

E-Business Tenth Edition

Chapter 4 E-Business Revenue Models

Learning Objectives

In this chapter, you will learn about:

- What a revenue model is and how companies use various revenue models
- How some companies change their revenue models to achieve success
- Revenue strategy issues that companies face when selling online

Learning Objectives (cont'd.)

- How to create an effective business presence on the Web
- What factors enhance Web site usability
- How companies use the Web to connect with customers

Revenue Models for Online Business

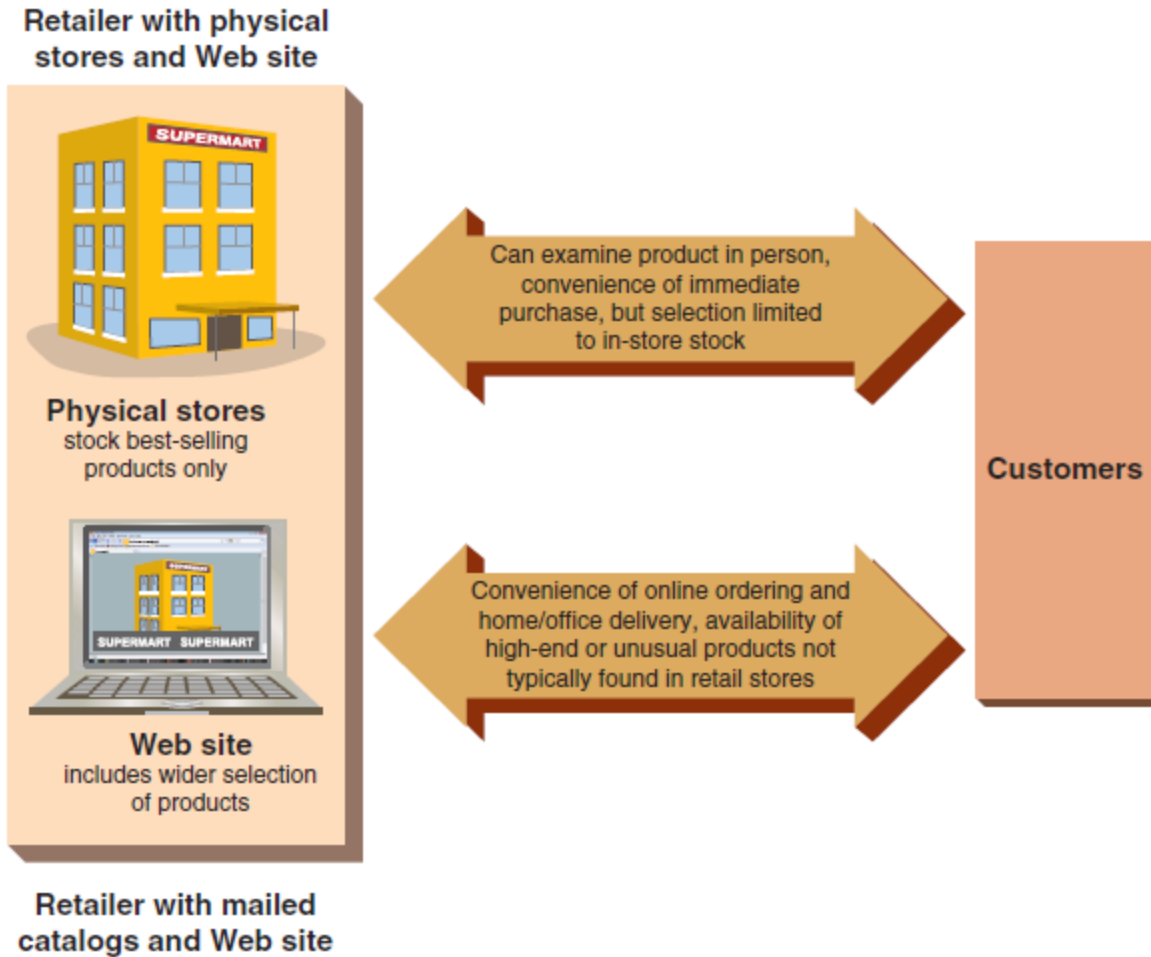
- Web business revenue-generating models
 - Web catalog
 - Digital content
 - Advertising-supported
 - Advertising-subscription mixed
 - Fee-based
- Same model can work for both sale types
 - Business-to-consumer (B2C)
 - Business-to-business (B2B)

Web Catalog Revenue Models

- Adapted from **mail-order (catalog) model**
 - Seller establishes brand image
 - Printed information mailed to prospective buyers
 - Orders placed by mail or phone
- Expands traditional model
 - Replaces or supplements print catalogs
 - Orders placed through Web site
 - Creates additional sales outlet for existing companies

Web Catalog Revenue Models (cont'd.)

