UNIT 2   E-COMMERCE BUSINESS MODELS

Structure

2.0   OBJECTIVES

After studying this unit, you should be able to:

- understand the meaning and concept of the term 'business model';
- understand the key elements of a business model;
- understand how e-commerce is designed;
- understand how e-Commerce is implemented;
- understand how e-Commerce generates revenue; and
- understand how pandemic had a direct impact on e-commerce business.

2.1   INTRODUCTION

We understood in the previous unit on "Basics of e-Commerce", that how our digital devices like computers, tablets, or smart phones could be considered akin to digital version of mail-order catalogue shopping. Ranging from mundane products like grocery items, stationary items, cosmetics to aeroplane tickets, buy and sell services, to financial and government services, everything is now available on online stores. There is hardly any imaginable product or service that is not available through e-commerce websites/ stores/ platforms/ apps.

Indeed, e-commerce is a newer format of conducting businesses that permits consumers to buy products/services over Internet and empowers business entities (retailers, wholesalers or suppliers etc.) to sell things over Internet.

In the present unit, we would try to understand how e-commerce works with special reference to its business model and its key elements. We also try to understand other models that support the design and implementation of e-commerce. In continuation we would also study what are the various possibilities of generating revenue by these online shopping stores. All subsequent models (design models, implementation models and revenue models) are important constituents of the bigger concept of defining the business model of e-commerce. In general, Government of India identified two categories of e-commerce business models one is related to 'Informational/Communicational Design Strategy' and the other category is related to 'On-line Transactional Design Strategy'.

2.2   WHAT IS A BUSINESS MODEL?

A business model is like a business plan conceived by a company so that the company has an edge over its competitors and can make profits but it is over and above a business plan too. It is also about specifying exact strategies and approaches of initiating and sustaining the proposed business plan.

Its key focus stays on sustaining the proposed business by specifying ways and means to create on-going value for the desired customers.

Some key questions that need to have answers include:

- Who are going to be the target beneficiaries of the business?
- What is the key unique proposition of the business?
- How will the business idea be implemented?
- How will it generate revenues?
- How will it interact with customers to deliver products/services?

First and foremost, a business plan must clearly delineate who the target customer is, then highlight the differentiating product or a service that the identified customer would seek, also called the USP – Unique Selling Proposition, that would be unique to this business and would give an edge over its competitors.

After that, a business model should move on to describe all the elements that are required to demonstrate the feasibility and success of a prospective business.

Therefore, business plan should ideally include several details including target customer, description of the goods, details of the services that the company has to offer, marketing strategy, revenues and expenses, start-up costs, sources of financing and so on. To address such and related concerns , a business model must be a detailed description related to following components:

i.   Core business focus (why are we doing the business, who is our target customer)

ii.   Design priorities (why are we going online – to improve our brand positioning, to promote the business across various geographies, to eliminate intermediaries or all)

iii. Implementation strategies (how would this business go online, directly or through existing online aggregators etc.)

iv. Revenue mechanisms (how the money flows – directly through sales or advertisements etc.) driving that business.

2.3 KEY ELEMENTS OF A BUSINESS MODEL

To ensure that all these basic questions are adequately addressed, following are some simple steps to create a strong business model.

1. **Identify your specific audience:** Targeting a wide audience won't allow a business to identify the right customers, who truly need and want the product or service. Instead, when creating a business model, narrow down the audience (expected buyers) number to two or three and do detailed study of the buyer personas. Outline each persona's demographics, common challenges and the solutions of the company that it will offer.

2. **Establish business processes:** Before the business can go live, make a clear understanding of the activities required to make the business model work. It is important to determine the key business activities to establish a proper business process. The first step is to identify the core aspects of the business's offering.

3. **Record key business resources:** What does a company need to carry out during daily processes, find new customers and reach business goals? Document essential business resources to ensure the business model is adequately prepared to sustain the needs of the business. Common example that a business may need includes a website, capital for the business to start running, warehouses, intellectual property and the customer lists.

4. **Develop a strong, preferably a unique value proposition:** For standing among other competitors a company needs to provide some additional value proposition to the customers in the form of an innovative service, or a revolutionary product. Value proposition is about giving the value to the business and how it stands out from other businesses in the market. Once the business has got a few value propositions, then it is important to link each of them to a service or product delivery system to determine how the business would remain valuable to the customers over time.

