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

Teaching Objectives

- Identify the key components of e-commerce business models.
- Describe the major B2C business models.
- Describe the major B2B business models.
- Explain the key business concepts and strategies applicable to e-commerce.

Key Terms

business model, p. 56
business plan, p. 56
e-commerce business model, p. 56
value proposition, p. 57
revenue model, p. 58
advertising revenue model, p. 58
subscription revenue model, p. 58
freemium strategy, p. 58
transaction fee revenue model, p. 59
sales revenue model, p. 59
affiliate revenue model, p. 59
market opportunity, p. 62
marketspace, p. 62
competitive environment, p. 62
competitive advantage, p. 63
asymmetry, p. 64
first-mover advantage, p. 64
complementary resources, p. 64
unfair competitive advantage, p. 64
perfect market, p. 64
leverage, p. 65
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crowdfunding, p. 68
e-tailer, p. 71
barriers to entry, p. 74

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community provider, p. 74
content provider, p. 75
portal, p. 76
transaction broker, p. 79
market creator, p. 79
service provider, p. 80
e-distributor, p. 82
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scope strategy, p. 93
focus/market niche strategy, p. 93
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digital disruption, p. 94
sustaining technologies, p. 95
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Brief Chapter Outline

Tweet Tweet: Twitter's Business Model

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
- Community Provider

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Content Provider
Insight on Technology: Battle of the Titans and Lilliputians
Portal
Transaction Broker
Market Creator
Service Provider

2.3 Major Business-to-Business (B2B) Business Models
E-distributor
E-procurement
Exchanges
Industry Consortia
Private Industrial Networks

2.4 How E-commerce Changes Business: Strategy, Structure, and Process
Industry Structure
Industry Value Chains
Firm Value Chains
Firm Value Webs
Business Strategy
E-commerce Technology and Business Model Disruption

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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 and business model in the opening case, *Tweet Tweet: Twitter's Business Model*. 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, Trends, and Accounts, as well as other methods detailed in the case. 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?
- 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?

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. We have described eight components: customer 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

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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 call cell phones with advertising messages based on location**?**

Raising Capital. This section provides an overview of the primary ways that e-commerce start-ups 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 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 most successfully use crowdfunding?
- Are there any negative aspects to crowdfunding?
- What obstacles are presented in the use of crowdfunding as a method of funding start-ups?

E-commerce Business Models. With several million commercial Web sites to consider, there are a great 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 Table 2.6: E-tailers, Community Providers (including social network sites), 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, *Battle of the Titans and Lilliputians* examines how changes in Internet technology, such as the development of cloud computing, are driving the emergence of new business models in the online music business. Some questions that might help drive class discussion of this case include the following:

- How have changes in technology impacted the online music business?
- What advantages do streaming music services have compared to digital download services?
- Which online music services do you prefer to use, and why?

B2B Models. While B2C e-commerce is measured in hundreds of millions of dollars, B2B e-commerce is measured in trillions of dollars. B2B e-commerce is several orders of magnitude larger than B2C e-commerce. We describe the major generic types of B2B

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e-commerce as 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. E-commerce has the potential for changing 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 that your students should be familiar with.

Students will likely have heard or seen reference to the terms “disruptive technologies” and “digital disruption.” A new 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.

Case Study Questions

1. *Compare Pandora’s original business model with its current business model. What’s the difference between “free” and “freemium” revenue models?*

   In its first business model, Pandora’s service was free but limited in access. In the current model, it provides more access and uses ads to pay for servicing the non-payers. It has found most success with Pandora One, a premium service that provides higher quality streaming music, a desktop app, fewer usage limits, and most

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importantly, no advertising. Freemium revenue models offer customers a superior service in return for paying subscription fees, while "free" revenue models are typically based on advertising support.

2. *What is the customer value proposition that Pandora offers?*

   Users can create multiple personal radio stations that play musical genres they like without paying a cent (or for subscribers, $36 a year). This service introduces users to musicians who are similar to the artists users enjoy.

3. *Why did MailChimp ultimately succeed with a freemium model, but Ning did not?*

   Ning failed because it was not able to convert eyeballs into paying customers. In addition, the cost of adding additional users was not zero, or close to it. The more free users Ning acquired, the more it cost the company. MailChimp could scale much more easily without adding a lot of capacity and infrastructure given the simplicity of its service when compared to social networking.

4. *What's the most important consideration when considering a freemium revenue model?*

   The most important consideration is that the marginal cost of servicing an additional free user must be close to zero. It also makes sense for a company where the value to its potential customers depends on a large network, like Facebook. Other considerations to take into account include that other revenue streams such as advertising will be needed to cover costs and a solid customer value proposition is required to attract initial users (even when the service is offered for free) and ultimately, subscribers willing to pay a subscription fee.

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)

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

   The advertising model derives its profit by displaying paid advertisements on a Web site. The goal is to convince advertisers that the site has the ability to 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 of 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

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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 Web sites 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. However, eBay has a consumer-to-consumer business model while Amazon has a business-to-consumer business model. Even though eBay sells new, overstocked, remaindered, and used products at discounted prices, 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

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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 an 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 period of 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 essentially 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), iVillage (women's issues), 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 sites 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?*

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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 Web 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 Web sites, 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 a large number of 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 main business objective is to be a destination site for consumers. Although some portals provide a shopping component, that is not their main business objective.

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

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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 through the use of 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

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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 in order 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 July 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 June 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, remain a work in progress.