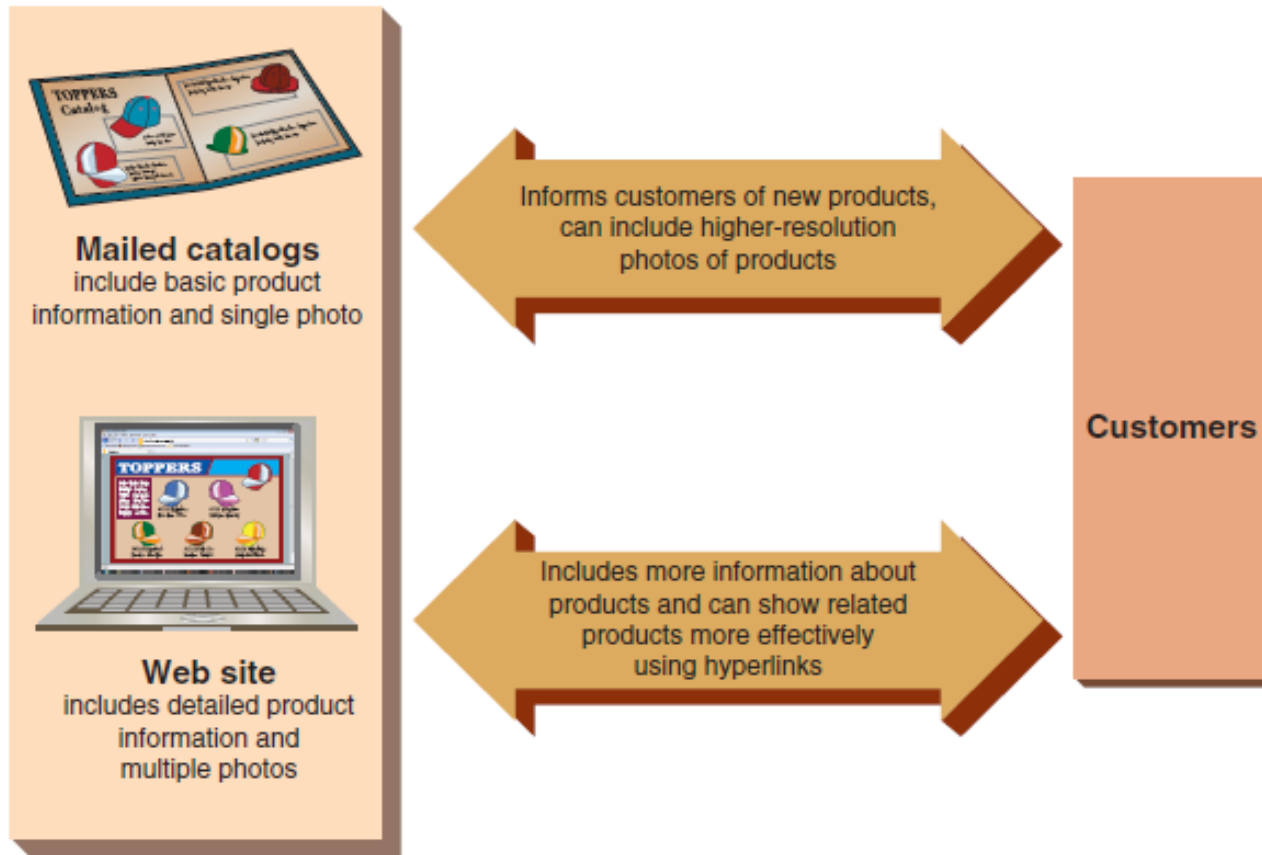
- Discount Retailers: Getting a Great Deal Online
 - Some discounters began as retail operations online, e.g., Overstock.com
 - Traditional retailers now using Web catalog revenue model: Costco, Kmart, Target, and Walmart
- Using Multiple Marketing Channels
 - Allows more customers to be reached at a lower cost
 - Marketing channel examples
 - Physical stores
 - Web sites
 - Mailed catalogs or newspaper insert



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FIGURE 4-1 Combining marketing channels: Two retailer examples (first example)

Retailer with mailed catalogs and Web site



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FIGURE 4-1 Combining marketing channels: Two retailer examples (second example)

Web Catalog Revenue Models (cont'd.)

- Adding the Personal Touch
 - Many adapted catalog sales model to Web
 - Display clothing photos categorized by type
 - Prices, sizes, colors, and tailoring details
 - Want customers to examine clothing online
 - Place orders through Web site
 - Lands' End online Web shopping assistance
 - Lands' End Live (1999)
 - Online text chat and call-back feature
 - Ability to push Web pages to customer's browser

Web Catalog Revenue Models (cont'd.)