5. **Determine key business partners:** No business can function properly (let alone reach established goals) without key partners that donate to the business's ability to serve customers. While building a business model it is significant to choose the key partners like for example suppliers, strategic alliances, or advertising partners.

Keeping these five elements in mind, will lead to the creation of a solid business model capable of fuelling the success of a new business entity.

Once we are clear about what a business model is and how it is created, we shall move on to apply this basic knowledge in understanding this from the perspective of an e-commerce business.

Typically for an e-commerce business, a clearly defined business plan usually must include following four subtypes of related models:

a. **Customer Based Business Model** - Model that would help decide who is the ultimate target beneficiary of the proposed e-commerce initiative.

b. **Design Model** –Model that would help to decide the priority for designing the proposed e-commerce website.

c. **Implementation Model**–Model that would decide how we implement the proposed e-commerce initiative including how we reach our customers, how we sale them, how we transact a sale, how the products/ services are distributed, how we deliver the products/ services.

d. **Revenue Model**–Model that would help us to generate revenue for the e-commerce initiative as well as for the organisation/enterprise responsible for launching the E-Commerce portal.

2.4 E-COMMERCE BUSINESS MODELS TO UNDERSTAND TARGET CUSTOMER

Choosing and applying the right e-commerce business model is complicated-especially if it is a new product / service not been launched by anybody else. These models vary depending on the target customer (or 'buyer'), available resources, and capabilities of both the seller and the customer.

For an easy revision, the general e-commerce business models, based on the category of the customers are summarised herewith.

1. **Business-to-Business (B2B):** Business-to-business (B2B) e-commerce portal is the one where the business is conducted between two business entities using this portal, such as between a wholesaler and retailer. The retailer could connect to the customer separately, using another online store or using a physical store.

   As is evident, B2B transactions happen, where one business entity, say an automobile company purchases its varied accessories from various suppliers using a dedicated web portal/website/app. For example, Toyota motors have their own B2B web portal to connect to all its business partners which is not accessible to the individual buyers.

   Drop Box is a service based B2B e-commerce model where all the team members have access to the work account created in Drop Box to store, share, and collaborate on files.

2. **Business - to - Consumer (B2C):** B2C model of e-commerce is primarily for those business entities (retailers, whole sellers and manufacturers) who want to sell their products(or services) directly to their consumers using online stores. For example, Laxme India is a product based B2C FMCG company that has its online presence too in India to connect to its customers.

3. **Consumer - to –Consumer(C2C) :**When individuals want to sell their own services , or a product (usually the used / second hand/ pre-owned products) using Internet then they use C2C e-commerce web sites/ portals such as OLX, eBay, Craigslist and so on. These C2C online

stores often use classified advertisements or may use online bidding / auction systems to attract the buyer-customers.

4. **Consumer- to - Business (C2B):** In the C2B model, individuals (customers) sell their products or services to a business. Using this model, a business entity can typically extract values from the customers by taking their business suggestions or by getting their feedback or reviews on the existing products.

    Apart from gathering feedback or reviews or press releases written by consumers for consumers, there are dedicated freelancer C2B platforms like 'Up work online transaction platform' and 'Fiverr' who 'crowd source' freelancing services from individuals and pass it on to the businesses who need it, obviously on contract and short-term basis.

    Also, C2B concept is also used to monetise the 'influencing' quotient of a popular individual to 'sell' or 'brand' a business. Influencers with high social media following, encourages their fans and followers to buy a particular product/service or to take an action. With present social media hype, influencer-matching marketplaces like 'Ifluenz' are on the rise as new, innovative forms of C2B. In India, 'Influencer.in', 'Plixxo' and 'Chat box' are some of the popular influencer marketing platforms.

On the similar lines, there are other possibilities of an e-commerce business such as Business - to - Government (B2G), Government - to - Business (G2B), Government - to - Citizen (G2C) and so on.

Once the customer has been identified and a suitable model picked up, we move on to define the design and implementation models of e-commerce.

2.5 E-COMMERCE DESIGN MODELS

The four models that are associated with the informational/communicational design are:

a. Brand awareness and image building model

b. Promotion model

c. Info-mediary model

d. Customisation model

a. **Brand awareness and image building model:** Web sites that are using this model provide detailed and rational information about the firm and its offerings. The model reaches motivated and desperate customers with an information/image-rich communications message. In this type of model, the entry barriers are low, so, smaller firms can set up this kind of site as well. The website of Ford (www.ford.com) and Reebok (www.reebok.com) are examples of brand awareness and image-building models. As the website of 'Ford', not only lists all the models of its seven famous automotive brands, but also posts about its environmental policy, cleaner manufacturing, community involvement, and corporate citizenship report.

