Module 4

Business Strategies for E-Commerce

Introduction

When we hear of e-commerce, most people think immediately of things that concern them. Like buying a book online, or checking out a website for a clothing shop. Perhaps even checking to see whether there is a grocery shop nearby that accepts orders online and delivers the goods. Only if we are working in a business that uses e-commerce itself, do we think of trading between businesses as e-commerce. However, this is natural; we think first of how a new thing will affect our daily life, and in this case, how e-commerce will affect us personally. Newspapers and magazines have also catered to this interest by focussing on e-commerce as it affects or will affect retail trade. This use of e-commerce in retail trade is generally referred to by its shorthand name: Business-to-Consumer trade, or B2C for short.

B2C e-commerce, in its basic form, is the cyberspace version of the customer-based business transactions that take place in retailing. Also known as 'online shopping' this is becoming increasingly popular. However, returns (in sales) are sometimes not be as good as they could be. A number of problems in online retail shopping have become more obvious as investors started asking why the sites they spent a lot of money on were not giving good returns. Does this mean that e-commerce is useless? Well, as we shall see, e-commerce is far from useless, it is in fact very important. What will the future direction of B2C e-commerce be?

This module starts by looking at corporate strategy in the digital age. You, as a business manager, need to think about ways of adapting to the rapid changes brought on by the Internet (and other electronic delivery channels). We will then examine the impact of the Internet on business values, before thinking about ways of putting our business on the Web by examining the various B2C e-commerce business models. Special attention will be given to customer relationship management (CRM), which is probably the most important future direction of B2C e-commerce. Finally, we will examine the pitfalls of the so-called 'pure-play' mode of B2C e-commerce and how to re-position B2C e-commerce strategy to combine the strengths of both physical and virtual business channels in the 'click-and-mortar' mode of operation.

In previous modules you studied how the Internet can add value to business organisations and how customer-based businesses can make use of e-channels and B2C business models to deliver or enhance their

business transactions. You also thought about the pitfalls of B2C e-commerce, particularly those involving e-retail. As you know, however, B2C e-commerce is only one part of the e-commerce world – the business-to-business (B2B) e-commerce market may actually be more popular (and yield more profits).

Upon completion of this module you will be able to:

Outcomes

- *use* taxonomy of business models.
- *describe* your own business in terms of a business model.
- *explain* the idea of business models and their relevance to e-business transformation.
- *define* business-to-consumer (B2C) electronic commerce.
- *discuss* the major business values and deterrents of B2C e-commerce.
- *explain* various business models for B2C e-commerce.
- *describe* the features and identify the benefits of customer relationship management (CRM).
- *identify* current problems faced by B2C e-commerce and predict future trends.

Terminology

Terminology

1-to-1 model: The 'single actor' to 'single actor' market. A typical example is the storefront model where each transaction involves only the shop and a single customer.

1-to-many model: A 'single actor' on the business side and 'multiple actors' on the customer side. Models involving webcasting techniques (such as spam email) belong to this class.

Access charge model: These are the websites offering content or services so good that users are willing to pay an access charge (e.g. hourly charge or monthly charge or per-view charge). This model is commonly combined with the ad model, where basic content is free and premium content must be paid for.

Buy side model: Retailers twist the traditional retail model slightly to take advantage of the 'bulk buying' and 'allocation' opportunities based on supply and demand information. Sites operate in a reverse

auction mode by gathering together clusters of customers for a particular product. The price of the final product is the result of negotiations based on volume of bulk buying.

Co-alliance model: Shared partnerships where each partner brings approximately equal amounts of commitment to the virtual organisation to form a group. Focus can be on specific functions such as collaborative design or engineering, or, in providing virtual support with a virtual team of consultants. Links within the co-alliance are normally contractual for long-lasting alliances or by mutual convenience on a project-by-project basis.

Customer service model: Some organisations set up websites to provide post-sales support to current and past customers (e.g. technical support or order-tracking). There may be cost-avoidance savings for the organisation, or even revenue generation for 'premium' customer services. From the customer's perspective, they are expecting good customer services provided by the merchant, especially for companies selling high tech equipment or software.

Many-to-1 model: Involves 'multiple actors' on the business side and a 'single actor' on the customer side. Emails with common brand information across many suppliers belong to this class.