- Adding the Personal Touch (cont'd.)
 - Lands' End **personal shopper agent**
 - Learns preferences and makes suggestions
 - **Virtual model** (customers try clothes)
 - Graphic image built from customer measurements
 - Problem: varying computer monitor color settings
 - Solution: send fabric swatch on request
 - Solution: offer generous return policies
 - Video communication used by some online retailers
 - ITSRx online pharmacy

Fee-for-Content Revenue Models

- Firms owning written information or information rights
 - Embrace the Web as a highly efficient distribution mechanism
 - Use the digital content revenue model
 - Sell subscriptions for access to information they own
- Legal, academic, business and technical content
 - LexisNexis: offers variety of information services for lawyers and law enforcement officials
 - Subscriptions and individual access rights to online academic journals and other publications

Fee-for-Content Revenue Models (cont'd.)

- Academic information aggregation services
 - Purchase rights and resell rights in subscription packages to schools, libraries, companies, and not-for-profit institutions
- Dow Jones provides business-focused publications online
 - Newspaper, magazine, and journal materials
 - Factiva: subscriptions to individuals for purposes of business research, job searches, or investment analysis

Fee-for-Content Revenue Models (cont'd.)

- Electronic books
 - Market leaders: Amazon.com's Kindle products, Barnes & Noble's Nook products, and Google's eBookstore
 - Steady sales growth anticipated
 - Sales include:
 - Books (sold individually)
 - Magazines and newspapers subscriptions

Fee-for-Content Revenue Models (cont'd.)

- Online music
 - Largest stores: Amazon MP3, Apple's iTunes, eMusic, Google Music, Microsoft's MSN Music, and Rhapsody
 - Complications
 - No single store
 - Individual stores promote their own music file formats
 - Some artists/recording companies partner with specific store or boycott online sales altogether

Fee-for-Content Revenue Models (cont'd.)

- **Digital Rights Management (DRM)** software: intended to curtail music piracy
- Amazon MP3 store: first to offer DRM-free MP3 format

Fee-for-Content Revenue Models (cont'd.)

- Online video
 - Issues hampering prior sales
 - Large file size
 - Fear of online sales impairing other sales types
 - Inability to play on variety of devices
 - Overcoming the issues
 - New technologies improving delivery
 - Companies incorporating online distribution into revenue strategy
 - Web browser availability for alternate devices
 - Smart phones and tablet devices

Fee-for-Transaction Revenue Models (cont'd.)

- Electronic books
 - Forms of digital audio books
 - CDs (originally) and various types of digital files
- Audible sells subscriptions
 - Allows monthly download of a certain number of books
 - Pricing is per book
- Amazon.com
 - Offers books, newspapers, magazines, and other digital format items
 - Delivered directly to its line of Kindle readers

Advertising as a Revenue Model Element

- Advertisers' fees in place of users' subscriptions
- Advertising-supported revenue models
 - Used by United States broadcast network television
 - Provides free programming and advertising messages
 - Supports network operations sufficiently

Advertising-Supported Revenue Models (cont'd.)

- Problem: measuring and charging site visitor views
 - **Stickiness**
 - Keeping visitors at site and attracting repeat visitors
 - Exposed to more advertising in a **sticky** site
- Problem: obtaining large advertiser interest
 - Requires **demographic information** collection
 - Characteristics set used to group visitors

Advertising-Supported Revenue Models (cont'd.)

- Can obtain large advertiser interest by:
 - Using a specialized information Web site
 - Draw a specialized audience certain advertisers want to reach
 - Examples:
 - The Huffington Post and the Drudge Report
 - HowStuffWorks

