

E-Commerce Applications Development

Strategies for selling online

➤ Revenue models for online business:

A useful way to think about electronic commerce implementations is to consider the various strategies that can be used to generate revenue, which are called **revenue models**.

Revenue generally refers to total amount of money your business makes during a certain period of time by selling your products or services.

We will learn that not all electronic commerce initiatives have the goal of providing revenue; some are undertaken to reduce costs or improve customer service.

Strategies for selling online

➤ Revenue models for online business:

There are six types of revenue models that we will discuss here, many companies use same revenue model for different business models (B2B,B2C etc):

1. Web catalogue revenue model
2. Digital content revenue model
3. Advertising-supported revenue model
4. Advertising-Subscription mixed revenue model
5. Fee-for-Transaction revenue model
6. Fee-for-service revenue model

Revenue models for online business

1. Web catalogue revenue model:

- Adapted from mail-order (catalogue) model.
- Seller establishes brand image
- Printed information is mailed to
- Orders are placed by email or toll free number
- It expands traditional business model
- Payments are made through mail or in person.
- Creates additional sales outlet for existing companies.

For example: Computers and consumer electronics. Websites sell same products as in stores.

Revenue models for online business

Web catalogue revenue model (cont..)

- In such revenue models multiple marketing channels can be used.
- More customers can be reached at relatively less cost.
- Can combine marketing channels
- Mail catalogues with reference to retailer's website.
- Most ecommerce stores with books, music albums and videos use this model.
- For example Amazon.com, originally started with books catalogue retailer and sold books, then evolved into general retailer.

Revenue models for online business

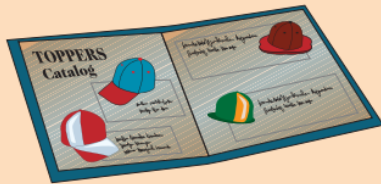
Web catalogue revenue model (cont..)

- Books, music and videos are most selling items using this model.
 - Example: Barnes and Nobel, Powell's books, Blackwell's.
- All above mentioned businesses adopted web catalogue revenue model.
- Luxury items are difficult to sell online as customers want to see product first.
 - Brands like Versace , and online fashion store adopts following strategy:
 - Website provides information about products
 - Buyer purchases at physical stores.

Revenue models for online business

Web catalogue revenue model (cont..)

Retailer with mailed catalogs and Web site



Mailed catalogs
include basic product
information and single photo



Web site
includes detailed product
information and
multiple photos

← Informs customers of new products,
can include higher-resolution
photos of products →

← Includes more information about
products and can show related
products more effectively
using hyperlinks →

Customers

Revenue models for online business

2. Digital content revenue model:

- Firms or companies own written information or information rights.
- Sell subscriptions for access to information they own.
- Legal context:

For example: LexisNexis is an online company that provides services like business research and risk management. They provide legal information in exchange for payment

- Academic research content:

There are many websites that provide access to paid journals, articles and research papers. These companies deal in the digital copies of academic publications.

Revenue models for online business

Digital content revenue model (cont..)

- Business content:

DowJones is an online company that provides business news and financial information from all over the world.

- they sell digitized newspapers, magazines, journals and content subscriptions.

Factiva, a subsidiary of DowJones provides research and analytical tools as information management system.

- Technical content:

- Association for Computer Machinery (ACM): digital library.

Revenue models for online business

3. Advertising-supported revenue model:

- Instead of charging a fee or subscription for content, many online businesses display advertisements on their Websites.
- The fees they charge advertisers are used to support the operation of the Web site and pay for the development or purchase of its content.
- Some sites rely entirely on advertising for their revenue; others use it only to provide part of their revenue.
- This model is used by broadcast network television in the United States. Broadcasters provide free programming to an audience along with advertising messages.
- Online news sites that focus their coverage on a particular town or metropolitan area can use the advertising-supported revenue model successfully.

Revenue models for online business

Advertising-supported revenue model (cont..)

- A very successful advertising-supported website that appeal to audiences with specific interests is The Huffington Post.
 - This website appeals to people who are interested in politics.
- Advertisers that want to target an audience with a specific political interest are willing to pay rates that are high enough to make these sites profitable enterprises.
- Similarly, HowStuffWorks is a Web site that explains, as the name suggests, how things work. Each set of Web pages in the site attracts visitors with a highly focused interest.
 - For example, a visitor looking for an explanation of how heating stoves work would be a good prospect for advertisers that sell heating stoves.