Many-to-many model: 'Multiple actors' on the business side and 'multiple actors' on the customer side. 'Infomediary' models such as Priceline.com, which operates by matching supply and demand from multiple buyers and multiple suppliers, belong to this class.

Native Internet business model: These are models where the business (or non-business) activities can only be performed on the Internet platform. The 'virtual communities' model is a typical example.

Star alliance model: Star alliance models are networks made up of a core, and surrounded by satellite organisations. At the core are the dominant players in the market who supply competency or expertise to members. These alliances are commonly based around similar industries or company types.

Sell side model: These models involve active sales of products or services on an online platform. Customers trigger purchases after choosing from a wide variety of available offerings. Most 'e-tailer' models belong

to this class.

Storefront model: This is the electronic counterpart of a physical retail shop for a business. Customers visit the e-shop and make their purchases online. There are thousands of e-shops selling a variety of goods and services ranging from groceries, to books, toys, audio and video products, and computers.

Subscription model: Subscription model has long been used in the world of physical publishing. On the Internet, just as a customer may subscribe to have a newspaper delivered daily, so access to a website may be restricted to those who have paid subscriptions. This is an attractive model for sellers on continually updated or modified products, whose enhancements can be delivered online, and is used by several software companies.

Transplanted real-world business model: These models resemble existing real world business activities and have been transplanted into the Internet environment. Models such as storefront, email, advertising model, etc. fall into this category.

Value alliance model: Value alliance models bring together a range of products, services and facilities in one package and are based on the value or supply chain model. Participants may come together on a project-by-project basis, but generally the contractor is project manager, and also provides coordination.

Overview

Most of us in the IS business accept that, in addition to streamlining work, in addition to making (some) things easier, the whole toolset of e-business is also changing the way we organise our society for work. True, just being able to access email from home or to take a PC with me when I travel doesn't threaten the business way of life, but when 70 per cent of employees never need to come into an office, when it is possible to communicate with a thousand potential clients in a day, when it is possible to get a phone call and within seconds see, on the screen before me as I speak, a detailed history of the caller's interactions with my company – when all of these are possible, the old ways of thinking about how we organise a company to get things done will change. Everyone in the business accepts that business models will change because of information technology and communications. Where we still disagree is to what extent things will change, and in which direction. That is to say, that with the emergence of e-commerce, new business models are needed to describe and understand the forms that organisations take. It will become evident to you that the tools of e-business dramatically change the cost of business transactions, enable rapid, pervasive, and inexpensive communication – making the gathering and provision of information less expensive and more valuable And this is what we mean when we talk of

changes in business models. We need a shorthand way to describe the sets of activities that an enterprise does, and this is a business model. To start you off, therefore, we are introducing the notion of business models for e-business – by this we mean the possible organisational forms that can, with advantage, be adopted – and to start you thinking and give you ideas for your own business.

As e-business is a new phenomenon, many people are experimenting with all sorts of ways to use the new tools to reshape or reinvent existing businesses. Others are seeking to create new forms of business that would previously have been too complicated or too costly to implement. How do we best structure a form to take advantage of e-business? What is the answer? It will depend in part on what you think the answer is, because you are going to be the people making these changes happen.

Corporate strategy in the digital age

Rapid advances in information technology and the resulting emergence of the Internet have transformed transaction-based commercial activities such as information gathering, shopping, trading, brokering, banking, accounting, manufacturing, distributing, servicing and retailing. Much of what we know about the everyday conduct of business will continue to change and all organisations, large or small, will have to deal with the challenges brought about by these developments. A famous example is Barnes & Noble, the largest retail bookstore chain in the U.S., which had to change its retailing strategy after Amazon launched its online - bookstore. As we all know, change creates both risks and opportunities, and carefully planned business strategies and models are necessary if we are to identify rising opportunities to develop new competitive advantages.

Business value of B2C electronic commerce

Making money from direct sales is the most obvious way that e-commerce adds value to business, but there are others and we will look at them now. The point of this section is to introduce you to the idea that the main function of an e-commerce site may not be to sell goods directly, but to support the selling and transaction process. In this way, online information — newsletters, list servers, Web pages and the like function like newspaper advertisements, flyers, radio advertisements, packaging and the host of other things that surround the product and tempt the potential buyer/user.