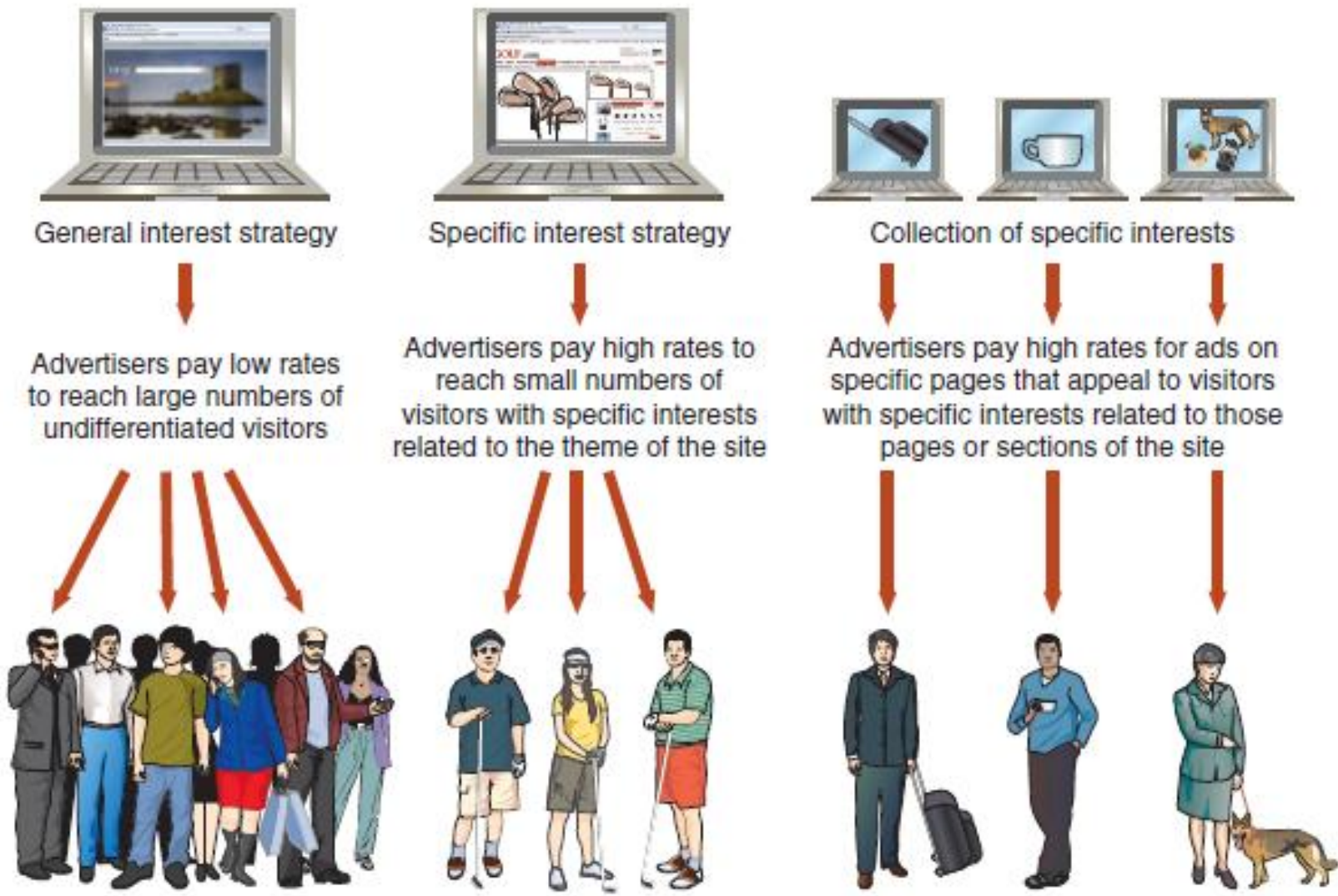


FIGURE 4-2 Three strategies for an advertising-supported revenue model

Advertising-Supported Revenue Models (cont'd.)

- **Web portals (portal)**
 - Site used as a launching point to enter the Web
 - Almost always includes a Web directory or search engine
 - Often includes other features
 - **Web directory**
 - Listing of hyperlinks to Web pages
 - General interest strategy: Yahoo! portal search engine
 - Presents search term-triggered advertising on each page
 - Specific interest strategy: C-NET and Kayak as examples with targeted advertising

Advertising-Supported Revenue Models (cont'd.)

- Advertising-supported online classified ad sites
 - Newspaper and magazine publishers
 - Sell advertising to cover Web site costs
 - Newspaper's Web presence
 - Provides greater exposure and advertising audience
 - Diverts sales from the print edition (difficult to measure)
 - Operating costs not covered by advertising revenue

Advertising-Supported Revenue Models (cont'd.)

- Targeted classified advertising sites
 - Can command higher rates than general advertising
- Growth of classified advertising Web sites
 - Very bad for newspapers
 - Example: Craigslist
- Web employment advertising
 - Most successful targeted classified advertising category
 - Examples: CareerBuilder.com, The Ladders, and Monster.com

Advertising-Supported Revenue Models (cont'd.)

- Used vehicle sites
 - AutoTrader.com
 - Other similar sites, e.g., used musical instruments, comic books, and used golf equipment
- Advertising-subscription mixes revenue models
 - Subscribers pay fee and accept some advertising
 - Less advertising than advertising-supported sites
 - Newspapers/magazines using advertising-subscription mixed revenue model offer varying proportions of free content

Advertising-Supported		Advertising-Subscription Mixed Supported	
Most or All Content Free to All Visitors		Substantial Content Free to All Visitors	Most Content Available Only to Subscribers
The Boston Globe Cleveland Plain Dealer Financial Times Newsweek InStyle PC Magazine San Francisco Chronicle Smithsonian Time		BusinessWeek Chronicle of Higher Education Forbes Inc. Magazine The Los Angeles Times The New York Times The Washington Post	The Economist Foreign Affairs Harvard Business Review National Geographic Nature Scientific American Sports Illustrated Technology Review The Times The Wall Street Journal

FIGURE 4-3 Revenue models used by online editions of newspapers and magazines

Advertising-Subscription Mixed Revenue Models (cont'd.)

