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E-COMMERCE
BENT III

TOPIC TWO: Selling on the web-E-COMMERCE BUSINESS MODELS

E-commerce Business Model and its major components, Elements of Business Model, Types of Revenue Models, Classification of Business Models in e-commerce, Functions of a business model.

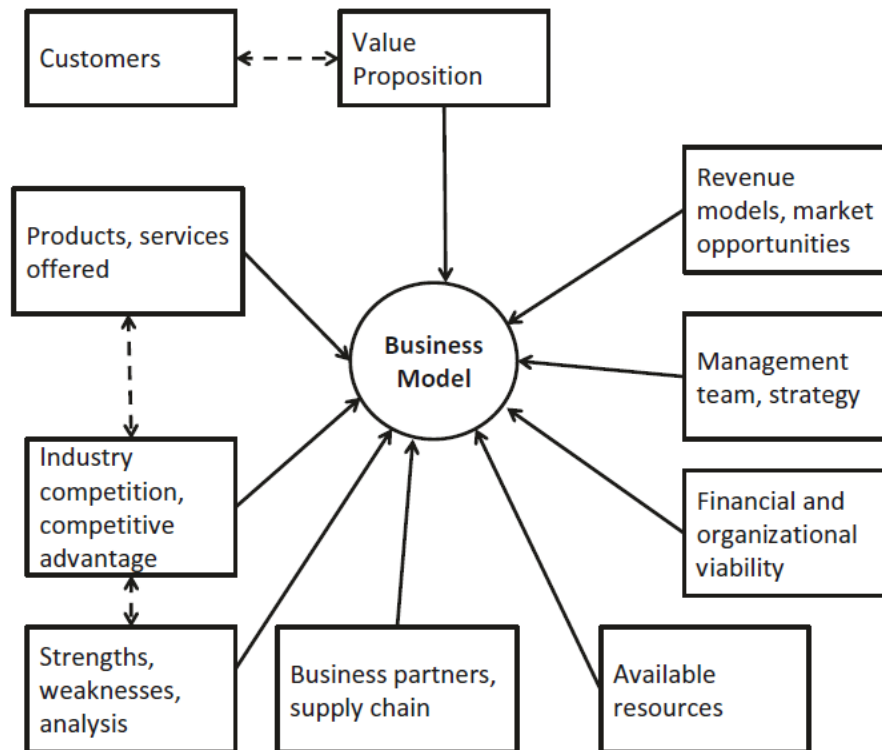
One of the major characteristics of EC is that it facilitates the creation of new business models. A **business model** describes the manner in which business is done to generate revenue and create value. This is accomplished by attaining organizational objectives. A key area is attracting enough customers to buy the organization's products or services. Several different EC business models are possible, depending on the company, the industry, and so on. Business models can be found in existing businesses as well as in proposed ones.

A comprehensive business model may include some or all of the following components as illustrated in Fig. 1:

- A) A description of the customers to be served and their value proposition. Also, how these customers can be reached and supported
- B) A description of all products and services the business plans to deliver. Also, what the differentiating aspects of the products are
- C) The company's growth strategies
- D) A description of the required business process and the distribution infrastructure (including human resources)
- E) A list of the resources required, their cost, and availability (including human resources)
- F) A description of the organization's supply chains, including suppliers and other business partners
- G) The value chain structure
- H) The relevant markets with a list of the major competitors and their market share. Also, market strategies and strengths/weaknesses of the company
- I) The competitive advantage offered by the business model including pricing and selling strategies
- J) The anticipated organizational changes and any resistance to change
- K) A description of the revenues expected (revenue model), sources of funding, and the financial viability

Models also include a value proposition, which is a description of the benefits of using the specific model (tangible and intangible), both to the customers and to the organization. A detailed discussion and examples of business models and their relationship to business plans are presented at en.wikipedia.org/wiki/Business_model.