The first use of e-commerce for business value is to provide product information to customers, through online electronic brochures or buying guides. The advantage of e-commerce is its availability i.e. anytime, anywhere to access this information. It can also provide information-rich content and, because it allows interactivity and customisation, it is possible to try and target the needs of each individual customer. This is important in today's business environment, where the choice of products is vast, and customers have less and less time to search for what they want. E-commerce can add value to business by enhancing the quality of product promotion.

New sales channel

The Internet is a natural delivery channel for information products such as software, news and information, digitised video, and music soundtracks. The product can be delivered minutes after the buying decision is made. Obviously this can't be done for physical products, but the Internet does allow them to be advertised and/or ordered online. The business value of e-commerce lies in markets where information can add value to the product being sold. A typical example is the wine industry (**http://www.wine.com**) where information on the winery, the type and quality of the wine, or the food it goes well with, are of significant value and interest to the customers. This information is usually hard to obtain through traditional sales channels such as super-markets and liquor stores. E-commerce can provide a platform where centralised information can be provided to customers alongside the sale channel. Notice how, when you log on to the site, a pop-up screen invites you to subscribe to a free newsletter.

Direct savings

By digitally transmitting and re-using information, e-commerce can lower the cost of delivering information to customers. This is especially true for service industries such as banks, couriers, or telecommunication companies, in which the cost of customer service usually exceeds the product costs. For example, it is much cheaper for a courier service to electronically check the delivery status of a package through the Internet than, say, by phone. The savings derive mainly from the reduction of personnel, phone, postage and printing costs. For banks, using e-banking for a certain percentage of transactions reduces the need for opening branch offices, creating substantial savings in operation costs in big cities where the cost of office and store rental can be very high.

Activity 4.1

Activity

Product promotion

Visit Hewlett-Packard's (HP's) 'Help Me Choose a Product' system at **http://www.hp.com/#Product**.

Assume that you want to buy a printer for 'Business use' with 'All single functions' running on Windows 8 platform with 'Network ready' function.

1. How many different products can you choose from?
2. How can you compare the most expensive one with the cheapest one?
3. Does the website supply you with enough information to make the purchasing decision?

4. How is this product promotion channel better than other channels such as printed catalogues, TV ads, etc.?

Time saving

The Internet reduces the cycle time when developing and delivering products and services. This is particularly true for information distribution. Online newspapers can deliver up-to-date news on an hourly basis. In financial markets, some products have a return on investment in a matter of hours, so an instant response to a customer's request is critical. E-commerce can also facilitate the development of products. A typical example is IBM's alpha Works service (**http://www.alphaworks.ibm.com**), which lets Web users download work-in-progress software for free from the company's research facilities. Instead of spending months preparing lengthy market research studies before releasing a product, IBM is now able to gather statistics based on Web hits, do its marketing on the fly, and roll out new products much more quickly.

Most of the stuff on this page is far too technical for most of us and appears to be geared towards a very limited audience. However, this is not the point – your attention is drawn to this as an example, not as something you are expected to use as a resource. Although, near the bottom of the page there is a useful link for those of us with some time to read. And remember, because it is not a list, but a dynamic link, it is not static, and is continually updated for us.

Brand and corporate image

Some corporate websites do not have direct business transaction activities. Have a look at China Light and Power's website on **https://www.clpgroup.com/Pages/home.aspx** . How many pages would you say were 'business related'?

You may find it interesting to compare these to the pages of Western Power, an electricity generating and supply company in Australia, at **www.westernpower.com.au**.

Now compare this with your local power company — or the nearest national one, if your local company does not offer a website. In each case, we suspect that most of the pages are of the old-fashioned sort that resembles strictly informational, printed brochures.

The use of the Web for business rather than simply copying old-fashioned brochures on-screen, is still the norm rather than the exception. But this will change. E-commerce systems will eventually become (if it hasn't already) one of the key components of a brand or corporate image, especially when targeting technology customer segments. Sometimes corporate image is so important that a corporation will build a website solely for that purpose (you will see an example of how a tobacco company uses the Internet to enhance its corporate image in the next section, when we talk about e-commerce business models). Some

corporations build up a brand name on the Web for the purpose of attracting investment.