- *ESPN*
 - Leverages brand name from cable television business
 - Sells advertising; offers free information
 - Mixed model includes advertising and subscription revenue (collects insider subscriber revenue)
- Consumers Union (ConsumerReports.org)
 - Purely a subscription-supported site
 - Not-for-profit organization with no advertising
 - Free information
 - Attracts subscribers and fulfills mission

Fee-for-Transaction Revenue Models

- Service fee charged
 - Based on transaction number or size
- Web site offers visitor transaction information
 - Personal service formerly provided by a human agent
- Value chain
 - **Disintermediation**
 - Intermediary (human agent) removed
 - **Reintermediation**
 - New intermediary (fee-for-transaction Web site) introduced

Fee-for-Transaction Revenue Models (cont'd.)

- Stock Brokerage Firms: Two Rounds of Disintermediation
- Stockbrokers
 - Original full-line brokers charged relatively high commissions
 - Competitive edge by offering more and better vice
 - 1970s: deregulation resulted in discount brokers
 - First round: individual stockbrokers disintermediated from the industry value chain

Fee-for-Transaction Revenue Models (cont'd.)

- 1990s: second round disintermediation as discount brokers faced competition from online firms
- Discount brokers and full-line brokers opened new stock trading and information Web sites
- Brokerage firms withstanding economic downturn in 2008 offer primarily online services

Fee-for-Transaction Revenue Models (cont'd.)

- Insurance brokers
 - Quotesmith offered Internet policy price quotes directly to public (1996)
 - Independent insurance agents: disintermediated
 - Insurance policy information, comparisons, sales sites
 - InsWeb, Insurance.com
 - Progressive Web site
 - Provides quotes for competitors' products too
 - The General (General Automobile Insurance Services) Web site
 - Option for motorists who may be rejected by other plans

Fee-for-Transaction Revenue Models (cont'd.)

- Event tickets
 - Web allows event promoters to sell tickets from one virtual location to customers worldwide
 - Online agencies earn a fee on every ticket sold
 - Ticketmaster
 - Web created secondary ticket market (StubHub, TicketsNow)
 - Brokers connecting ticket owners with buyers
 - Earn fees on tickets resold for others, buy ticket blocks
 - Web created easy-to-find central marketplace, facilitating buyer-seller negotiations

Fee-for-Transaction Revenue Models (cont'd.)

- Online banking and financial services
 - No physical product
 - Easy to offer on Web
 - Web financial transactions concerns
 - Trust and reliability of financial institution
 - Solutions
 - Use existing bank's identification and reputation
 - Start online bank not affiliated with existing bank (First Internet Bank of Indiana)

Fee-for-Transaction Revenue Models (cont'd.)

- Online banking and financial services (cont'd.)
 - Growing participation as services become more widely available
 - **Bill presentment** features
 - **Account aggregation** tools

Fee-for-Transaction Revenue Models (cont'd.)

- Travel
 - Travel agency revenue model: receive fee for facilitating a transaction
 - Travel sites generate revenue through:
 - Commissions
 - Web site advertising fees (advertising-fee revenue model)
 - Popular travel Web sites
 - Travelocity (based on Sabre)
 - Expedia (Microsoft subsidiary)
 - Orbitz (consortium of major U.S airlines)



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FIGURE 4-4 Orbitz home page

Fee-for-Transaction Revenue Models (cont'd.)

- Traditional travel agents: squeezed out
- Surviving smaller travel agents specialize in cruises
 - Assisted by Web sites, e.g., VacationsToGo.com, with detailed cruise information or discounted package deals
 - Reintermediation strategy: cater to a target audience (WaveHunters.com)
 - Also supplemented by online advertising revenue

Fee-for-Transaction Revenue Models (cont'd.)

- Automobile sales
 - Web sites implement the fee-for-transaction revenue model differently
 - Information service (Autobytel, Edmunds.com)
 - Customer selects specific car; site determines price and finds local dealer
 - Locate local dealers; car sells at small premium over dealer's nominal cost
 - Dealer charged a fee for service
 - Car salesperson: disintermediated
 - Web site: new intermediary (reintermediation)

Fee-for-Transaction Revenue Models (cont'd.)

- Real estate and mortgage loans
 - Brokerage firms and individual real estate brokers feature online information of properties
 - National Association of Realtors Web site
 - Realtor.com
 - 2008 financial crisis
 - Dramatically reduced number of mortgage brokers in business
 - Successful online mortgage brokers
 - GMAC Mortgage and E-LOAN
 - Industry is resistant to disintermediation

Fee-for-Service Revenue Models

- Companies offer Web service
 - Fee based on service value
 - Not a broker service
 - Not based on transactions-processed number or size
- Online games
 - Sales revenue source
 - Advertising (older concept); pay-to-play for premium games; subscription fees
 - Some elements of advertising

Fee-for-Service Revenue Models (cont'd.)