Similarly, the website of Reebok lets its visitors read about sports and fitness, hear from Reebok-sponsored athletes, and learn more about Reebok's human-rights activities, among other things.

b. **Promotion model:** This website model is based on lucrative 'advertisements', which are attracting a potential customer to a site. Sometimes, this model tries to provide free digital gifts such as discount coupons, cash backs, gift cards, photography tools, etc. The website of 'Kodak' (www.kodak.com) is an example of the promotion model because it provides technical help and tutorials for its digital cameras and offers a library of colourful, high-quality digital images that are made downloadable.

c. **Info-me-diary model:** The term 'Info-me-diary' is a composite of two terms – 'information' and 'intermediary'. This website model aggregates information from multiple electronic commerce retailers (intermediaries) and provides services of searching and comparison for Internet customers. This model sometimes offers free Internet access or free hardware in exchange for detailed information about customer's surfing and purchase habits. The collected customer data is valuable and is used for designing customized products and for target marketing campaigns.

    Some firms even work as info-me-diaries by collecting and selling information to other businesses.

    This model also provides consumers with useful information about the Web sites in the market segment. 'Just dial' (www.justdial.com) is an example of the info-me-diary model, this company provides local search for different services in India over the phone and online. The user just needs to register on the website. By tracking the users' surfing pattern info-mediary model provides the useful information to the user

d. **Customisation model:** This model provides customers with content that is customised to meet their preferences by employing AI/ML algorithms. By completely customising information needs, an e-commerce website built on this model becomes highly attractive to its visitors.

2.6 IMPLEMENTING E-COMMERCE MODELS

Once the end customer of e-commerce has been identified, the next important thing is to understand how e-commerce models are implemented. These e-commerce implementation strategies constitute a part of the business model and to know that how activities like inventory management and sourcing of products are undertaken at the back-end of an e-commerce implementation.

There are many possibilities to this too, such as manufacturing and storing products by the same business entity or may be finding another business partner to do the manufacturing, stocking and so on. Based on such possibilities, there are several-commerce implementation strategies such as Retail Model, Brokerage Model, Mall Model, Drop Shipping Model, Warehousing and Whole selling Model, Private Labelling, and White Labelling Models and so on.

1. **Retail Model:** When retailers directly use Internet to sell products/services using Internet, it is also called *'e-tailing'* (electronic-retailing) and such a retailer is also called an *'e-tailer'.* e-Tailing stores could either be a complete substitute for brick-and-mortar (the physical) retail stores. However, some companies choose to maintain both- the physical (brick and mortar) stores as well as its online marketplace too.

2. **Brokerage model:** Brokers are mediators; they bring buyers and sellers together and facilitate transactions between buyers and sellers vary with the type of e-commerce *viz* business-to-business (B2B), business-to-consumer (B2C), or consumer-to-consumer (C2C) markets. A broker makes its money by charging a fee for each transaction it enables.

3. **Mall model:** An e-mall hosts many on-line merchants. The mall typically charges setup, monthly listing, and/or per-transaction fees.

4. **Manufacturer model:** This model is based on the power of the Web to allow manufacturers to reach buyers/customers directly and thereby compress the distribution channel.

5. **Drop Shipping Model:** Drop shipping is probably the most popular form of e-commerce implementation strategy where the items are dispatched straight to customers by the supplier. A simplified life cycle of drop shipping (Fig 2.1) includes following steps:

   i. An online storefront could be opened by a drop-shipping company, where a catalogue of products and services of different suppliers is displayed for the customer, product-wise, category-wise, pricewise and so on. For example, in India we have several drop shopping companies like *Indiamart, Trade India and Baapstore,* where a supplier could upload their items.
   ii. A supplier (or even the retailer or a manufacturer) could collaborate with any of the existing drop shipping companies to upload their own products on this online storefront.
   iii. Customer places the order on online storefront.
   iii. The drop shipping company transacts with the customers through digital payment options such as credit cards and so on.
   iv. These order details are passed on to the supplier.
   v. The supplier packs and ships the ordered product directly to the customer.

As is obvious from these lifecycle steps, supplier has the main responsibility in Drop-Shipping. It is the supplier who must discharge prime business activities including inventory management, warehousing, packaging and so on.