Activity 4.2

Activity

Brand awareness

1. Why do you think power companies have their websites? Do they expect to sell electricity from online orders?

2. What do you know about your local power company? Has the website enhanced your knowledge of the company? Will it make any difference to your attitude towards the next rise in electricity charges?

3. If you were (or are) part of the management of a large public organisation, how would you build up the organisation's public image? Would you consider setting up a website for this purpose? How effective is a website compared with other ways of public image building?

Customer relationships

The value of e-commerce in customer relationships lies with the interactive nature of electronic channels, which in turn allow for more personalised relationships between suppliers and their customers. Organisations are able to collect information on customers' needs and behavioural patterns, and process this data to generate customer profiles. This means the supplier can proactively market products to the right customers at the right time. Personalised service — which before was only given to the small proportion of customers who made it financially worthwhile — has suddenly become available to the whole customer population. A good example is Amazon (**http://www.amazon.com**). Amazon allows its customers to customise Web pages, which, based on the reading needs of the customers, provides them with a list of the existing books, but also offers to keep their request 'in mind' and send them information on titles published as they arrive. The information is sent through emails and links to the online bookstore.

Activity 4.3

Activity

Online marketing

Imagine you are managing an online shop and are using the website to collect customers' data for marketing purposes.

What factors do you have to consider in order to make this business strategy successful?

New product capabilities

The information-based nature of electronic commerce processes allows for the creation of new products or customisation of existing products in innovative ways. The key is the ability to store customer preferences and use flexible manufacturing techniques to adapt a product to a customer's particular needs. A network of suppliers that will work together to manufacture and deliver a product is also required.

Activity 4.4

Activity

Business models

Before we go into the details of B2C business models, it is helpful to do some initial analysis of which class of model is suitable for which kind of business. Carry out the following analysis:

1. Choose a model classification (e.g. transplanted real world models versus native Internet models).
2. Think up different types of business (e.g. services, goods).
3. Draw up a matrix (similar to the following one) with model classifications as columns and business types as rows.

Put your analysis in the box to explain why the class of model is suitable (or not suitable) for that kind of business.

Type of Model	Transplanted real-world models	Native Internet models
Service	Not required	Suitable Physical delivery channel Information intensive
Goods	Suitable Physical delivery channel required Mirror customer's shopping habits.	

Based on your own business knowledge, try to come up with as many different types of business as you can think of (e.g. homogeneous goods versus heterogeneous goods, luxurious goods versus household goods, etc.) and complete the analysis with the above model classifications.

B2C business models

We have seen how the Internet can bring value to business, as well as some of the deterrents to doing business on the Internet. Let's now look at what merchants can do to make use of this new platform to deliver their business. The many different ways of running consumer-oriented businesses electronically on the Internet can be formally classified into business models. A business model is defined as the architecture for the products, service and information flows as well as a description of the potential benefits and source of revenue for the business.

Ways of classifying business models

In order to more clearly understand how e-commerce business models (or a combination of models) can help to get the most out of business values, let's first look at the ways in which e-commerce models are classified. The first classification is based on how the nature of the model relates to real-world business. There are two broad categories in this classification:

1. **Transplanted real-world business models** — these models resemble existing real world business activities and have been transplanted into the Internet environment. Models such as storefront, email, advertising model, etc. fall into this category.

2. **Native Internet business models** — these are models where the business (or non business) activities can only be performed on the Internet platform. The 'virtual communities' model is a typical example.

The next method of classification is based on the interaction pattern of the business activities of the models. It differentiates models by the number of parties involved in the business transaction.

- **1-to-1** — the 'single actor' to 'single actor' market. A typical example is the storefront model where each transaction involves only the shop and a single customer.

- **1-to-many** — a 'single actor' on the business side and 'multiple actors' on the customer side. Models involving webcasting techniques (such as spam email) belong to this class.

- **Many-to-1** — involves 'multiple actors' on the business side and a 'single actor' on the customer side. Emails with common brand information across many suppliers belong to this class.