- Professional services
 - Limited Web use
 - State laws prohibit extension of practice
 - Instances of unlicensed practice can arise
 - Patients or clients may set appointments and receive online consultation
 - Patient/client privacy concerns
 - Law on the Web site
 - Legal consultations to United Kingdom residents
 - CPA Directory
 - United States accounting professionals site

Fee-for-Service Revenue Models (cont'd.)

- Professional services (cont'd.)
 - Martindale.com
 - Online version of Martindale-Hubbell lawyer directory
 - Prevalence of Web sites presenting health information
 - Difficulty of diagnosing without physical exam
 - Online consultations are emerging
 - Cope Today Web site
 - Online consultations for U.S. patients

Free for Many, Fee for a Few

- Economics of manufacturing
 - Different for physical and digital products
 - Unit cost high percentage of physical products
 - Unit cost very small for digital products
- Leads to a different revenue model
 - Offer basic product to many for free
 - Charge a fee to some for differentiated products
 - Examples: Yahoo e-mail accounts
 - Inverse logic applied to physical products: free samples to entice sales (cookie samples)

Multiple Changes to Revenue Models

- Encyclopedia Britannica
 - Initial Web offerings (1994)
 - Britannica Internet Guide
 - Encyclopedia Britannica Online
 - Initial revenue source
 - Paid subscription site had low subscription sales
 - Converted to free advertiser-supported site (1999)
 - Advertising revenues declined

Multiple Changes to Revenue Models (cont'd.)

- Encyclopedia Britannica (cont'd.)
 - 2001: returned to mixed model with subscription plan and free content
 - Subscriptions comprise the major revenue source
 - Additional revenue from online products store sales
- *New York Times* Web site's ability to adapt
 - 1990s: advertising supported with subscription fee for specific access to premium crosswords, chess column and archived articles
 - 2005: additional content required subscription

Multiple Changes to Revenue Models (cont'd.)

- 2007: returned to advertising-supported with free access
- 2011: mixed revenue model
 - First 20 articles/month free
 - Subscription plans for continued access
 - **Pay wall**: barrier triggered by specific usage level
 - Print subscribers have unlimited access

Revenue Strategy Issues for Online Businesses

- Channel conflict and cannibalization
 - **Channel conflict (cannibalization)**: company's Web site sales activities interfere with existing sales outlets
 - Levis Web site and Maytag
 - Web sites no longer sell products
 - Sites now provide product and retail distributor information
 - Eddie Bauer
 - Online purchases returnable at retail stores
 - Required compensation and bonus plans adjustments to support Web site
 - **Channel cooperation** made it successful

Revenue Strategy Issues for Online Businesses' (cont'd.)

- Strategic alliances
 - Two or more companies join forces
 - Undertake activity over long time period
- Yodlee account aggregation services provider
 - Yodlee concentrates on developing the technology and services
 - Banks provide the customers
- Amazon.com
 - Joined with Target and many smaller companies

Revenue Strategy Issues for Online Businesses (cont'd.)

- Luxury goods
 - Difficult to sell online
 - Customers want to see product in person or touch
 - Overcome by some sites by limited online offerings
 - Chanel
 - Calvin Klein
 - Jewelry sales have grown rapidly in recent years
 - Blue Nile, Ice.com, and Costco
 - Supported by:
 - General availability of independent appraisal certificates
 - “No questions asked” return policies

Revenue Strategy Issues for Online Businesses (cont'd.)

- Overstock sales strategies
 - Physical outlet stores being replaced with overstocks
 - Web page sales
 - Reach more people than physical outlet stores
 - Frequent updates possible

Creating an Effective Business Presence Online

- Organization's **presence**
 - Public image conveyed to stakeholders
 - Usually not important
 - Until growth reaches significant size
 - **Stakeholders**
 - Customers, suppliers, employees, stockholders, neighbors, and general public
- Effective Web presence
 - Critical even for smallest and newest Web operating firms

Identifying Web Presence Goals

- Business physical space
 - Focus: very specific objectives
 - Not image driven
 - Must satisfy many business needs
 - Often fails to convey a good presence
- Web business site
 - Intentionally creates distinctive presences
 - Good Web site design provides:
 - Effective image-creation/ image-enhancing features

Objectives	Strategies
Attracting visitors to the Web site	Include links to the Web site (or specific pages) in marketing e-mails
Making the site interesting enough that visitors stay and explore	Product reviews, comparison features, advice on how to use a product or service
Convincing visitors to follow the site's links to obtain information	Clearly labeled links that include a hint of the information to be obtained by following them
Creating an impression consistent with the organization's desired image	Using established branding elements such as logos, characters used in other advertising media, slogans, or catchphrases
Building a trusting relationship with visitors	Ensuring the validity and objectivity of information presented on the site
Reinforcing positive images that the visitor might already have about the organization	Presenting testimonials, information about awards, links to external reviews or articles about the organization or its products and services
Encouraging visitors to return to the site	Featuring current information about the organization or its products and services that is regularly updated

FIGURE 4-5 Web presence objectives and strategies

Identifying Web Presence Goals (cont'd.)