There are also several limitations of this model as well, such as the drop shipping platform must keep track of supplier-wise customer orders and financial transactions and each supplier too must maintain exact shipping information of the customer.

This e-commerce model is best suited for those suppliers, retailers and manufacturers who have perfect products or services, but do not have enormous cash to create a separate e-commerce portal. Similarly, it is good for those business entities who have vision, digital know how and resources to create an online store but no inclination to manufacture their own products, or maintain their own warehouses and factories.

Source: https://www.ecommerceceo.com/types-of-ecommerce-business-models

Fig 2.1: Drop Shipping

6. **Wholesaling And Warehousing Models:** is one such model, where a variety of products (and services) are available on the online store. Obviously, to maintain these huge volumes, investment in massive physical warehouse spaces is required but the principle of 'economy of sales' assures profits, especially since both retailers and consumers could approach such an online store. Keeping track of orders received could be tough in this model, unless well supported by the related software.

7. **Private Labelling and White Labelling:** There is another possibility of an e-commerce online store where individuals / designers / cottage industries could 'seek' reputed brand labels for their products. This is called 'private labelling'. Such kind of private labelling e-commerce portal brings together designers - who can't afford to manufacture products themselves and 'manufacturers or 'well-established' brands who want to diversify using innovative designs/ ideas.

Indiamart.in provides this facility for a range of products. For example, products / formula of a small, herbal cosmetic product manufacturer could be 'private labelled' by a reputed brand through *Indiamart.in.*

White labelling is just the reverse of private labelling. In this model, the product of an existing brand could be re-packaged and labelled and sold by another business entity.

It is relevant to point out that these are just some of the popular implementation strategies of e-commerce and that in wake of emerging technology trends and also because of excessive digitilisation popularised

during COVID times, several variations to these basic implementation strategies have been adopted by the e-commerce business entities.

Check Your Progress A:

1) What is a business model?

   ………………………………………………………………………………

   ………………………………………………………………………………

   ………………………………………………………………………………

   ………………………………………………………………………………

   ………………………………………………………………………………

   ………………………………………………………………………………

2) Differentiate between Private Labelling and White Labelling.

   ………………………………………………………………………………

   ………………………………………………………………………………

   ………………………………………………………………………………

   ………………………………………………………………………………

   ………………………………………………………………………………

   ………………………………………………………………………………

3) Fill in the blanks with appropriate words:

   i)   A .... is an idea conceived by a company for making profits.

   ii) ……………… is about giving the value to the business and how it stands out from other businesses in the market.

   iii) ………………….. is the one that would help to decide the priority for designing the proposed e-commerce website.

   iv) ……………. that are using this model provide detailed and rational information about the firm and its offerings.

   v)   The term 'Info-me-diary' is a composite of two terms ……………… and …………………

2.7 E-COMMERCE REVENUE MODELS

E-commerce not only involves doing business over the internet, it is also about designing new profitable business models. After we have understood some of the important implementation strategies for e-commerce businesses, we would move on to understand possible modes of income generation in e-commerce implementation. This is best explained by the revenue model defining the e-commerce implementation.
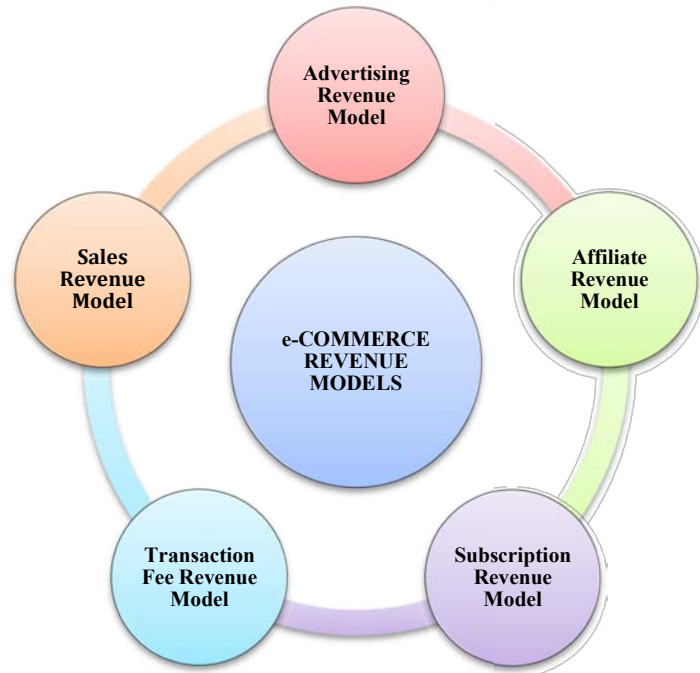
Fig 2.2: E-commerce revenue models

A revenue model is a part of the business model that essentially explains different mechanisms of income generation and its sources.