Revenue models for online business

Advertising-supported revenue model (cont..)

Web Portals:

- Site is used as a launching point to enter the web.
 - Almost always includes a web directory or search engine
 - Often includes other features
- **Web Directories:**
 - Listing of hyperlinks to web pages.
 - Yahoo!: one of the first
 - Presents search term triggered advertising on each page
 - Portal websites using general interest strategy
 - Google, Bing.

Revenue models for online business

Advertising-supported revenue model (cont..)

- Portals sites not using general interest strategy:
 - Help visitors find information within a specific knowledge domain
 - Advertisers pay more
Example: GSMArena, C-Net
- Travel sites:
 - Successful as advertising supported online businesses
 - Example: Kayak
- Newspaper and magazines publishers:
Sell advertising to cover website costs
- Internet public library online newspapers page
Provides links to worldwide newspaper sites
- Newspaper's web presence:
Provides greater exposure and advertising audience.
Operating costs not covered by advertising revenue.

Revenue models for online business

Advertising-supported revenue model (cont..)

- 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, Guru.com

Revenue models for online business

Advertising-supported revenue model (cont..)

- One of the leading Web portal sites is **Yahoo!**, which was one of the first Web directories. A Web directory is a listing of hyperlinks to Web pages. Because the Yahoo! portal's search engine presents visitors' search results on separate pages, it can include advertising on each results page that is triggered by the terms in the search.
 - For example, when the Yahoo! search engine detects that a visitor has searched on the term new car deals, it can place a Ford ad at the top of the search results page. Ford is willing to pay more for this ad because it is directed only at visitors who have expressed interest in new cars.

Revenue models for online business

Advertising-supported revenue model (cont..)

Ad Revenue Model



Revenue models for online business

4. Advertising-Subscription Mixed revenue model:

- In this type of revenue model, subscribers pay a fee, but also accept some level of advertising.
- Websites that use the advertising-subscription mixed revenue model, subscribers are typically subjected to much less advertising than they are on sites supported completely by advertising.
- Two of the world's most widely circulated newspapers, The New York Times and The Wall Street Journal, have each used an advertising-subscription mixed model since they first took their publications online.

Revenue models for online business

Advertising-Subscription Mixed revenue model (cont..)

- The Wall Street Journal's mixed model is weighted toward subscription revenue. The site allows non-subscribing visitors to view the classified ads and certain stories from the newspaper, but most of the content is reserved for subscribers who pay an annual fee for access to the site.
- ESPN is one of the most-visited sports sites on the Web as it provides all types of sports-related information .
 - It sells advertising and offers a vast amount of free information, but die-hard fans can subscribe to its Insider service to obtain access to even more sports information.
 - ESPN uses a mixed model that includes advertising and subscription revenue

Revenue models for online business

Advertising-Subscription Mixed revenue model (cont..)

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
<p><i>The Boston Globe</i></p> <p><i>Cleveland Plain Dealer</i></p> <p><i>Financial Times</i></p> <p><i>Newsweek</i></p> <p><i>InStyle</i></p> <p><i>PC Magazine</i></p> <p><i>San Francisco Chronicle</i></p> <p><i>Smithsonian</i></p> <p><i>Time</i></p>	<p><i>BusinessWeek</i></p> <p><i>Chronicle of Higher Education</i></p> <p><i>Forbes</i></p> <p><i>Inc. Magazine</i></p> <p><i>The Los Angeles Times</i></p> <p><i>The New York Times</i></p> <p><i>The Washington Post</i></p>	<p><i>The Economist</i></p> <p><i>Foreign Affairs</i></p> <p><i>Harvard Business Review</i></p> <p><i>National Geographic</i></p> <p><i>Nature</i></p> <p><i>Scientific American</i></p> <p><i>Sports Illustrated</i></p> <p><i>Technology Review</i></p> <p><i>The Times</i></p> <p><i>The Wall Street Journal</i></p>

Revenue models used by different online newspaper and magazine companies.

Revenue models for online business

5. Fee-for-Transaction revenue model:

- Businesses offer services for which they charge a fee that is based on the **number** or **size** of transactions they process.
- This model has shown much success on the internet through travel agents, vehicle sales, ticket sales, financial services and others.
- Fee-for-transaction revenue models generally generate revenue through the earning of commissions.
- By providing these services online, companies are able to remove the human agent as the intermediary (known as **disintermediation**)
- The introduction of a new intermediary, such as a fee-for transaction Web site, into a value chain is called **reintermediation**.