- Making Web presence consistent with brand image
 - Different firms establish different Web presence goals
 - Coca Cola Web site pages
 - Usually include trusted corporate image (Coke bottle)
 - Image: traditional position as a trusted classic
 - Pepsi Web site pages
 - Hyperlinks to activities and product-related promotions
 - Image: upstart product favored by younger generation
 - Auto manufacturers' Web sites
 - Models, dealer locator, company information, and configuration tools

Web Site Usability

- Current Web presences
 - Few businesses accomplish all goals
 - Most fail to provide visitors sufficient interactive contact opportunities
 - Improving Web presence
 - Accessible to more people
 - Easier to use
 - Encourage visitors' trust
 - Foster feelings of loyalty toward the organization

How the Web Is Different

- Simple mid-1990s Web sites
 - Conveyed basic business information
 - No market research conducted
- Web objectives often unmet
 - Failure to understand how Web differs as a media for presence-building
- Web sites designed to create an organization's presence
 - Contain links to standard information set
 - Success dependent on how this information offered

Meeting the Needs of Web Site Visitors

- Successful Web businesses:
 - Realize every visitor is a potential customer (partner)
- Varied motivations of Web site visitors
 - Why visitors arrive at Web sites
 - Learning about company products or services
 - Buying products or services
 - Obtaining warranty, service, and repair policy information
 - Obtaining general company information
 - Obtaining financial information
 - Identifying people

Meeting the Needs of Web Site Visitors (cont'd.)

- Why visitors arrive at Web sites (cont'd.)
 - Obtaining contact information
 - Following a link into the site while searching for information about a related product, service, or topic
- Challenge to meet all motivations
 - Visitors arrive with different needs, experience, and expectation levels

Meeting the Needs of Web Site Visitors (cont'd.)

- Making Web sites accessible
 - Build interface flexibility options
 - Text-only version
 - W3C Accessibility Initiative site offers useful links regarding disabilities
 - Selection of smaller graphic images
 - Choice of streaming media connection type
 - User-specified information attributes
 - Controversial Web site design issues
 - Adobe Flash software use
 - Some tasks lend themselves to animated Web pages



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FIGURE 4-7 Lee® Jeans FitFinder Flash animation

Meeting the Needs of Web Site Visitors (cont'd.)

- Offer multiple information formats
- Consider goals in Web site construction

Business Web sites need to:

- Offer easily accessible facts about the organization
- Allow visitors to experience the site in different ways and at different levels
- Provide visitors with a meaningful, two-way (interactive) communication link with the organization
- Sustain visitor attention and encourage return visits
- Offer easily accessible information about products and services and how to use them

FIGURE 4-8 Goals for business Web sites

Trust and Loyalty

- Creates relationship value
- Sustained good service leads to seller trust
 - Delivery, order handling, help selecting product, and after-sale support
- Repeated satisfactory service builds customer loyalty
- Customer service in electronic commerce sites
 - Weaknesses
 - Lack integration between call centers and Web sites
 - Poor e-mail responsiveness

Usability Testing

- Recognized importance of usability testing
 - **Usability testing:** owner testing/evaluation of site to ensure site's ease of use by visitors
 - Avoids Web site frustration (difficulty and confusion)
 - Customers leave site without buying anything
 - Simple site usability changes
 - Include telephone contact information
 - Staff a call center
 - Learn about visitor needs by conducting focus groups
 - Usability testing cost
 - Low compared to Web site design costs

