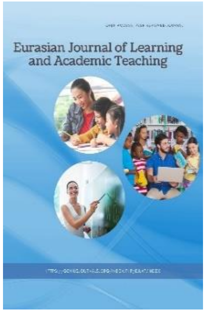

E-Commerce Business Models and Strategies and Its Application in E-Learning

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ABSTRACT

There are given main information about e-commerce business models and strategies in this article. Types of e-commerce and application of them are expressed with a table and a figure. Some of well-known companies and firms are shown as an example. If you want to set up successful business, you should address these e-commerce business models.

Keywords: E-commerce, business models and strategies, value proposition, marketspace, Internet, Web, mobile platform.

Introduction.

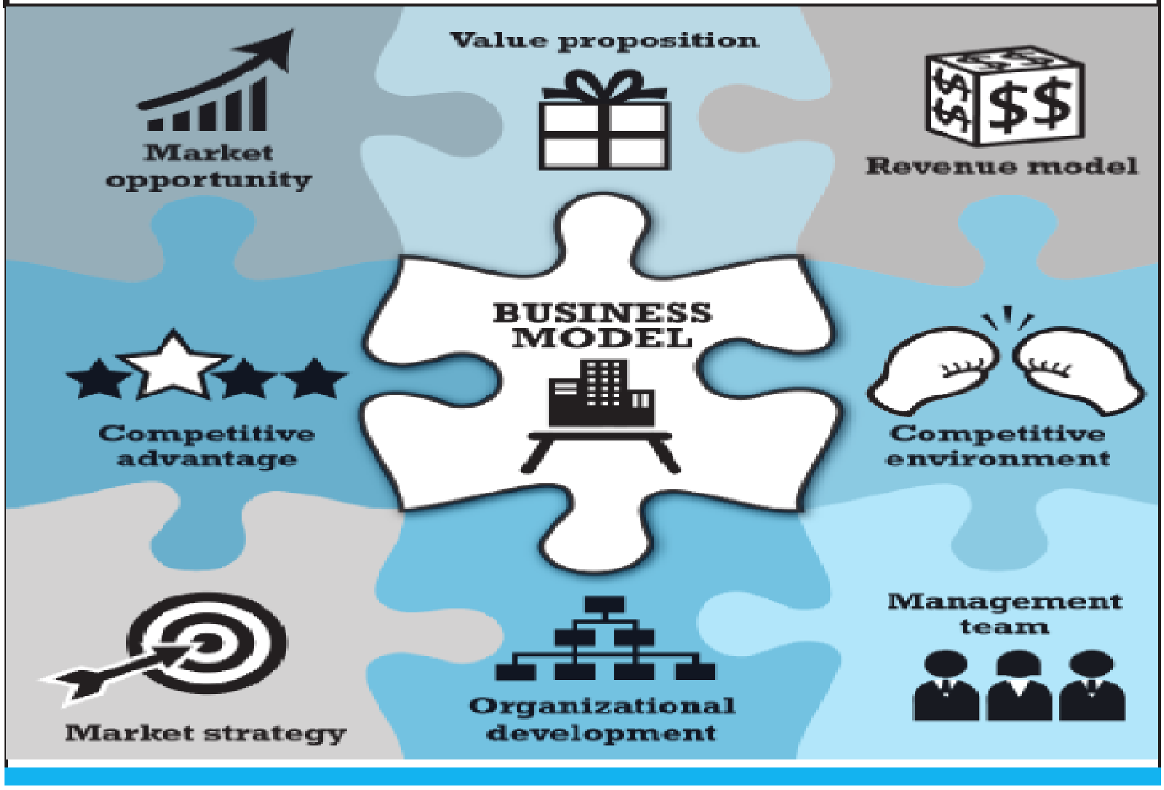
E-commerce has significantly evolved over the last decade. The iPhone was introduced in 2007. The iPad tablet was first introduced in 2010 and has already gone through several generations! Cloud services for storing and streaming content, and hosting thousands of apps, were not widely available until 2011. Smartphone and tablet devices have changed e-commerce into a social, local, and mobile experience. E-commerce business models of all types are thriving. Sales from online stores are expected to increase 385% this decade. It's easy to get caught up and excited in the latest e-commerce trends, but unless you know the fundamentals, you'll hit a profitability wall without knowing it. A booming ecommerce business takes intuition, knowledge of your market, a solid business plan, and careful research into products and business models. But one of the biggest hurdles most newcomers to the space face is easy to solve. Many would be ecommerce business owners just don't know how ecommerce businesses are set up and what different types of ecommerce are available to them. If you want to ease into an ecommerce juggernaut, I'd suggest you start a hybrid ecommerce, affiliate store. Since it began in 1995, electronic commerce has grown in the United States from a standing start to a $695 billion retail, travel, and media business and a $6.3 trillion business-to business juggernaut, bringing about enormous change in business firms, markets, and consumer behavior. Economies and business firms around the globe are being similarly affected. During this relatively short time, e-commerce has itself been transformed from its origin as a mechanism for online retail sales into something much broader. Today, e-commerce has become the platform for media and new, unique services and capabilities that aren't found in the physical world. There is no physical world counterpart to Facebook, Twittter, Google search, or a host of other recent online innovations from Pinterest and iTunes to Tumblr. The Internet is about to replace television as the largest entertainment platform. Welcome to the new e-commerce! E-commerce is projected to continue growing at double-digit rates over the next five years, remaining the fastest growing form of commerce. Just as automobiles, airplanes, and electronics defined the twentieth century, so will e-commerce of all kinds define business and society in the twenty-first century. The rapid movement toward an e-commerce economy and society is being led by both established business firms such as Walmart, Ford, IBM, Macy's, and General Electric, and online firms such as Google, Amazon, Apple, Facebook, Yahoo, Twitter, and YouTube. Students of business and information technology need a thorough grounding in e-commerce in order to be effective and successful managers in the next decade. While firms such as Facebook, YouTube, Twitter, Pinterest, and Uber have grown explosively in the last two years and grab our attention, the traditional forms of retail e-commerce and services also remain vital and have proven to be more resilient than traditional retail channels in facing the economic recession. The experience of these firms from 1995 to the present is also a focus of this book. The defining characteristic of these firms is that they are profitable, sustainable, efficient, and innovative, with powerful brand names. Many of these now-experienced retail and service firms, such as eBay, Amazon, E*Trade, Priceline, and Expedia, are survivors of the first era of e-commerce. These surviving firms have evolved their business models, integrated their online and offline operations, and changed their revenue models to become profitable. Understanding how these online businesses succeeded will help students to manage their own firms in the current omni-channel business environment.