Fig. 1. The major components of a business model



Revenue model

A revenue model specifies how the organization, or an EC project, will generate revenue. For example, the revenue model for Jumia shows revenue from online sales of a wide range of products. The major revenue models are shown below:

Sales. Companies generate revenue from selling products or services on their websites. An example is when Net-a-Porter, Starbucks, Amazon.com, Jiji, jumia or Godiva sells a product online.

Transaction fees. Commissions are based on the volume of transactions made. For example, when a homeowner sells a house, he or she typically pays a transaction fee to the broker. The higher the value of the sale, the higher the total transaction fee. Alternatively, transaction fees can be levied *per transaction*. With online stock trades, for example, there is usually a fixed fee per trade, regardless of the volume.

Subscription fees. Customers pay a fixed amount, usually monthly, to get some type of service. An example would be the fee you pay to an Internet access provider (fixed monthly payments).

Advertising fees. Companies charge others for allowing them to place a banner on their sites.

Affiliate fees. Companies receive commissions for referring customers to certain websites. A good program is available at Amazon.com.

Licensing fees. Another revenue source is licensing fees (e.g., see progress.com/datadirect-connectors). Licensing fees can be assessed as an annual fee or a per usage fee. For example, in the past, Microsoft received fees from each workstation that used Windows NT, before it became outdated.

Other revenue sources. Some companies allow people to play games for a fee or to watch a sports competition in real time for a fee (e.g., see espn.go.com).

A company uses its *revenue model* to describe how it will generate revenue and its *business model* to describe the *process* it will use to do so.

Innovative Revenue Models for Individuals

The Internet allows for innovative revenue models, some of which can be utilized even by individuals, as demonstrated by the following example:

Example: buy low, sell high

This strategy has been known for generations, but now you have a better chance.

Value Proposition

Business models also include a value-proposition statement. A **value proposition** refers to the benefits, including the intangible ones, that a company hopes to derive from using its business model. In B2C EC, for example, the *customer value proposition defines* how a company's product or service fulfills the needs of customers. In other words, it describes the total benefits to the customer. The *value proposition* is an important part of the marketing plan of any product or service. Value propositions in B2C e-commerce, see Davis (2012).

Functions of a Business Model

Describe the supply and value chains.

- Formulate the venture's competitive strategy and its long-range plans.
- Present the customer value proposition.
- Identify who will use the technology for what purpose; specify the revenue-generation process, where the company will operate.
- Estimate the cost structure and amount and profit potential.

TYPICAL EC BUSINESS MODELS

There are many types of EC business models. The following are the common models;

1. ONLINE DIRECT MARKETING. The most obvious EC model is that of selling products or services online. Sales may be from a *manufacturer* to a customer, eliminating intermediaries or physical stores (e.g., Dell), or from *retailers* to consumers, making distribution more efficient (e.g., Net-a-Porter, Walmart online). This model is especially efficient for digitizable products and services (those that can be delivered electronically). This model has several variations and uses different mechanisms (e.g., auctions). It is practiced in B2C (where it is called *e-tailing*).

Selling online via a business website

Despite social media rapidly capturing the digital world, a website is still the backbone of a business digital strategy and one of the most typical digital business tools. There are 1,218,423,991 websites in the world as of May 2021.¹⁸ The vast majority of these are likely to be business websites, providing information about a company, its products and services. Often, business websites host an e-commerce store.