Projects

1. *Select an e-commerce company. Visit its Web site 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

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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 online 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 Web site 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 on the Web versus shopping in a traditional manner. 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. 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 Internet shopping experience, students should prepare a comparable analysis. They should explain their strategy for finding information on the product

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(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. *Visit eBay and look at the main types of auctions available. If you were considering establishing a rival specialized online auction business, what are the top three market opportunities you would pursue, based on the goods and auction community in evidence at eBay. Prepare a presentation to support your analysis and approach.*

   One way a student might approach this project is to look at the different categories in which eBay conducts auctions. A student might choose to focus on those areas which have the most auctions; on commodity items such as books, electronic equipment; on a niche area; or on categories in which eBay does not appear to be strong (i.e., few auctions, or not covered in the list of categories).

4. *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

5. *Select an e-commerce company that has participated in an incubator program such as Y-Combinator, TechStars, DreamIt Ventures, 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.*

   Student answers will vary depending on the company chosen.

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6. *Create an elevator pitch for the company you select for Project 5.*

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

7. *Select a B2C e-commerce retail industry segment such as pet products, online gaming, or gift baskets, 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 in order 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 a large number of 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, FedEx).

Companion Web Site, Learning Tracks, and Video Cases

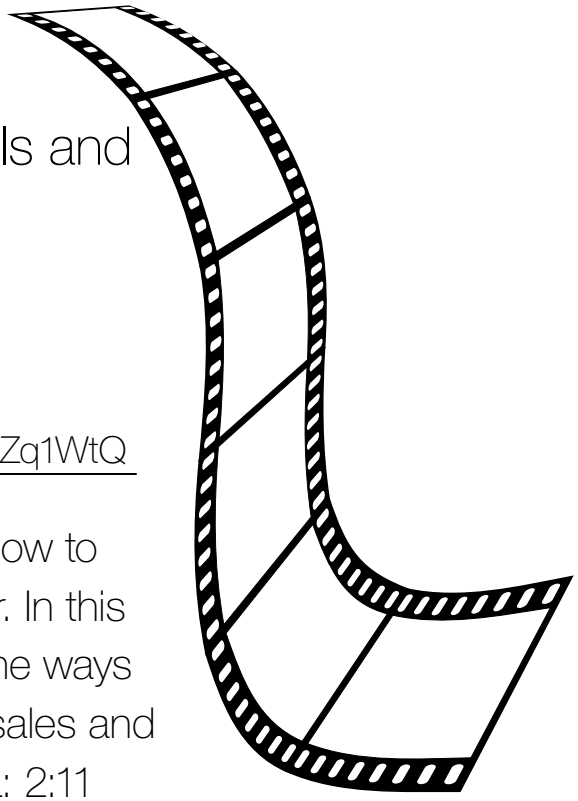
You can also direct your students to the Companion Web Site for the book, located at www.azimuth-interactive.com/ecommerce12e. There they will find a collection of additional projects and exercises for each chapter; links to various technology tutorials; information on how to build a business plan and 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 books' Online Instructor Resource Center at www.pearsonhighered.com/laudon. 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

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video case



chapter 2 E-commerce Business Models and Concepts

case 2.1 **Twitter for Business**

watch the video at https://www.youtube.com/watch?v=BGirUZq1WtQ

summary Twitter is a very simple tool to learn how to use, but a very difficult one to master. In this video, you will learn about some of the ways businesses can use Twitter to drive sales and improve perceptions of their brand. L: 2:11

case

As most know by now, Twitter allows users to express themselves by creating content in the form of 140-character "tweets" and sharing them with followers. For the majority of users, Twitter is a great way to get news and other content delivered in bite-size form from friends, public figures, and businesses, while also allowing users to distribute this type of content to their own followers. Other types of users derive different benefits from Twitter. For journalists and news organizations, Twitter is the fastest way to deliver breaking news and other work to their audiences. For celebrities, Twitter is a unique and personal way to interact with fans, sometimes one-to-one, but more often on a one-to-many basis, like Katy Perry does with her over-80-million followers. This complex web of social connections has helped Twitter grow into an online juggernaut with 288 million monthly active users and 500 million tweets sent per day as of 2015.

Twitter has focused mostly on growing its base of active users, but these social connections don't represent a viable business model on their own. That's why Twitter has also continued to innovate and provide tools for another type of user: companies of all shapes and sizes looking to find new customers amidst the flurry of tweets and conversations. What

continued

better place for a company to advertise than a social network where users are already talking about the things they're doing and the products they enjoy using? Twitter's goal is to monetize its platform with marketing and advertising techniques that don't feel like traditional advertising, just the way Facebook and Google are trying to do.

Maintaining an active Twitter presence is just as important and as useful for Fortune 500 companies as it is for smaller local businesses. The video briefly mentions several companies who launched unique Twitter marketing and outreach campaigns, such as American Express, Morton's Steakhouse, and Burberry, but the possibilities for marketing on Twitter are limited only by users' imaginations. Businesses can ask their followers to tweet pictures of themselves using particular products, and award prizes or special deals to the most creative submissions; they can engage with customer service requests on a one-to-one basis, earning valuable customer loyalty in the process; they can request that their followers retweet particular tweets, extending their reach to their followers' networks as well; or they can participate in trending hashtag topics that are relevant to their business to increase their exposure.

These techniques are simple and cost-effective even for smaller businesses—most of them are baseline features of Twitter and cost nothing but time and energy to execute. However, Twitter has continued to launch new ways for businesses to better engage with their followers online. The Twitter Analytics series of tools allows users to gain deeper insight into their Twitter experience. With Twitter Analytics, users can quickly isolate and compare their account's most popular tweets, obtain valuable demographic knowledge about their followers, and track mentions and keywords to better understand the conversation surrounding their business. Twitter Analytics also has tools to identify an account's most influential followers—people with social influence who are particularly devoted to the brand and products. Working together with these users can be tremendously helpful for any business.