Customer-Centric Web Site Design

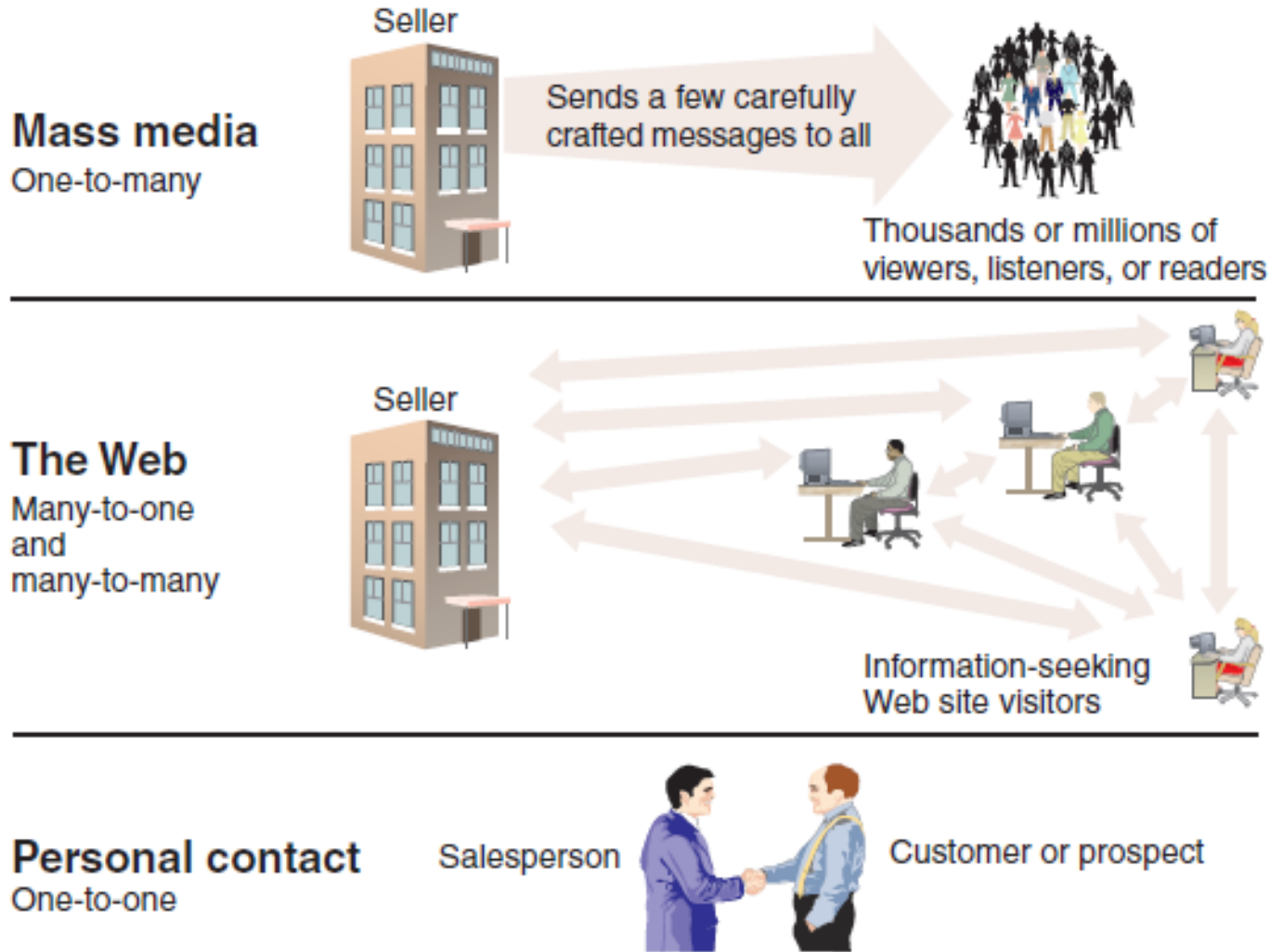
- Important part of successful electronic business operation
- Focus on meeting all site visitors' needs
- **Customer-centric** approach
 - Putting customer at center of all site designs
 - Follow guidelines and recommendations
 - Make visitors' Web experiences more efficient, effective, memorable
 - Give special considerations for mobile devices
 - Provide substantial “content for your click”

Using the Web to Connect with Customers

- Important element of a corporate Web presence
- Identify and reach out to customers

The Nature of Communication on the Web

- **Communication modes**
 - **Personal contact (prospecting) model**
 - Individually search for, qualify, and contact potential customers
 - **Mass media**
 - Deliver messages by broadcasting
 - **Addressable media**
 - Advertising efforts directed to known addressee
- **Internet medium**
 - Occupies central space in medium choice continuum



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FIGURE 4-9 Business communication modes

The Nature of Communication on the Web (cont'd.)

- Characteristics of communication modes
 - Mass media: **one-to-many communication model**
 - Seller is active; buyer is passive
 - Personal contact: **one-to-one communication model**
 - Interchange in framework of existing trust relationship
 - The Web: **one-to-one, many-to-one, and many-to-many communication models**
 - Buyer as active participant in determining length, depth, and scope of search

Summary

- Six main Web revenue models
 - Models work differently
 - Different business types use different models
 - Companies change models as they learn more about:
 - Customers, business environment
- Channel conflict and cannibalization challenges
 - Congruent with network model of organization, some companies form strategic alliances

Summary (cont'd.)

- Effective Web presence delivers customer value
 - Web site visitors arrive with a variety of expectations, prior knowledge, skill levels, technology
- Web site communication used to reach customers