

On-Line Business Models

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Outline

- Introductions
- 9 on-line business models
- Case studies
- Conclusions & recommendations

Introduction

- Online Business Model Definition: “A business model is the method of doing business by which a company can sustain itself profitably”
- The Categories of Business Models
- Online Business Models Vs Traditional Models

...Introduction

- Overview of fortune e-50 companies
- Four categories:
 - E-companies;
 - Net software and service companies;
 - Net hardware companies;
 - Net communications companies
- These e-50 employ varieties of business models. Some are making profit; some are losing money. But they are all successful

...Introduction

- How important are business models?
- They are very important for start-ups.
- Proper business models may help you to succeed while improper business models may speed up your failure.

On-line Business Models

- | | |
|---------------|---------------|
| •Brokerage | •Manufacturer |
| •Advertising | •Affiliate |
| •Informediary | •Community |
| •Merchant | •Subscription |
| | •Utility |

Brokerage Model

- Market-maker →
 - Business-to-Business
 - Business-to-Consumer
 - Consumer-to-Consumer
- Changing transaction fee

Brokerage Model

- Buy/Sell Fulfillment
- Market Exchange
- Buyer Aggregator
- Distributor
- Virtual Mall
- Metamediary
- Auction Broker
- Reverse Auction
- Classifieds
- Search Agent

Brokerage Model

- Buy/Sell Fulfillment
 - etrade.com
 - carsdirect.com
- Market Exchange
 - Metalsite.com
 - chemconnect.com
- Reverse Auction
 - "name-your-price"
 - priceline.com
- Virtual Mall
 - imall.com
 - choicemall.com

Advertising Model

- An extension of traditional media broadcasting model
- Provides content and services mixed with advertising messages
- Ads may be the major or sole source of revenue

Advertising Model

- Generalized Portal
 - high volume traffic
 - yahoo.com
 - altaVista.com
 - AOL.com
- Attention/Incentive Marketing
 - pay for attention
 - cybergold.com
 - mypoints.com
 - netcentives.com

Infomediary Model

- Info about consumers and their buying habits
- Infomediary by collecting and selling info to other businesses
- Free Internet access
- Detailed info of surfing and purchasing habits

Categories of Infomediary Model

- Recommender System
 - ePinions
 - amazon.com's zBubbles
 - ClickTheButton
- Registration Model
 - NYTimes.com
 - travelocity.com

Merchant Model

- E-tailers (Classic wholesalers and retailers of goods and services)
- Method---listing price or auction
- Categories
 - virtual merchants -- catalog merchants
 - surf-and-turfs -- bit vendors

Manufacturer Model

- Reaches buyers directly, compressing distribution channels
- Based on
 - efficiency (cost-saving)
 - improved customer services
 - better understanding of customer preferences
- Examples:
 - [Flowerbud.com](#) -- Intel, Apple, IBM

Affiliate Model

- Provides purchase opportunities wherever people may be surfing.
- Offers financial incentives
- A pay-for-performance model
- Variations:
 - banner exchange. [BeFree.com](#)
 - pay-per-click
 - revenue sharing programs. [revenue.net](#)

Community Model

- Based on user loyalty
- Users have high involvement/investment
- Offers ad., info. or portal opportunities
- May run on a subscription fee for premium services.
- Examples:
 - VerticalNet
 - [Buzzsaw.com](#)

Subscription Model

- User pay for access to the site
- High value-added content is essential
 - Wall St. Journal -- Consumer Reports
- Generic news content is unsuccessful
 - Slate
- 46% of Internet users would not pay to view content on the web

Utility Model

- A metered usage or pay-as-you-go approach.
- Success depends on
 - the ability to charge by the byte
 - micro-payments
- Examples:
 - FatBrain, SoftLock, Authentica

Case Studies

Findings

- fancy technology is not the key to success
- but technology can help enhance business operation
- there are core areas any business model should built upon

Case Studies: common core areas

Selection

- e-businesses need to select a target market or segment
- select the right mix of products and quantity
- personalization with extensive offerings
- your assumption: offer every thing and every body will come---- **YOUR ARE WRONG!**

Case Studies: common core areas

Service

- many e-commerce sites view transactions as a technical process-those are more likely to fail
- the whole buying experience and after sale service is as, if not more, important than technology

Case Studies: common core areas

Emotion

- overall user experience of a Web site
- key to build "stickiness"

Case Studies: common core areas

Efficiency

- especially important now when many are first-time buyers
- indications:
 - fast download
 - one-click ordering
 - good tracking system

Case Studies: common core areas

Cost

- at present could be offset by convenience
- will become crucial when competition heats up

Case Studies: common core areas

Value-adding

- might be the only reason why businesses should exist
 - especially true for the online service-oriented businesses

Case studies: landsend.com

- About Lands' End Inc.
 - catalogue selling of traditionally styled, casual clothing, accessories, shoes etc.
 - good example of a traditional company that "gets it" online
 - sells more clothing online than any other company

Case Studies: landsend.com

Landsend.com

- has a solid foundation in most of the core areas
- excellent customer service online
 - technology that works
 - live customer-service reps :
 - see www.landsend.com
- great shopping experience
 - 3-D model builder

Case Studies: priceline.com

- an e-commerce star-up
- reverse auction model: Name-Your-Price/demand collection system
 - buyers enter prices for products/services
 - priceline.com contacts participating sellers to find fulfillment
- despite doubts on the model, priceline.com is doing well-gross margin up, net loss narrowed
- secrete: add value

Case Studies: anthropologie.com

- I love it!
 - Excellent selection of products
 - artistic
 - unique
 - Simple and elegant Web site design
 - Just irresistible!

Conclusion

- There is no good business models Vs bad Ones
- Some are working better than others for the time being, depending on how to judge
- Only those models that can really provide more extra values than the off-line companies will survive

Recommendations

- Try to find a unique and innovative business model and use available legal means to protect it.
- If the model is easy to copy, you should either differentiate in other dimensions or develop yourself faster than your competitors, e.g. Amazon.com

Recommendations

- Some elements beyond business models are equally important
- Strategies: create and maintain competitive advantages; positioning & differentiating
- Management: bad management will ruin good models while good management will fix bad models