Twitter Analytics can also measure the impact of other types of Twitter marketing efforts, such as Promoted Tweets and Promoted Accounts, which improve a company's results in different types of Twitter searches for certain topics. Users can also measure the impact of Twitter's fledgling Twitter Cards feature, which is an embeddable "card" with the capability of displaying pictures, videos, and text together in various combinations. The value of Twitter Cards to marketers is that they stand out from regular text tweets, especially on mobile devices, leading to higher rates of clicks and retweets. Twitter Analytics and services like Promoted Tweets and Promoted Accounts are paid services that Twitter hopes will become indispensable to all businesses.

Twitter's revenues have grown steadily since it launched an IPO in late 2013, suggesting that more and more businesses are taking advantage of these services. However, its losses have continued to grow as well, and investors are eager to see profitability soon. Decelerations in Twitter's growth rate have affected its stock price, and its future prospects are uncertain.

continued

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Still, Twitter and its associated vocabulary have become fixtures in today's social media landscape. Even if it doesn't achieve profitability as fast as investors would like, there's still time for Twitter to develop the right mix of free and paid services to get there eventually.

video case questions

1. How have American Express, Morton's Steakhouse, and Burberry's used Twitter?
2. What steps does the video indicate a company should take to get started on Twitter?
3. What are some Twitter features and products that businesses can use that are noted in the video?

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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.

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.

continued

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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

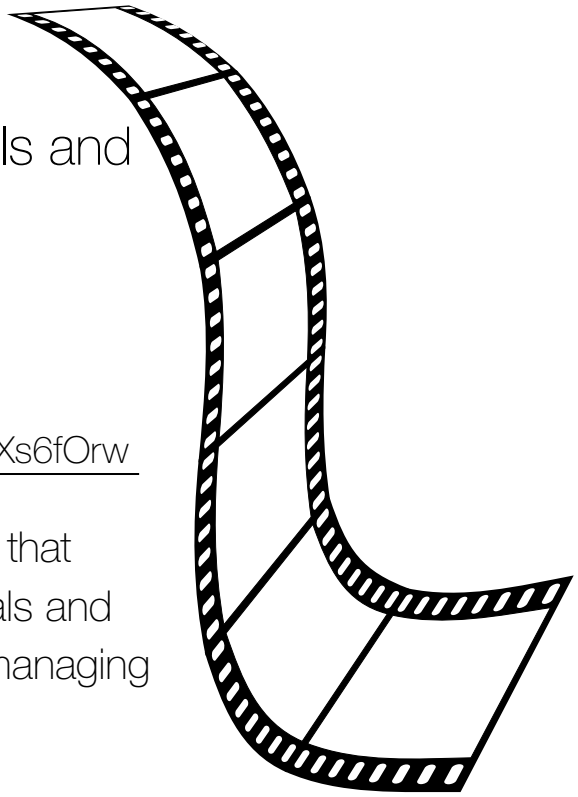
1. What types of people are angel investors, and how are they different from venture capitalists?
2. Explain Angel math and the 10X formula
3. Why is it recommended that a startup exhaust all other forms of investment before turning to angel investors?

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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" Web site 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 Web site 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 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.

continued

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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 Web site 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?

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CHAPTER 7: SOCIAL, MOBILE, AND LOCAL MARKETING

LEARNING TRACK 7.1 SOCIAL MEDIA MARKETING: FACEBOOK

Having a company Facebook page has quickly evolved from an option to a requirement. Businesses now use it to post hours of operation and other basic information, promote press releases (which are linked to the company Facebook page), announce new partnerships or community events in which it is participating, facilitate word-of-mouth advertising, elicit customer feedback on both current and forthcoming products and services, direct product development, showcase merchandise, drive Web site traffic, and run contests. Facebook contests, whether proffered directly from your wall or through a specialized Facebook app, are a popular method for expanding your community. Even after attrition (as long as you do not overuse them), contest entries usually net an increase in followers.

Beyond connecting with customers, Facebook is used to recognize employee accomplishments, awards, and even birthdays, making it a potent employee retention tool as well as a customer acquisition and retention tool. A temporary tab can be created to house details for an upcoming event. This easily shared location can serve as your event coordination headquarters. Event-day questions posted by participants either on your wall or in your Twitter stream can be answered by your social media event planner in both locations. Facebook events can be created for local community service activities in which your company is participating. Persuading your customers, business partners, and other local merchants to participate in charitable giving, park cleanups, walkathons, etc. is a public relations boon that will garner you loyal supporters. You can also incorporate a software service such as MailChimp to add a simple e-mail sign-up form and create an e-mail newsletter to send to your most ardent fans.

Facebook also has a smartphone app with which users can check-in to local businesses. You can offer a discount to customers when they check-in for the first time and build a customer loyalty program around app use, rewarding specific check-in milestones.

To begin creating your Facebook business page, go to: https://www.facebook.com/pages/create and select your business type from the six available options: Local Business or Place; Artist, Band or Public Figure; Company, Organization, or Institution; Entertainment; Brand or Product; or Cause or Community. The type of business you select determines the dropdown list of business categories presented and other required information. For example, if you choose Local Business or Place, the list of categories includes Bookstore, Doctor, Lawyer, Library, Church/Religious Organization, etc., and Facebook provides data entry boxes for your business or place name, street address, city/state, zip code, and phone number. If you select Company, Organization or Institution, the list of categories includes Aero-

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space/Defense, Biotechnology, Legal/Law, Media/News Publishing, Retail and Consumer Merchandise, etc. and the only other data entry box is for your company name. After you have chosen the business type and category, entered any additional information, and agreed to Facebook's Page Terms, click the Get Started button. You will proceed to the basic Facebook information form (e-mail address, date of birth, and password) to complete the account registration. Once the account e-mail is confirmed, you are prompted to either upload or import a profile picture. This is the icon that will accompany all of your posts on Facebook. For a company or brand, this is generally your logo. The profile picture must be at least 180 x 180 pixels but displays at 160 x 160 pixels on your page on computers, 140 x 140 pixels on smartphones, and a thumbnail size of 32 x 32 for status update posts, so make sure that it looks good in all sizes.