- **Many-to-many** — 'multiple actors' on the business side and 'multiple actors' on the customer side. 'Infomediary' models such as Priceline.com, which operates by matching supply and demand from multiple buyers and multiple suppliers, belong to this class.

The final classification is based on the way items for trading are offered, and has two broad categories:

1. **Sell side models** — these models involve active sales of products or services on an online platform. Customers trigger purchases after choosing from a wide variety of available offerings. Most 'e-tailer' models belong to this class.

2. **Buy side models** — here, retailers twist the traditional retail model slightly to take advantage of the 'bulk buying' and 'allocation' opportunities based on supply and demand information. Sites operate in a reverse auction mode by gathering together clusters of customers for a particular product. The price of the final product is the result of negotiations based on volume of bulk buying.

Storefront model

This is the electronic counterpart of a physical retail shop for a business. Customers visit the e-shop and make their purchases online. There are thousands of e-shops selling a variety of goods and services ranging from groceries, to books, toys, audio and video products, and computers.

You can even gamble online! In some cases, the goods and services may be unique to the Web and do not have a traditional 'brick-and-mortar' store. These are known as 'virtual merchants'. In other cases, the business may run a traditional brick-and-mortar establishment with a Web storefront. (You may remember from Module 1 that these are often termed 'click-and-mortar'. Another expression you may come across is 'surf-and-turf'.)

A business with an e-shop is seeking the following benefits: increased demand, a low cost route to global presence, and cost reduction of promotion and sales. Benefits for customers making purchases through e-shops can be lower prices compared to the traditional offer, wider choice, more information, and greater convenience when selecting, buying and delivery, including 24-hour availability.

Typical storefront examples are:

- Virtual merchant: Amazon (**http://www.amazon.com**)

- Surf-and-turf: Barnes & Noble (**http://www.barnesandnoble.com**),

- Park 'N Shop (**www1.parknshop.com**).

Image-building model

As we said in the previous section, one of the advantages of the Internet is the opportunity it offers to build corporate image and brand. Some business organisations establish a Web presence that aims mainly to provide product/service/organisational information and enhance public awareness and image for some target groups — consumers, investors,

potential employees, or even the public at large. There is no selling through e-channels or post-sales support. The usual hope is that revenue will increase through regular non-e-channels, or that investors will be influenced, or superior employees will be attracted, or public or political favour will increase, with the existence of its presence on the Web. The site contents can be self-promotional or subtle, rational/information-rich, or emotional. From the consumer's perspective, it is essential to understand that studies show that a great deal of Web shopping occurs where the intent is not to buy over the Web, but rather to decide what brand and perhaps models to purchase, through regular channels. A typical example is the RJ Reynolds Tobacco Company site at **http://www.rjrt.com**.

Under the present global anti-smoking atmosphere, this company is extremely interested in improving its image. Have a look at the 'Transforming Tobacco' page, which states the company's position in today's unfavourable anti-smoking atmosphere.

Customer service model

Some organisations set up websites to provide post-sales support to current and past customers (e.g. technical support or order-tracking). There may be cost-avoidance savings for the organisation, or even revenue generation for 'premium' customer services. From the customer's perspective, they are expecting good customer services provided by the merchant, especially for companies selling high tech equipment or software. A typical example is the comprehensive service and support home page provided by Hewlett Packard (HP) **http://www8.hp.com//us/en/support-drivers.html** . A growing number of companies are experimenting with Web-based customer relationship management software (known as CRM).We will look at CRM in more detail later in this module, as this is a major future trend of B2C e-commerce.

Advertiser-supported model

This is an extension of the traditional media broadcasting model. The broadcaster — in this case, a website — provides content (usually, but not necessarily, for free) and services (like email, chat, forums) mixed with advertising messages in the form of banner ads. The banner ads may be the major or sole source of revenue for the broadcaster. The broadcaster may be a content creator, or a distributor of content created elsewhere. This model works only when the volume of viewer traffic is large or highly specialised. Some websites adopt a 'pay for attention' model that pays visitors for viewing content. Typical examples are:

Websites with high-volume traffic:

Search engines:

- Google (**http://www.google.com**) or
- Yahoo!(**http://www.yahoo.com**)
- MSN (**http://www.Bing.com**)

Free email:

- Gmail (**www.gmail.com**
- Hotmail (**www.hotmail.com**).