Main body.

A **business model** is a set of planned activities (sometimes referred to as *business processes*) designed to result in a profit in a marketplace. A business model is not always the same as a business strategy, although in some cases they are very close insofar as the business model explicitly takes into account the competitive environment. The business model is at the center of the business plan. A **business plan** is a document that describes a firm's business model. A business plan always takes into account the competitive environment. An **e-commerce business model** aims to use and leverage the unique qualities of the Internet, the Web, and the mobile platform.

If you hope to develop a successful business model in any arena, not just e-commerce, you must make sure that the model effectively addresses the eight elements listed in **Figure 1.**

Figure 1. THE EIGHT KEY ELEMENTS OF A BUSINESS MODEL



These elements are value proposition, revenue model, market opportunity, competitive environment, competitive advantage, market strategy, organizational development, and management team. Many writers focus on a firm's value proposition and revenue model. While these may be the most important and most easily identifiable aspects of a company's business model, the other elements are equally important when evaluating business models and plans, or when attempting to understand why a particular company has succeeded or failed. In the following sections, we describe each of the key business model elements more fully.

Value Proposition.

A company's value proposition is at the very heart of its business model. A **value proposition** defines how a company's product or service fulfills the needs of customers. A business model has eight key elements. Each element must be addressed if you hope to be successful.

To develop and/or analyze a firm's value proposition, you need to understand why customers will choose to do business with the firm instead of another company and what the firm provides that other firms do not and cannot. From the consumer point of view, successful e-commerce value propositions include personalization and customization of product offerings, reduction of product search costs, reduction of price discovery costs, and facilitation of transactions by managing product delivery.

For instance, before Amazon existed, most customers personally traveled to book retailers to place an order. In some cases, the desired book might not be available, and the customer would have to wait several days or weeks, and then return to the bookstore to pick it up. Amazon makes it possible for book lovers to shop for virtually any book in print from the comfort of their home or office, 24 hours a day, and to know immediately whether a book is in stock. Amazon's Kindle takes this one step further by making e-books instantly available with no shipping wait. Amazon's primary value propositions are unparalleled selection and convenience.

Revenue Model.

A firm's **revenue model** describes how the firm will earn revenue, generate profits, and produce a superior return on invested capital. We use the terms *revenue model* and *financial model* interchangeably. The function of business organizations is both to generate profits and to produce returns on invested capital that exceed alternative investments. Profits alone are not sufficient to make a company "successful" (Porter, 1985). In order to be considered successful, a firm must produce returns greater than alternative investments. Firms that fail this test go out of existence.

Although there are many different e-commerce revenue models that have been developed, most companies rely on one, or some combination, of the following major revenue models: advertising, subscription, transaction fee, sales, and affiliate.

In the **advertising revenue model**, a company that offers content, services, and/or products also provides a forum for advertisements and receives fees from advertisers. Companies that are able to attract the greatest viewership or that have a highly specialized, differentiated viewership and are able to retain user attention ("stickiness") are able to charge higher advertising rates. Yahoo, for instance, derives a significant amount of revenue from display and video advertising.