Next is the About section in which you enter your company description and the URL for your Web site. Since this is your introductory sales pitch, highlight such topics as company accomplishments, strengths, values, specialties, the uniqueness of your product or service, your market niche, any business awards, titles, or distinctions earned, and your credentials. In two to three easily readable sentences, your goal is to attract potential followers. This is the text that visitors will see on your main page.

After you decide whether to set up paid advertising (enable ads), your Facebook page appears. It has a menu bar that includes several tabs, including Messages, Notifications, Publishing Tools, Settings, and Help. Once your page has at least 30 people that follow it, an Insights tab that provides Facebook Page analytics will also appear. This menu bar (the Admin Panel) is visible only to Page administrators. The Messages tab enables you to check private messages from followers. The Notifications tab provides a quick look at your page's most recent activity. The Publishing Tools tab allows you to see published posts, as well as posts you have scheduled to appear at a later time. The Settings tab contains a number of useful tools. It enables you to modify the general settings for the page (including managing the permissions of what people can and can't do), edit the information that appears on the page, manage notifications, set and modify the Page administrators, edit the settings for any apps installed on the page, see suggested edits, see details about the various way you can post to the page from a mobile device, and also view an activity log that shows all the activity on the page.

Use the Add a Cover button to upload a horizontal image that will be fitted into an 851 x 315 pixels space. In accordance with Facebook policies, your cover photo cannot include price or purchase information, contact information, calls-to-action (CTAs) or references to Facebook features or actions. False, deceptive, or misleading statements or items that infringe on third parties' intellectual property are strictly forbidden. The image you use for your cover photo should exemplify the image you and your company want to convey.

Use the Call-to-Action button to create a call-to-action for your fans to help them learn more about your business or take some action. There are seven options: Book Now, Contact Us, Use App, Play Game, Shop Now, Sign Up, and Watch Video. The Call-to-Action button allows you to link to an external landing page.

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After you publish your finished page, you are ready to begin posting. While varying your posts to keep the content fresh and appealing, keep in mind the demographics of your audience. What do they want or expect from you? Post updates, blog links, and images that provide value and will be of interest to your audience, and encourage them to share your updates. To highlight a post by extending it horizontally across the page, hover the cursor in the upper right corner of the entry and click the star button. Use this to magnify posts that announce new products, coupons, special promotions, or CTAs. Click the Edit button (pencil icon) to either pin a story to the top of your Timeline (which you can do for up to seven days) or to hide it. Pinning a story to the top of your Timeline is another way of highlighting it so that more recent updates do not overshadow it.

You can also create a special post called a Milestone to highlight company achievements such as a certain number of Likes, a product release, or an award. Above the status update box are three posting options: Status, Photo/Video, and Event, Milestone, +. Click Event, Milestone, +, then Milestone, name the milestone, enter the date it occurred, use an existing photo or upload a new one, add a description and location if desired, and save it. Milestones are slotted into place on your Timeline and automatically highlighted (as if you had used the star button). The image will be set to 843 x 403 pixels. Facebook has found that posts that include images or videos generate up to double the response rate of text status updates, and the Timeline format is particularly conducive to the use of visual content. Charts, infographics, and comics are formats that can concisely and engagingly convey complex information.

However, your social media staff's most important task is monitoring users' posts, not creating content. While responding to every fan comment is not necessary, it is important to demonstrate that you are engaged, accessible, and caring. Ignoring a negative post can be downright destructive. The attrition rate, commonly referred to as the churn rate, measures the number of members leaving a group. It can spike as high as 15% following an improperly handled response. This statistic highlights the importance of having social network policies in place and employees dedicated to the task. Just because you have the option to delete posts does not mean that you should employ it. Posts that can be clearly identified as trolling can either be ignored or quickly deleted, but criticisms that have merit must be responded to with candor, admission of guilt when appropriate, and by outlining the steps that will be taken to remedy the problem. Sometimes, after an appropriate public response has been posted, you can take a conversation with a disgruntled customer to private messages to bring it to resolution.

Finally, once you have 30 fans, use the Insights tab to monitor your Facebook page activity. The Insights tab has several different dashboards. The first is Overview, which, as its name suggests, provides an overview of page likes, post reach, and engagement in the form of charts. The Likes dashboard provides further data on page likes. The Reach dashboard provides statistics on post reach, likes, comments, and shares. The Visits dashboard provides information on the number of page and tab visits and other page activity. The Posts dashboard provides data on the performance of different types of posts based on reach and engagement, and details on the most recent posts on your page's Timeline. The People dashboard provides demographic information on fans, people reached, people

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engaged, and check-ins, with aggregated data on gender, age, country, city, and language. Because social media operates at such an accelerated pace, analyze the impact of your content on a daily basis. Once you know how many people like your page, how many friends they have (your total reach), and the ratio of how many people were actually reached to your total reach, you can set your Marketing department analysts to work dissecting which types of content are and are not working. The goal is to expand your reach thereby creating more opportunities to turn Facebook fans into leads that you may then be able to convert into customers. The more you can engage current friends in your content, the better chance you have of attracting more fans, thus increasing the number of leads you garner from your Facebook business page.