1. **Advertising Revenue Model**: Revenue in e-commerce businesses could be primarily generated by hosting advertisements of other products/services on online stores; this is the most basic model of revenue generation referred as Advertising Revenue Model.

   This model provides content and services like email, chat, etc mixed with advertising messages in the form of banner ads. The advertising model only works when the volume of viewer traffic is large or high. The banner ads may be the major or sole source of revenue for the broadcaster.

   There could be several variations of this revenue model such as display-marketing, affiliate-marketing (advertising on many websites), search-engine-marketing (also called 'cost per click' or CPC model), e-mail marketing and social-media-marketing. Google and Facebook primarily operate using this revenue model.

2. **Affiliate Revenue Model:** It is a very popular variation to the advertising revenue model that is based on pay-for-performance concept. In this concept the sellers put advertisement of their products as 'links' on websites of their partners, also called affiliates. Payments are made to the sellers when the links are clicked, and orders are placed and in return the partners/ affiliates get some part of the revenue.

3. **Subscription Revenue Model:** Another very popular concept of generating revenue is to offer some basic free services but store has a subscription amount, payable either monthly, or quarterly or annually.

That means that premium services of the e-commerce portal are available only to the subscribers (also called members) . Users pay for access to the site. High value-added content is essential. Eg Over-The-Top (OTT) video streaming platforms like Netflix operate using subscription revenue model.

4. **Transaction Fee Revenue Model:** There are certain e-commerce sites, such as OLX, e-bay who charge a transaction fee from its users. This transaction could be either fixed or could be in terms of percentages of the volume of transactions undertaken.

5. **Sales Revenue Model:** Sale of products/ services itself generates revenues for the sellers (who could be a retailer or wholesaler) who sell their products online.

There could be several more variations of the aforementioned revenue models by combining and improving these basic models. Since the e-commerce world is evolving very rapidly, newer variations of revenue models are expected such as group-buying, target campaigning, content - syndication, monetisation of personal sensitive data etc and so on. Understandably not all could be considered as pleasant variations and it would need more strict legal enforcements at national and global levels.

2.8 IMPACT OF COVID ON e-COMMERCE

The corona virus pandemic has considerably changed the shopping behaviour of consumers for two valid reasons- firstly the shopping sprees got reduced due to lockdowns and secondly the downward spiral of economy curtailed the expenditures.

However, in this transition, online stores became more popular. Even those who had not gone online to shop now realised that they could buy essential commodities from the safe confines of their homes. These FTUs (First Time Users) on e-commerce sites also suddenly became aware of massive discounts/ bargain deals available online, which probably would have never come their notice earlier. As a result, quite a lot of consumers have switched from shops, supermarkets, and shopping malls to online portals for the purchase of products, ranging from basic commodities to branded goods, even when the covid-imposed lockdowns have been lifted.

However, this is just the tip of the ice-berg- COVID and Digitilisation have more to unfold in e-commerce sector than what we can see now. Only future would tell.

Check Your Progress B:

1) What is a revenue model?

    ……………………………………………………………………………………

    ……………………………………………………………………………………

    ……………………………………………………………………………………

2) How has the corona virus pandemic considerably changed the shopping behaviour of consumers?

………………………………………………………………………………

………………………………………………………………………………

………………………………………………………………………………

………………………………………………………………………………

3) State whether the following statements are True or False:

   i. Advertising Revenue Model is based on pay-for-performance concept.
   ii. Business model is developed keeping in mind the revenue earned over the previous years.
   iii. A revenue model is a part of the business model that essentially explains different mechanisms of income generation and its sources.
   iv. The shopping behaviour of consumers has remained constant the corona virus pandemic.
   v. The advertising model only works when the volume of viewer traffic is large or high.

2.9 LET US SUM UP

A business model is like a business plan conceived by a company so that the company has an edge over its competitors and can make profits but it is over and above a business plan too. It is also about specifying exact strategies and approaches of initiating and sustaining the proposed business plan. Its key focus stays on sustaining the proposed business by specifying ways and means to create on-going value for the desired customers.