Personalised interface and contents:

- My Yahoo!(**http://my.yahoo.com/?myHome**).
- Google (**www.google.com/ig**)
- MSN (**My.msn.com**)

Access charge model

These are the websites offering content or services so good that users are willing to pay an access charge (e.g. hourly charge or monthly charge or per-view charge, etc.). This model is commonly combined with the ad model, where basic content is free and premium content must be paid for. It may also be combined with the customer service model when premium customer services are offered. Typical examples are:

- Allow basic contents for free: The Economist
  http://www.economist.com

- No free contents: Disney Daily Blast
  http://disney.go.com/gamekingdom/v1/marketing/index.html

- Pay-per-view: LA Times
  http://www.latimes.com

- Pay-per-period: Wall Street Journal Interactive Edition
  http://wsj.com

Many such sites have closed down, of course. You will notice that the ones that have survived are those that have existing offline material – newspapers and databases being the most prominent examples. Many others have found it impossible to charge customers for access to online material. There are two major reasons for this: firstly, the Internet began as a culture of sharing, and most users still expect things to be put up for free; and secondly, no generally acceptable way of managing tiny payments over the Internet has emerged. Paying a cent or two to access a page is not possible using credit card collection nor is posting the money. Until micro payments are manageable, we will continue to see a problem in this regard.

Brokerage model

Brokers are market makers. They bring buyers and sellers together and facilitate transactions. A broker makes its money by charging a fee for each transaction it enables. Transactions typically involve purchasing products or services offered by a third party. Brokerage models can take a number of forms, such as:

- Buy/sell fulfilment: online financial brokerage such as eTrade
  https://us.etrade.com/home

- Auction broker: a site that conducts auctions for sellers such as eBay
  http://www.ebay.com

- Reverse auction: the 'name-your-price' business model where a prospective buyer makes a final bid for a specialised good or service and the broker seeks fulfilment. Priceline is the most typical example
  http://www.priceline.com

- Search agent: an agent (usually an intelligent software agent) used to search for the best price for a good or service specified by the buyer. A typical example is DealTime Test out the above sites, and consider whether they offer any ideas for a business you know about.
  http://www.dealtime.com

Free model

Data about consumers and their buying habits are extremely valuable, especially when that information is carefully analysed and used to target marketing campaigns. Some businesses are able to function as 'infomediaries' by setting up websites to collect and sell information to other businesses. They may offer free content, or services requiring users to register or otherwise provide demographics or psychographic information about themselves. The following are typical examples:

- Free Internet access: NetZero
  http://www.netzero.com

- Free job seeking service: JobsDB. These sites collect job-seekers' information submitted during registration.
  http://www.jobsdb.com

- Content-based services: New York Times. Viewing is free, but users must register first.
  http://www.nytimes.com

Virtual communities

The ultimate value of virtual communities is derived from the members (customers or partners) who add their information to a basic environment provided by the virtual community company. Membership fees and advertising generate revenues. A virtual community can also be an important add-on to other marketing operations in order to build customer loyalty and receive customer feedback. A typical example is eGroups (**www.egroups.com**) which acts as an organiser for email groups. The function of the email groups can range from forming football teams to sharing ideas about a business possibility.

Activity 4.5

Activity

Sire advertising

Cybergold, a new Internet advertising company that wants to establish a new paradigm for the Web. Go to **www.martech-intl.com/best2/cybergold.htm** .

This is a very interesting online ad model in that it pays visitors when they view ads. View some of the ads in CyberGold.

1. What do you notice about the nature and characteristics of the products being advertised?

This model is increasing all the time; many search engines now rely on companies to pay to be featured, and there are few sites that turn away advertising revenue. However, it is not that easy to support a site by advertising alone.

Imperatives of EC business models

The list of types of EC business models is by no means exhaustive. As technology advances, new business models will be invented. As a business manager, the questions you need to ask before you decide what models your organisation should adopt are:

- Which models will prove most effective for which kinds of businesses?
- How can each be pursued most effectively?
- Which combinations of models tend to be particularly effective and which tend to conflict?