SOURCES: "Step by Step Guide to New Facebook Business Page Timelines," edited by Magdalena Georgieva, HubSpot, accessed January 20, 2015; "Facebook Insights: A Detailed Guide to Facebook Analytics," by Ian Cleary, Razorsocial.com, December 22, 2015; "12 Things You Must Know About Facebook's Admin Panel," Shortstack.com, May 14, 2015; "Demystifying the Facebook Page Admin Panel: Activity, Insights & Settings," by Loren Bartley, Impactiv8.com.au, September 6, 2014.

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CHAPTER 7: SOCIAL, MOBILE, AND LOCAL ADVERTISING

LEARNING TRACK 7.2 SOCIAL MEDIA MARKETING: TWITTER

In just a few years since its inception, Twitter has evolved into a potent customer relationship management and marketing tool. Partially supplanting traditional means such as trade shows and networking events, it is used to follow leads and prospect for customers. By developing Twitter relationships with industry leaders, journalists, bloggers, and top customers, businesses can harvest product development ideas and develop brand advocates. Disseminating news, offering promotions, and responding to customer service requests, be they explicit demands or implicit calls to action, are all tasks that can be adapted to the Twitter format.

As with any new channel, there is a learning curve. While some advice is cross-channel, developing effective Twitter communications requires commitment and the adoption of clear policies and metrics for measuring success. Integration into your overall marketing and customer service strategies begins with creating an account that accurately captures the image you want to portray. Company and individual employee accounts can both be used to good effect. Your company account will publicize events and company news, provide product updates, promote blog posts, and deliver immediate feedback and updates at conferences and trade shows. Moreover, it will serve as your primary Twitter customer service center. A personal account for a key marketing person is better for liaising directly with the public, forming personal relationships with customers and business partners, and expanding your network of contacts. This person can reveal appropriate personality traits and discuss tangential events and topics that bolster your company's image as well as update the network about projects he or she is overseeing.

Company usernames, or handles, should simply be your brand name and should not include any underscores. Underscores are a breach of Twitter social norms and will make your company look uninformed and unhip. Likewise, including numbers in your Twitter handle imparts the impression that you are mired in turn-of-the century Internet convention. Company representatives should use their full name, not an arbitrary handle. Rather than immediately choosing accounts to follow, after you create your company account your next task should be to construct the profile. The Who to Follow link can be accessed at any time later. Twitter is integrated with Gmail, Hotmail, Yahoo, AOL, and LinkedIn so that people in your address book or network of contacts who have a Twitter account can be automatically contacted and invited to follow you. To customize your profile, go to your Profile page (http://twitter.com/USERNAME) and use the Edit profile button to upload header and profile photos. Also on the Profile page, enter your full company name, location, and company Web site URL. If you do not have a Web site, you can enter the address for a company blog, Facebook page, LinkedIn page, or

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dedicated Twitter landing page. A dedicated landing page is designed to drive traffic to your company Web site. It can include information similar to the About page on your Web site. In the Bio section, you have 160 characters in which to sell your company to potential followers. Include what you sell, your position within your market segment, perhaps a brief description of your industry, and items of note such as company achievements, community service, or upcoming projects and special events. You can also pin a tweet to your Profile page.

In your Security and privacy settings, make sure the Protect my Tweets box is not selected. This would make your Twitter stream private, hiding your updates from everyone but your followers and defeating the purpose for creating your Twitter account. You want others to be able to see your tweets, become intrigued, and become your followers. Company updates are public announcements.

You should customize the background of your profile to visually trumpet your company persona and the product or service you sell. Keep in mind that attracting new prospects is your primary goal. When designing your background image, make sure to leave space at the top to accommodate the Twitter toolbar. The columns on the left and right hand side of the page adapt to the size of the browser window, so design the background for smaller monitor sizes and do not tile the image. The background image will be left-aligned. Links are traditionally placed in the left column, and you should have ample room for a company description and company logo.

You can also add a header image and cover photo. Because you can use a larger image, cover photos expand your ability to display your brand's personality. Your company description can be included here, rather than in the left column, along with your username and a bio for an individual account. Calls-to-action- (CTAs), links that send users to an action page, are often included in a header image along with text to educate followers about a specific social media campaign.

After you have set up your profile and inserted a background image, your account will no longer appear inactive. Now you are ready to send your first tweet. Having a professional-looking page set up before you begin tweeting and following people will ensure that you are not automatically rebuffed as a possible spammer. Initial tweet topics include links to special offers, recent company blog articles, or conferences or webinars your company is hosting. You can also tweet links to useful content from external sources, retweet some else's pertinent post, or simply post a status or picture from your workplace. Currently, you are limited to 140-characters for each tweet (status update), although Twitter is reportedly preparing a new product that will allow longer tweets.

Adding accounts to follow populates your Twitter stream with their status updates. This in turn allows you to learn what people you are following are interested in and who they are following and interacting with. If you provide information of value to them, they will likely decide to follow you back, and you will begin to build your network. Use the Who to Follow link to find trending topics or enter keywords related to your business or industry to find pertinent businesses and individuals to follow. Use Twitter Search to find people who are tweeting about topics relevant to your company. After people begin following you, look at who they are chatting with by watching the @replies. These

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may reveal people who would be beneficial for you to follow. You can also collect Twitter handles at conferences and events (attendees often prominently display them on their name tags) and follow hashtags (#) that have been created around an event. Hashtags are combined with words, acronyms, and phrases to create tags within tweets to aggregate a conversation around a particular topic. Prominent bloggers within your market segment may have a link to their Twitter account on their blog page. Following leaders in your industry is always a good idea.

Although you may be enthusiastic about building a productive network and cognizant of the fact that this will require an investment of time, do not be overhasty. Adding about 25-50 accounts to follow per day is a good practice in order to ensure that the people you select have time to reciprocate. You want viewers to see a favorable ratio of those you are following to those who are following you in your profile. Lopsided ratios with many less followers can be negatively construed to mean that others have decided you are not worth following. Your total number of followers is referred to as your Twitter reach.