Any virtual store would typically have the following elements:

- **A product/service catalogue.** Setting up a catalogue of goods or services involves the task of logically breaking up the offering of all goods and services to be traded into categories, subcategories, types, etc. A business needs to divide products into categories by size, colour, shape, make, model, type, brand, country of manufacturing, etc. The more straightforward and easy-to-understand is the cataloguing system, the easier customers will navigate through the store, the quicker they will find the products desired and the most likely they will buy items from the store.
- **Photos.** Adding photos to each item of the catalogue. In modern virtual stores, there is typically an interface where the owner can either upload a series of images (front, back, top, zoomed images, etc.), and provide captions for each photo (such as those used for visually impaired shoppers, search engines etc.)
- **Item Titles, Short Descriptions.** A short, specific title should be added to each item. The exact title is an important marketing and SEO¹⁹ tool, therefore, all titles should ideally be phrased in a certain way. Gradually, a seemingly simple task of product naming evolved into a mix of art, science, and marketing psychology. Today, hiring a SEO expert is practically the only way to ensure proper visibility of the website.
- **Long Description of each product/service.** An accurate description should be added to each item. The description must contain any mandatory pieces of information (such as legal disclaimers, warnings as mandated by the governing legislation), and optional marketing or sales messages.
- **Stock number, SKU²⁰.** Each business needs to know where a particular product is in the storage facility and how to find it. An SKU can be as simple as a combination of letters and numbers, such as, for example, BL001, which may mean something like BL-black, 001 – the first box on the left shelf. SKUs could be a long string of characters assigned to each item by an inventory management system. Modern day inventory management systems employ various sophisticated tools such as barcodes, QR codes, e-tags or other systems to track individual item's inventory position. These codes are predominantly for the convenience of a business.

- **Rules of selling.** These rules may include product rebates, bundles, volume-based discounts, price reductions, coupons, etc., and apply to either all products/services or to certain categories of goods. These parameters add a new layer of flexibility and help automate and facilitate trade.
- **A shopping cart.** Much like its real-life analogue, a shopping cart is an automated script that helps shoppers to place an order, and allow consumers to perform all the activities to the following:
 - a. Select the exact products they want.
 - b. Specify the number of items.
 - c. Apply a promotion, add a coupon code to the cart.
 - d. Enter customer details (billing and shipping address).
 - e. Select various delivery options (adding shipping and handling costs).
 - f. Calculate taxes, if any.
 - g. Choose payment options among those offered by vendor.
 - h. Generate an invoice with the above information.
 - i. Collect payment.
 - j. Send order for fulfilment.

2. ELECTRONIC TENDERING SYSTEMS. Large organizational buyers usually make large-volume or large-value purchases through a **tendering (bidding) system**, also known as a *reverse auction*. Such tendering can be done online, saving time and money. Pioneered by General Electric Corp., e-tendering systems are gaining popularity. Indeed, many government agencies mandate that most of their procurement must be done through e-tendering.

Required: Visit Uganda's <https://egpuganda.go.ug/bid-notice> to know more about e-tenders

- **eTendering:**

e-Tendering digitizes the traditional process of soliciting bids from suppliers. Through online platforms, companies can efficiently float tenders, receive bids, and manage procurement. Benefits include broader supplier reach, faster bid processing, heightened efficiency, and cost reduction. Despite some digital challenges, e-Tendering's accessibility levels the field for suppliers and streamlines procurement, benefiting both parties.

- What is an e-Tendering system?

An e-Tendering system is simply a platform that facilitates businesses looking for contractors and suppliers and makes it easier for those people to bid on that business' tenders. Where this process was traditionally conducted using long-form paper-based applications, more and more sectors are moving to seamless digital procurement systems to speed up the process.

- What are the benefits of e-Tendering compared with traditional tendering?

The reason e-Tendering has become the preferred method to connect with potential contractors and suppliers is because it is much more efficient than traditional tendering.

Some of the other advantages of e-Tendering over traditional tendering include:

- Ultimately more cost-effective after initial overheads are covered.
- Access to a wider supplier talent pool.
- Contractors and suppliers can bid for more tenders quickly and easily.
- Replaces troublesome paper trails with a comprehensive audit trail.
- Allows businesses and contractors to find the best matches quickly, reducing project delays.

- **What are some e-Tendering examples?**

While e-Tendering is used by many private companies, it's predominantly used in the public sector.

