IMS3280/IMS2704

Lecture 2
E-Commerce ‘Business Models’
Impact of Internet & E-Commerce

- New opportunities/potential for businesses
- Challenges for businesses engaging in e-commerce
- Affecting businesses & industries, especially in the way some business is conducted
- Need to investigate new business models that effectively utilise the potential of Internet & e-commerce & associated technologies
What is a Business Model? (1)

“…explains who your customers are and how you plan to make money by providing them with value”

(Magretta, 2002)

“…companies need a robust business model to knit together the different activities required for creating and distributing unique value to customers”

(Sanberg, 2002)
What is a Business Model? (2)

“…a method of doing business by which a company can generate revenue to sustain itself”

(Turban et al., 2004)

“…an attempt to identify an organisation’s customers and, from there, to discuss how the organisation will achieve profitability and sustainability by delivering goods and services to those customers”

(McKay & Marshall, 2004)
What is a Business Model? (3)

- A blueprint of a business
- Description of how a business works
- Needs to be operationalised effectively with a well thought-of strategy
Types of E-Commerce Business Models

- As numerous as the definition of e-commerce & e-business
- Every researchers, writers, practitioners have their own views
- Consider McKay & Marshall (2004) who have 3 types of business model
- Consider Turban et al., who presented 11 types of e-commerce business models
- Consider Timmers (1999), Applegate (2001), Weill & Vitale (2001), Eisenmann (2002), etc etc etc
Example 1: Direct to Customers
Example 2: Intermediary
Example 3: E-Marketplace
A Business Model Should….

- Articulate value proposition
- Identify market segment
- Define structure of internal & external value chain required to create and distribute offering to clients/customers/partners
- Describe the position of the firm within the value network
- Consider cost structure, profit potential, & revenue base
- Consider and formulate the competitive strategy of the firm
Elements of a Business Model

- Products & services
- Sustainable revenue sources
- Resources/assets/capabilities
- Business processes & activities
- Market segment
- Partnerships/alliances
• **What do we offer?**
  – Products? Services? Information? Experiences?
• **How different is our offering to that of our competitors?**
• **How can we differentiate our products/services?**
• **How can we add value to our customers through our products/services?**
• **Will there be anyone interested in what we have to offer?**
• **What about branding?**
  – The firm, the products, the services, etc

**Do you know of McCarthy’s 4 Ps?**
Products & services

Remember that…

- **Rising Star**
  - High Market Share
  - Low Business Growth

- **Cash Cow**
  - Low Market Share
  - High Business Growth

- **Dogs**
  - Low Market Share
  - Low Business Growth

- **Wild Cats**
  - High Market Share
  - Low Business Growth

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Products & services

Remember that…

Rising Star  Wild Cats
Cash Cow      Dogs

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Resources/ assets/ capabilities

• What do we have?
  – Resources, skills, capabilities, assets
• What do we need?
  – Finance
• What can we offer with what we have
• What can we do with what we don’t have?
• How do we obtain key resources/ capabilities?
• How can we used our resources to obtain the organisational goals and objectives?
• Insorce or outsource?

Every resources/assets are to be used efficiently to gain competitive advantage
Partnerships/alliance

- Why do we need partnerships & alliances?
- How can we effectively harvest the relationships we have with our partners/allies?
- What partnerships/alliances do we need?
- Who would be our partners/allies?
- How to develop and maintain relationships with our partners?
- What can/do we offer?

Ever heard of the term ‘COOPETITION’?
• Where’s our market? Who are our clients? Who are our competitors in this market segment?
• Is this market viable? sustainable?
• What do our customers/clients want and/or need?
• What constitute ‘value’ from their perspective
  – Do we understand this?
  – Can we deliver this?
  – Can we add more to this?
  – How can we be different from competitors?
• Reaching to the market/customers
  – How to foster loyalty? Relationships? Branding?
Sustainable revenue sources

• **What is our revenue base?**
  – Subscription, interest rate, commission, advertising space, sponsorships, selling, etc

• **Can we sustain this revenue base?**
  – Customers loyalty, good economic climate, etc.

• **Can we be sustained with this revenue based?**

• **How to sustain this?**
  – Value for money? Correct pricing?

• **Opportunities to increase revenue base?**

  **CAVEAT:** Severe consequences may result in aggressive exploitation of revenue base
• What key processes & activities by which we deliver added value for customers?
  – Internally & externally
• Can we make these processes more efficient? How?
• Insourse or outsource?
  – Do we need external party(ies)? Why?
Developing an E-Commerce Business Model

• **Thorough analysis & evaluation**
  – Internal & external factors
  – Using analytical tools (i.e., 5 Forces model, PEST, Environmental analysis, SWOT, Stages of Growth model)
  – Consider trends (past, present, future); where’s the growth?
  – Who’s the competitors? where’s the market? Who are the customers? Where’s the niche?
  – Identify potential opportunities, constraints & risks
  – How to maximise these opportunities and minimise the risks

  Where’s the competitive advantage?
  How can we create sustainable competitive advantage
Organisational Impact

- A new and well-designed business model may enable a firm to
  - Generate growth opportunities
  - Respond flexibly towards highly competitive environment
  - Capture new opportunities quickly and profitably
  - Reposition and affirm the position of the firm in the value chain & in the market
Who’s Responsible?

Business people? Tech people?
The CEO? The Executives? Everybody?
Wait…

Business model = strategy?
Reading lists