In order to extend your Twitter reach, make sure your usernames are easy to find. If your company has a number of individual accounts, create a page that lists all of their handles. Twitter Follow buttons should be placed on your company Web site and company blogs. You can either use the Follow button generator provided by Twitter or you can create your own button and link it to your Twitter page. Gaining followers is dependent upon the value you provide. Do not rely solely on promoting your brand. Think of Twitter like a newsletter—provide useful links and items of interest. If you are following people who are not yet following you back, engage them and comment on their tweets. Giving positive feedback and compliments motivates people to follow you.

To reference another Twitter user and direct a tweet towards them, use @USERNAME anywhere in the post. If the address begins the tweet, it will only be viewable to the user and to your followers. It is therefore preferable to insert the address in body of the tweet so that it is public and everyone will be able to view it. These are the @replies that you should be monitoring from your followers. Each @reply is a link to that user's profile, making it simple to view and chat directly with that person. To send a direct message (DM) that will not be included in your Twitter stream, click the Messages link in the top navigation bar. DMs can only be exchanged between users who are following one another, are limited just like tweets to 140 characters, and are stored in the Messages tab on the Twitter toolbar.

In order to make Twitter an effective tool for driving traffic to your Web site you must offer unique content in addition to coupons or special offers. Monitoring your account will require time and almost certainly a third-party software tool. People tweeting about your products must be engaged. If your product can meet the needs or solve the problem of a tweeter, he or she must be discovered and contacted. Tweets complimentary to your company should be aggregated in the Favorites list (hover the cursor over the tweet and click the star, turning it yellow). Use Twitter Search regularly to mine for public posts to add. Create hashtags to promote company events and solicit signups. Share industry knowledge, advice, and guidelines to build your bona fides. Your customer service team must ensure that each tweet pertinent to their task is assigned a case number, a status, a priority level, and a dedi-

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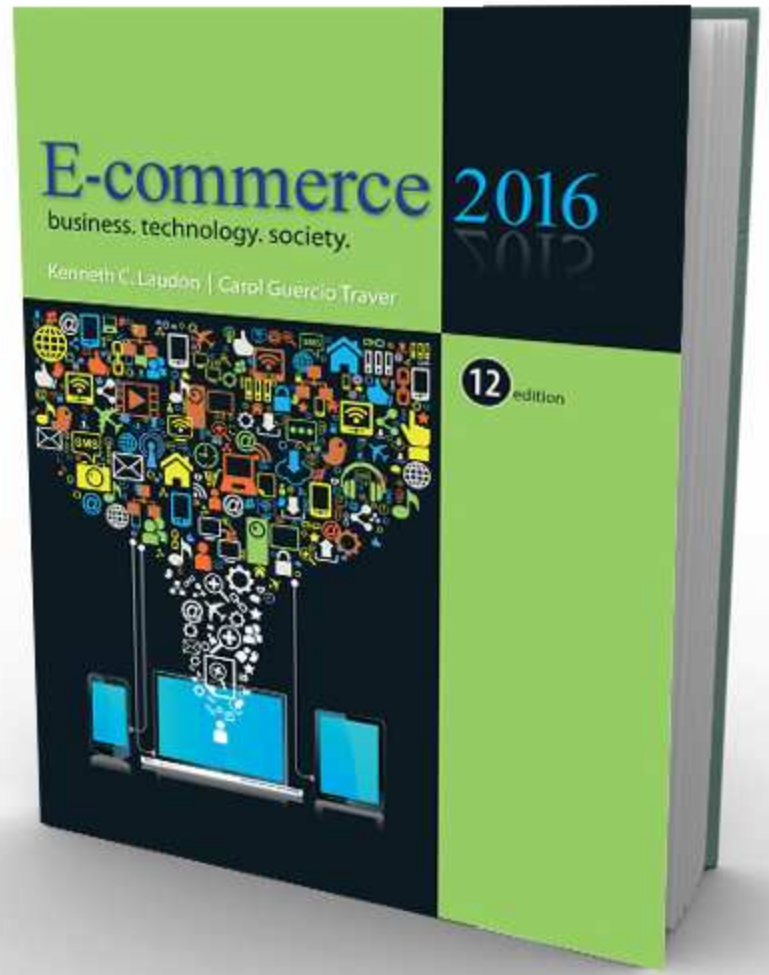
cated representative. Negative tweets cannot be allowed to fester or multiply. Followers must observe that you are accessible, responsive, and desirous of building a satisfied customer base. All of this will require dedicated policies and procedures that are integrated with your marketing, customer service, and advertising departments as well as analytics systems to measure success. Only then can Twitter's full potential as a CRM and marketing tool be realized.

SOURCES: "An Introductory Guide: How to Use Twitter for Business," HubSpot, accessed January 20, 2016; "Learn How to Attract Customers with Twitter and Vine," HubSpot, accessed January 20, 2016;"How to: Dominate Twitter for Customer Service," by Alex Hisaka, Salesforce @ Desk.com, accessed January 20, 2016.

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Chapter 2

E-commerce Business Models and Concepts

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Class Discussion

Tweet Tweet: Twitter's Business Model

- 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?

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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

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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

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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

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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

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Foursquare: Check Your Privacy at the Door

- 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 call cell phones with advertising messages based on location?

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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**

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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

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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

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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

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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

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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

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Raising Capital

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

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Insight on Business: Class Discussion

Crowdfunding Takes Off

- 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 start-ups?