Governments typically float tenders to contractors for construction work to maintain public buildings or to fix roads — while universities typically do the same thing for on-site renovations.

Many businesses also float tenders to suppliers. Retail stores and supermarkets use e-Tendering to secure the best quality products or materials to distribute at the lowest possible cost.

- **What are the benefits of e-Tenders?**

e-Tenders offer many potential benefits over traditional tendering, as they're specifically designed to streamline the process for all involved.

Some of the main benefits of e-Tenders include:

- **Access to a wider talent pool**

Because suppliers are able to view and access business tenders quickly and from anywhere – as opposed to only local contractors applying through traditional paper documents – digital platforms widen the application process to businesses further afield. This means businesses are more likely to access the best candidate, not just the nearest.

- **Quicker contractor processing**

Procurement platforms let businesses view, compare and sort hundreds of contractor bids seamlessly – making it easier, clearer and much more efficient than sifting through reams of paper bids.

- **Increased efficiency**

As well as being more efficient for the businesses to sort through bids, it's easier for contractors to create them. Having a seamless digital template that allows contractors to bid on tenders quickly not only opens the door for contractors to access more work, but reduces the time and effort spent doing so.

- **Decreased procurement overheads**

It takes much time and energy to organise and review bids — time that's taken away from critical day-to-day operations. Because efficient procurement platforms slice the time it takes to manage bids and procure talent, that time can be better spent on business growth.

- **Real-time features**

e-Tendering eliminates business concerns regarding loss of documents and information, with digital platforms providing seamless and instant delivery of documents. Plus, they offer useful features such as real-time bid status tracking and instant feedback and communication between businesses and contractors — so nobody has to worry.

What are the disadvantages of e-Tenders?

Despite having many advantages for both businesses floating tenders and contractors bidding for them, a transition to digital e-Tenders can come with some potential complications.

Some of the risks to consider with e-Tenders include:

- **Digital complications**

Should any downtime occur on the network or digital platform itself, it could mean bid information becomes temporarily unavailable. In a world of tight deadlines and quick

turnarounds, facing delays in procuring contractors can seriously hurt the reputability and bottom line of a business.

- **Portal navigation**

Depending on the platform, navigating the submission portals can require additional training compared with traditional, established tendering processes. Although this is not necessarily a long-term challenge, for some, it can potentially be intimidating and confusing — meaning some applicants could be deterred from applying altogether. It's important businesses choose a platform with effortless access and an intuitive interface to avoid alienating potential suppliers.

- **Costly setup**

In some cases, e-Tendering may come with additional expenses compared with a traditional tendering process. However, this is typically offset by the time and effort saved operating digitally —allowing the procurement team to focus on more valuable tasks elsewhere. Additionally, by widening the talent pool, businesses can often access more cost-effective suppliers, too.

3. ELECTRONIC MARKETPLACES AND EXCHANGES. Electronic marketplaces existed in isolated applications for decades (e.g., stock and commodities exchanges). However, as of 1996, hundreds of e-marketplaces (old and new) have introduced new methods and efficiencies to the trading process. If they are well organized and managed, e-marketplaces can provide significant benefits to both buyers and sellers. Of special interest are vertical marketplaces that concentrate on one industry. For example, Net-a-Porter is a marketplace for dresses and related items. Its customers are mostly individuals.

An e-commerce *point-of-sale* is any virtual store that serves as a platform where buyers and sellers meet to exchange goods and services for money. Examples of e-commerce points-of-sale include, but are not limited to:

- A marketplace storefront
- A landing page or a website

The difference between a marketplace and a website store is subtle. Typically, a virtual marketplace is owned by a service provider. Anyone can come to the market and rent a stall, but the market

owner will still own the stall and can technically kick the leaser out for certain reasons. On the other hand, an e-commerce on a website is often owned by the store owner.

The front page of any e-commerce account performs the following functions:

- Features display of products.
- Showcases the brand identity of the business.
- Serves as a product catalogue.
- Offers product search capabilities.
- Links to a store shopping cart.