There are some simple steps to create a strong business model namely; Identify your specific audience, Establish business processes, Record key business resources, Develop a strong, preferably a unique value proposition, and Determine key business partners. Keeping these five elements in mind, will lead to the creation of a solid business model capable of fuelling the success of a new business entity.

Typically for an e-commerce business, a clearly defined business plan usually must include following four subtypes of related models Customer Based Business, Design Model, Implementation Model and Revenue Model.

There are four models that are associated with the informational/ communicational design namely; Brand awareness and image building model, Promotion model, Info-mediary model and Customisation model.

Once the end customer of e-commerce has been identified, the next important thing is to understand how e-commerce models are implemented. These e-commerce implementation strategies constitute a part of the business model and to know that how activities like inventory management and sourcing of products are undertaken at the back-end of an e-commerce implementation.

There are many possibilities to this too, such as manufacturing and storing products by the same business entity or may be finding another business partner to do the manufacturing, stocking and so on. Based on such possibilities, there are several e-commerce implementation strategies such as Retail Model, Brokerage Model, Mall Model, Drop Shipping Model, Warehousing and Whole selling Model, Private Labelling, White Labelling Models and so on.

A **revenue model** is a part of the business model that essentially explains different mechanisms of income generation and its sources. It has various types namely; Advertising Revenue Model, Affiliate Revenue Model, Subscription Revenue Model, Transaction Fee Revenue Model and Sales Revenue Model.

The corona virus pandemic has considerably changed the shopping behaviour of consumers for two valid reasons- firstly the shopping sprees got reduced due to lockdowns and secondly the downward spiral of economy curtailed the expenditures.

However, in this transition, online stores became more popular. Even those who had not gone online to shop now realised that they could buy essential commodities from the safe confines of their homes. These FTUs (First Time Users) on e-commerce sites also suddenly became aware of massive discounts/ bargain deals available online, which probably would have never come their notice earlier. As a result, quite a lot of consumers have switched from shops, supermarkets, and shopping malls to online portals for the purchase of products, ranging from basic commodities to branded goods, even when the covid-imposed lockdowns have been lifted.

2.10 KEYWORDS

Business Models: A business model is an idea conceived by a company for making profits. The business model is developed keeping in mind the idea of differentiating the product or service from its competitors.

Customer Based Business Model: Model that would help decide who is the ultimate target beneficiary of the proposed e-commerce initiative.

Customisation model: This model provides customers with content that is customised to meet their preferences by employing AI/ML algorithms.

Design Model: Model that would help to decide the priority for designing the proposed e-commerce website.

Drop Shipping Model: Drop shipping model is probably the most popular form of e-commerce implementation strategy where the items are dispatched straight to customers by the supplier.

E-commerce: E-commerce is a concept that explains and elaborates upon the idea of buying and selling of products, goods, services and information via computer including the internet.

Implementation Model: Model that would decide how we implement the proposed e-commerce initiative including how we reach our customers, how

we sale them, how we transact a sale, how the products/ services are distributed, how we deliver the products/ services.

Info-me-diary model: This website model aggregates information from multiple electronic commerce retailers (intermediaries) and provides services of searching and comparison for Internet customers.

Manufacturer model: This model is based on the power of the Web to allow manufacturers to reach buyers/customers directly and thereby compress the distribution channel.

Pandemic: A disease that is prevalent over a whole country or the world.

Promotion model: This website model is based on lucrative 'advertisements', which are attracting a potential customer to a site.

Revenue Model: Model that would help us to generate revenue for the e-commerce initiative.

2.11   ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress A

3. i. Business model   ii. Value proposition   iii. Design model

    iv. Websites   v. Information; Intermediary

Check Your Progress B

3. i. False   ii. True   iii. True

    iv. False   v. True

2.12   TERMINAL QUESTIONS

1) State the various key elements of a business model.

2) What are steps to create a strong business model?

3) Explain Drop Shipping Model? Would emerging technologies have any impact on implementation strategies of e-commerce? Justify

4) State the impact of a pandemic on E-commerce businesses.

5) Explain the four models that are associated with the informational/ communicational design.

6) Who are Digital Influencers and under which category of e-commerce business model they could be considered?

7) What are e-Commerce revenue models? Explain their various types.

Note	These questions are helpful to understand this unit. Do efforts for writing the answer of these questions but do not send your answer to university. It is only for your practice.