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Categorizing E-commerce Business Models

- **No one correct way**
- **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**

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B2C Business Models

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

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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**

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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

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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

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Online Music: Battle of the Titans and Lilliputians

- How have changes in technology impacted the online music business?
- What advantages do streaming music services have compared to digital download services?
- Why do some musicians object to streaming music services?
- Which online music services, if any, do you prefer to use, and why?

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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
  - Vertical/specialized (vortal)
  - Search

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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

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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

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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

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B2B Business Models

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

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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

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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

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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**

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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

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Private Industrial Networks

- **Digital network used to coordinate among firms engaged in business together**
- **Constitute 75% of all B2B expenditures by large firms**
- **Typically evolve out of large company's internal enterprise system**
  - Key, trusted, long-term suppliers invited to network
- **Example: Walmart's network for suppliers**

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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

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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

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E-commerce and Industry Value Chains

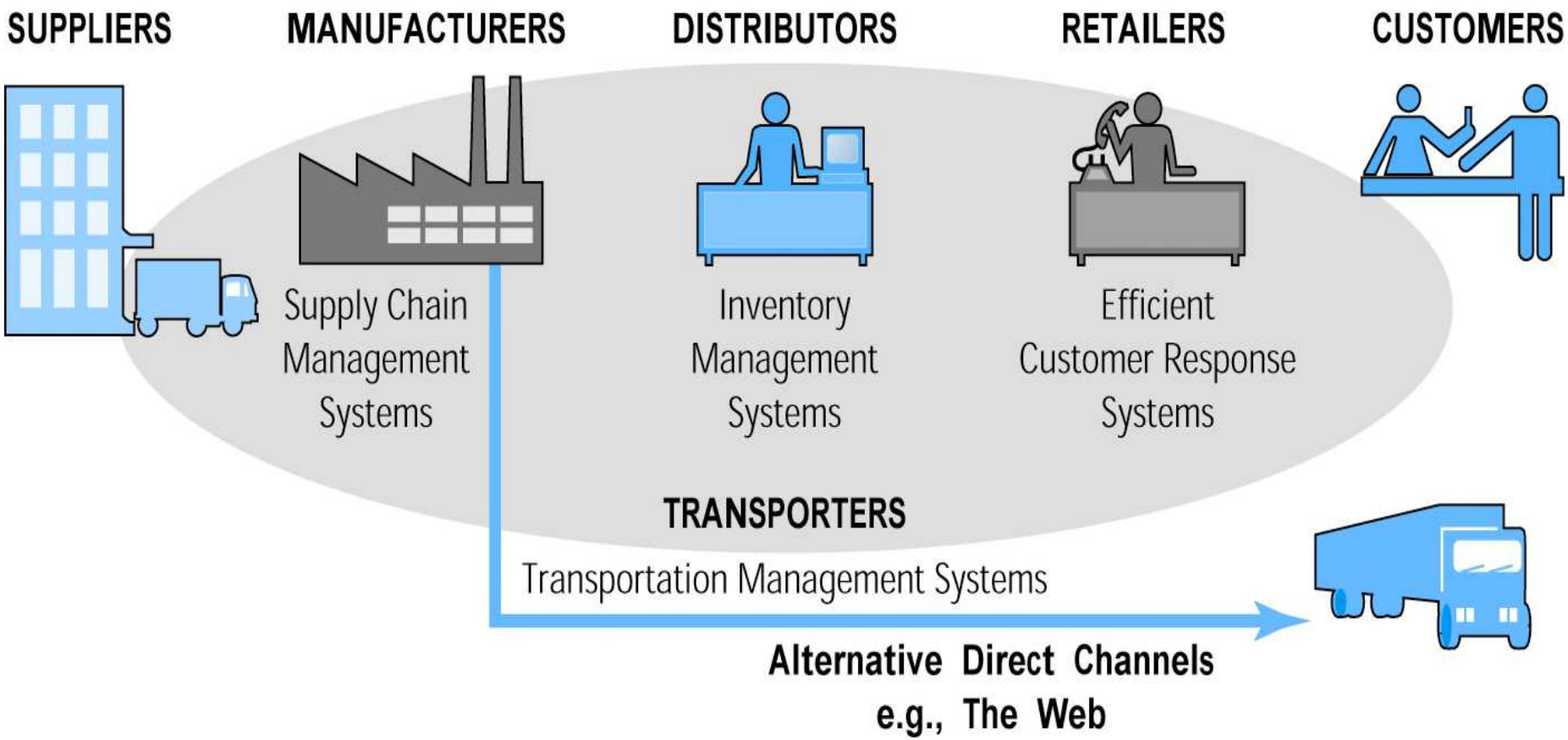


Figure 2.4, Page 88

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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

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E-commerce and Firm Value Chains

Administration
Human Resources
Information Systems
Procurement
Finance/Accounting

SECONDARY ACTIVITIES

PRIMARY ACTIVITIES



Inbound Logistics | **Operations** | **Outbound Logistics** | **Sales and Marketing** | **After Sales Service**

Figure 2.5, Page 89

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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

