that a firm engages in to create final products from raw inputs
- Each step adds value
- Effect of Internet:
  - Increases operational efficiency
  - Enables product differentiation
  - Enables precise coordination of steps in chain

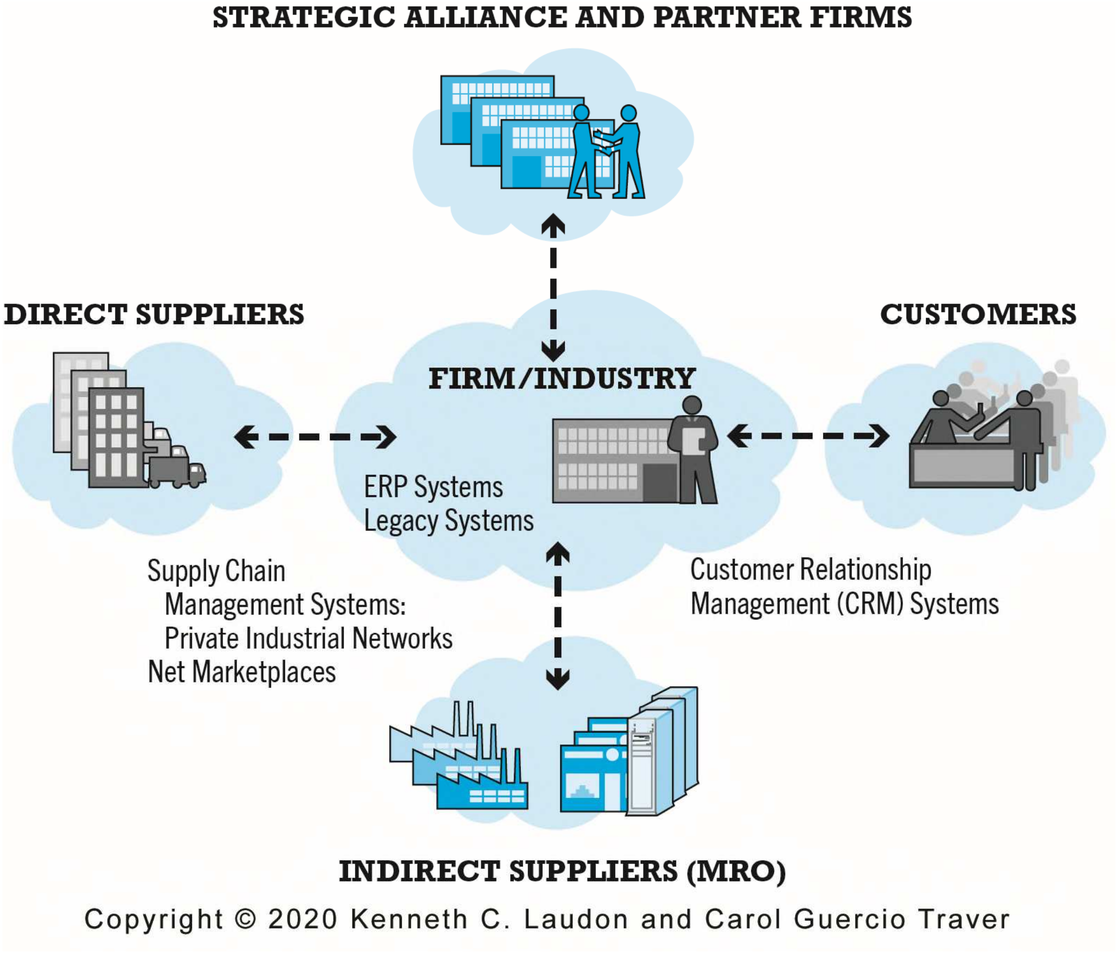
Figure 2.5 E-commerce and Firm Value Chains



Firm Value Webs

- Networked business ecosystem
- Uses Internet technology to coordinate the value chains of business partners
- Coordinates a firm's suppliers with its own production needs using an Internet-based supply chain management system

Figure 2.6 Internet-Enabled Value Web



Business Strategy

- Plan for achieving superior long-term returns on capital invested: that is, profit
- Five generic strategies
  - Product/service differentiation
  - Cost competition
  - Scope
  - Focus/market niche
  - Customer intimacy

E-commerce Technology and Business Model Disruption

- Disruptive technologies
- Digital disruption
- Sustaining technology
- Stages
  - Disruptors introduce new products of lower quality
  - Disruptors improve products
  - New products become superior to existing products
  - Incumbent companies lose market share

Careers in E-commerce

- Position: Assistant Manager of E-business
- Qualification/Skills
- Preparing for the Interview
- Possible Interview Questions

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