Setting up a new e-commerce store

For an entrepreneur wishing to trade via a marketplace, setting up a virtual store is straightforward. Following the review of the Terms and Conditions of trading of this marketplace, a quick registration process results in the entrepreneur being assigned a virtual store.

An e-commerce point-of-sale business profile typically contains:

- The business name.
- Elements of the business identity (logo, storefront images, header, etc).
- The business legal address.
- The physical address of the business.
- A virtual address (URL) configured either through:
 - a. A linked business-owned domain (e.g., https://www.example.com/store_name/).
 - b. A subdomain (https://www.exampleplatform.com/sores/store_name).
- A business tax ID.
- Other information.

How different is a business website e-commerce from marketplaces?

Below are several considerations that differentiate business-owned websites from platform-owned accounts.

i. Who owns the webstore?

- a. When creating an e-commerce on the business website, the business owns the webstore (the business owns the codes, pays for the hosting, etc.).

b. On marketplaces, the webstore is owned by the platform (e.g., Amazon owns the platform and provides it to business in exchange for the percentage of sale, a monthly payment or other financial rewards).

ii. Who fulfils orders?

a. When creating an e-commerce on the business website, the business fulfils orders (and ships the goods by themselves).

b. On marketplaces, this is often done by the platform on behalf of the seller (e.g., Amazon ships goods from its warehouse to clients).

iii. The flow of money from buyer to seller:

a. Direct on the business website: business receives the payment directly.

b. Via an intermediary on marketplaces: the platform gets paid, then it settles with the business.

c. Neither: transactions are completed outside the website (e.g., restaurants delivering via food ordering applications may receive payments by cash or using their own physical point of sale).

Selling online via marketplaces

Many businesses that venture into selling their products and services begin their online trading through marketplaces (such as an Amazon webstore). A marketplace is essentially a virtual market where sellers offer various products and services that buyers can purchase. Marketplaces were designed to provide basic e-commerce tools to businesses that lack such capabilities. Marketplaces are designed for businesses that either:

- Are newcomers that want to trade online but do not have their own website.
- Work in an industry traditionally selling on or through marketplaces.

Reasons to set up a virtual marketplace account:

Businesses, if in doubt whether they should trade via a marketplace or build an online store, should opt for starting with a marketplace account for the following reasons:

- Reduced or no barriers to entry.
- Quick and effortless setup of everything required to trade.
- A marketplace account is either free or inexpensive to set up.
- Becoming experienced in online trade, copying or replicating elements of a marketplace business model is a great starting point for the online store.

Having gained some insights, resources, and time to work on a dedicated e-commerce website, businesses can go ahead and establish an owned e-commerce website and/or continue using the marketplace.

Example

Linda is a young micro business owner. She set up a new account on Amazon.com in two days with the intention to sell the handmade necklaces she was making. Linda's intention was to capture a fantastic market of millions of online shoppers.

Unfortunately, she had to review her business strategy three months after the start. She sold nothing on Amazon.

Saddened by her failure, she started researching, reading, and talking to e-commerce specialists to understand what some of the reasons for her lack of immediate success could be.

She also tried to understand how her prospects could find her necklaces. She noticed that her necklaces were lost amongst millions of similar offerings. Consequently, even though owning an account on Amazon did not cost her anything, she was not making any money.

Eventually, she understood some of the reasons of her not-so-stellar performance.

- a. First, she was only offering a handful of designs.
- b. The store needed lots of promotion, including paid promotion, and time to become visible on Amazon.
- c. Her store listings needed more relevant, catchy, and informative descriptions and images.
- d. Also, other traders quickly stole her designs and started selling her necklace replicas for a fraction of price she was selling her wares.

She abandoned the idea of focusing only on Amazon. Instead, she capitalised on her research and decided to split her efforts. First, she set up a free account on Etsy.com, the go-to place for people selling hand-made and handicraft items, and her sales gradually grew.