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Internet-enabled Value Web

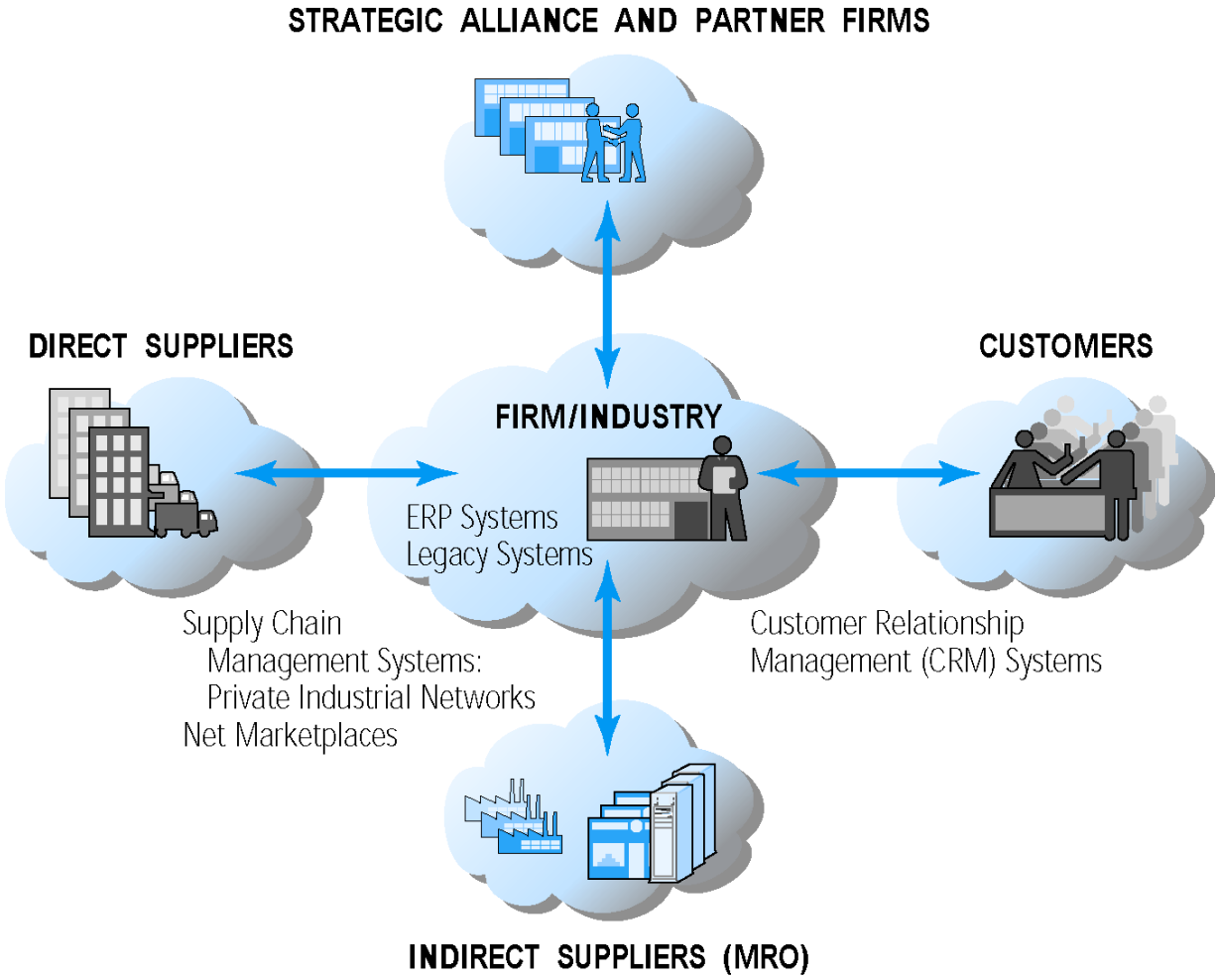


Figure 2.6, Page 90

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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

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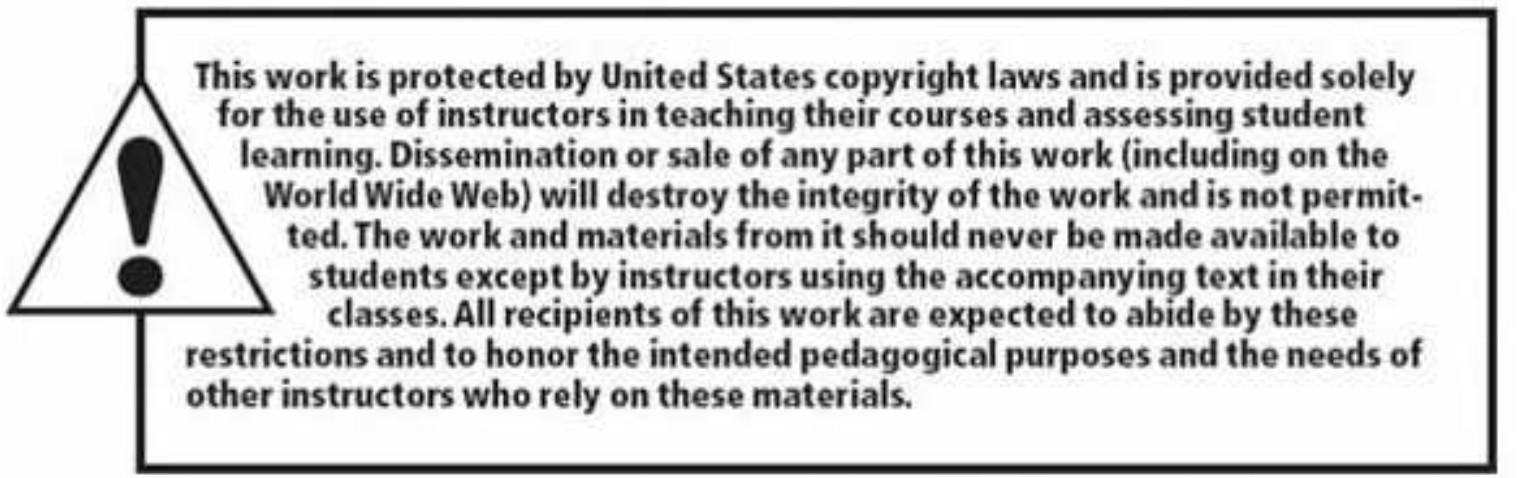
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E-commerce Technology and Business Model Disruption

- **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

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