In the **subscription revenue model**, a company that offers content or services charges a subscription fee for access to some or all of its offerings. For instance, the digital version of *Consumer Reports* provides online and mobile access to premium content, such as detailed ratings, reviews, and recommendations, only to subscribers, who have a choice of paying a $6.95 monthly subscription fee or a $35.00 annual fee. Experience with the subscription revenue model indicates that to successfully overcome the disinclination of users to pay for content, the content offered must be perceived as a high-value-added, premium offering that is not readily available elsewhere nor easily replicated. Companies successfully offering content or services online on a subscription basis include eHarmony (dating services), Ancestry (genealogy research), Microsoft's Xbox Live (video games), Pandora, Spotify, and Apple Music (music), Scribd and Amazon's Kindle Unlimited program (e-books), and Netflix and Hulu (television and movies). See **Table 1** for examples of various subscription services.

Recently, a number of companies have been combining a subscription revenue model with a freemium strategy. In a **freemium strategy**, the companies give away a certain level of product or services for free, but then charge a subscription fee for premium levels of the product or service.

In the **transaction fee revenue model**, a company receives a fee for enabling or executing a transaction. For example, eBay provides an auction marketplace and receives a small transaction fee from a seller if the seller is successful in selling the item. E*Trade, a financial services provider, receives transaction fees each time it executes a stock trans-action on behalf of a customer.

In the **sales revenue model**, companies derive revenue by selling goods, content, or services to customers. Companies such as Amazon, L.L.Bean, and Gap all have sales revenue models. A number of companies are also using a subscription-based sales revenue model. Birchbox, which offers home delivery of beauty products for a $10 monthly or $100 annual subscription price, is one example. Dollar Shave Club, which sells razor blades by subscription and was recently acquired by Unilever for $1 billion, is another. See the case study at the end of the chapter for a further look at Dollar Shave Club.

In the **affiliate revenue model**, companies that steer business to an "affiliate" receive a referral fee or percentage of the revenue from any resulting sales. For example, MyPoints makes money by connecting companies with potential customers by offering special deals to its members. When they take advantage of an offer and make a purchase, members earn "points" they can redeem for freebies, and MyPoints receives a fee. Community feedback companies typically receive some of their revenue from steering potential customers to websites where they make a purchase.

Strong Conceptual Foundation.

The article emphasizes the three major driving forces behind e-commerce: business development and strategy, technological innovations, and social controversies and impacts. Each of these driving forces is represented in every chapter, and together they provide a strong and coherent conceptual framework for understanding e-commerce. We analyze e-commerce, digital markets, and e-business firms just as we would ordinary businesses and markets using concepts from economics, marketing, finance, sociology, philosophy, and information systems.

EXAMPLES OF SUBSCRIPTION SERVICES	
NAME	DESCRIPTION
E Harmony (dating)	➢ Free: Create profile and view profiles of matches ➢ Basic (see photos, send and receive messages): $258 for 6months; $311 for 1 year ➢ Total Connect (Basic plus additional services): $275 for 6months; $323 for 1 year ➢ Premier (Basic/Total Connect plus additional services):$503/year
Ancestry (genealogical research)	➢ All U.S. records: $19.99/month or $99 for 6 months ➢ All U.S. and international records: $34.99/monthly or $149 for 6 months
Scribd (e-books)	➢ Unlimited access to "Scribd Select" books and audio- books, plus 3 books and 1 audiobook of the user's choice each month for $8.99/month (over 1 million e-books, and audio books from which to choose)
Spotify (music)	➢ Many different permutations, depending on device (mobile, tablet, or desktop) and plan chosen (Free,Unlimited, or Premium)

Table 1 summarizes these major revenue models.

Market Opportunity.

The term **market opportunity** refers to the company's intended **marketspace** (i.e., an area of actual or potential commercial value) and the overall potential financial opportunities available to the firm in that marketspace. The market opportunity is usually divided into smaller market niches. The realistic market opportunity is defined by the revenue potential in each of the market niches where you hope to compete.

Conclusion.

We believe that in order for business and technology students to really understand e-commerce, they must understand the relationships among e-commerce business concerns, Internet technology, and the social and legal context of e-commerce. These three themes permeate all aspects of e-commerce, and therefore, in each paragraph, we present material that explores the business, technological, and social aspects of that chapter's main topic. Given the continued growth and diffusion of e-commerce, all students—regardless of their major discipline—must also understand the basic economic and business forces driving e-commerce. E-commerce has created new digital markets where prices are more transparent, markets are global, and trading is highly efficient, though not perfect. E-commerce has a direct impact on a firm's relationship with suppliers, customers, competitors, and partners, as well as how firms market products, advertise, and use brands. Whether you are interested in marketing and sales, design, production, finance, information systems, or logistics, you will need to know how e-commerce technologies can be used to reduce supply chain costs, increase production efficiency, and tighten the relationship with customers. This text is written to help you understand the fundamental business issues in e-commerce.

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