Linda also set up an account on Instagram to showcase her necklaces and posted links to her Etsy and Amazon stores on her Instagram profile page. Finally, buyers started to discover her stores, but it was not until eight months since her Amazon account setup date until her micro business gained popularity.

Question: What do you make of Linda's situation before and after joining an e-marketplace?

4. VIRAL ADVERTISING AND MARKETING. According to the viral marketing model, people use e-mail and social networks to spread word-of-mouth advertising. It is basically Web-based *word-of-mouth* advertising and is popular in social networks.

Selling through social network platforms

Social media platforms are increasingly popular for selling goods and services. Vendors benefit from the direct access to its customer base and from social aspects, like the built-in messaging, polls, likes, photos and sharing. All these factors help boosting customer engagement and promote brand awareness, which increase sales.

Ideally, these instruments add greatly to the comprehensive sales and marketing efforts. The function of the social media is typically adding content, attracting new customers and promoting brand awareness, thus greatly contributing to the marketing efforts.

Nevertheless, some vendors also use them to sell goods and services. While this approach certainly works well for some businesses, technically social media platforms had not originally been designed with the intent to sell goods and services.

Can a business trade directly through its social media account?

This is a decision that the business should make considering its business model, needs, client requirements, the availability of enabling services and tools to make the process of using social media to sell goods and services effortless and smooth. For some businesses, selling via social media as the main e-commerce tool is possible, but for others it is sub-optimal.

Most social media that are not geared for e-commerce miss some standard tools, functions and capabilities that are well implemented on other dedicated or general-purpose websites and/or e-commerce platforms. Below are some basic Q&A that businesses may ask themselves.

On whether a business should develop a catalogue with its products; Social media provides any business with direct access to clients and having a catalogue with products and prices would certainly be beneficial. Since most platforms do not offer a dedicated space for businesses to showcase their products, the business may choose to create an attractive catalogue in PDF (document) and/or JPEG/PNG (picture) formats. A picture is worth a thousand words, so by all means, posting images of products to social media accounts is good for business.

On whether to set up Terms and Conditions? Yes and no. As much as a business may post their own terms and conditions, they may not be enforceable. Technically, a business' account is part of the social media platform, which has its own rules, terms and conditions. These will supersede those that the business and users agree upon. Further, if platform terms and conditions are violated, the business account may be restricted, banned, blocked or lost. Before engaging in any sort of e-commerce, a business must carefully study the platform's terms and conditions.

5. GROUP PURCHASING. Group purchasing is a well-known offline method, both in B2C and B2B. It is based on the concept of quantity discounts ("cheaper by the dozen"). The Internet model allows individuals to get together so they can gain the large-quantity advantage. This model was not popular in B2C until 2010 when Groupon introduced a modified model in which people are grouped around special deals, as illustrated in Chap. 8. Note that the model is very popular in China.

Classification of Business Models in e-Commerce

Rappa (2010) classified the EC business models into eight categories:

1. Brokerage: Market makers that charge fee for their services.
2. Advertising: Websites that provide content and charge advertisers for related ads.
3. Infomediary: Provides information and/or infrastructure that help buyers and/or sellers and charge for their services.
4. Merchant—retailers (such as Walmart or Amazon): These buy the products and sell them at profit.
5. Direct model: Sells without intermediaries.
6. Affiliate: Paying website owners to place banners. Share fees received from advertisers.
7. Community: A social media-based model that utilizes tools, social networks, and the characteristics.

REVIEW QUESTIONS

1. What is a business model? Describe its functions and properties.
2. Describe a revenue model and a value proposition. How are they related?
3. Describe the following business models: direct marketing, tendering system, electronic exchanges, viral marketing, and social networking/commerce.
4. Identify some business models related to buying and those related to selling.
5. Describe how viral marketing works.