One way of approaching these questions is to seek the 'imperatives' of EC business models. There are some common imperatives to these EC business models:

- As customer visits are important to traditional retailers, building Internet traffic is also important to the success of business websites. Bringing suitable traffic to the specific kind of business the organisation is running is the most important imperative.
- Plan for global reach. One of the advantages of building business on the Internet is the no-border nature of the global network. It is especially important for regional business where market size is limited. It is therefore important that the business model attracts visitors from around the world.
- Exploit the opportunities inherent in the Internet including:

- reducing costs in transactions, distribution, marketing, services, etc.;
- shortening cycle times for time to market and various work loops;
- attracting some of the advertising dollars flowing towards the Internet;
- creating new products and services and customising existing ones; and
- exploiting new customer service and one-to-one marketing and sales possibilities.

- Respond to increased Internet-enabled competition within the industry. Try to offer features and functionality that are difficult to copy.

Operations in the sell side models category must provide better selection, better availability, greater ease of research and more purchase-related information, greater convenience, more individual services, lower prices, and better quality. They must also try to alleviate e-commerce inhibitors such as the difficulty of judging quality, inconvenience of returning merchandise or reversing transactions, and concerns over transaction security and personal privacy.

Customer relationship management

Customer relationship management is so important in B2C e-commerce that we have given it a section by itself. Viewed as a strategic advantage, customer relationship management (CRM) has never been so practical as today when the Internet is here to provide a low-cost and efficient communications channel to suppliers and customers. As defined by Kalakota and Robinson (1996), 'CRM is an integrated sales, marketing, and service strategy that precludes lone showmanship and depends on coordinated actions'. The core strategy of implementing CRM in B2C e-commerce is to establish a one-to-one learning relationship with individual customers which traditional sale channels cannot achieve. The main advantages of implementing effective Internet-supported CRM include:

- Identification of the most valuable customers.
- Intimate knowledge of customer needs through establishing learning relationships.
- Improved value delivery and more efficient marketing and sales actions.
- Customer retention and loyalty.
- Customer up selling.

- Customer cross selling.
- New customer acquisition.
- Increased customer profitability.
- Competitive differentiation and barrier to entry.

Reading

The following online reading presents a fictitious account of how the two famous e-commerce businesses, Amazon.com and Dell Computer, serve three different customers. It will give you a good idea of how these two successful e-commerce businesses make use of features in CRM to enhance customer service.

- 'Customer service life cycle: industry leaders' **http://www.cmswire.com/cms/web-engagement/how-social-crm-improves-the-customer-service-lifecycle-008911.php**

Major features that CRM can provide include:

- **E-marketing** — promotion of products and services to new, but especially, existing customers. Amazon.com's 'Those who bought this book also bought … ' book list feature is a good demonstration of e-marketing.
- **Customer service and support** — FAQs, email, Internet telephony, Web-enabled customer support centres, etc. Good examples are Dell's 'Dell Talk Forum' and 'Ask Dudley'.
- **Customer tracking** — real-time analysis of customer click streams to generate instant, personalised pages and tailor-made offers which anticipate demand and build e-loyalty.
- **One-to-one interactivity** — use of email, online feedback forms, chat and Web conferencing to establish one-to-one dialogue, customer engagement, data gathering, relationship building, etc. leading to enhanced loyalty and customer retention. A typical example is 'Dell member services'.
- **Website personalisation** — tailoring the website to individual customer needs. This requires identifying and differentiating each visitor based on past and future needs, tracking and interpreting clickstream, processing the information gained, and customising content according to individual visitors' preferences. Amazon.com's 'Book recommendations' feature presents a list of books it recommends to you personally every time you visit its homepage. The following web page explains how this feature works: **http://www.amazon.com**
- **Visitor identification** — Web-identification technologies such as cookies or digital certificates allowing online

registration and the storing of users' personal information. This should be a step-by-step process to avoid using demanding and complicated profiles or questionnaires too early.

- **Visitor differentiation** — this involves classifying customers by need rather than by value. After repeated visits or interactions, companies should be able to cluster customers into more precise groups and better fulfil customer needs.

- **Web communities** — provide a powerful tool for interacting with customers and creating loyalty.

From pure-play to click-and-mortar

Retailing on the Web has alerted the public to the Internet's potential for transforming business and everyday life. In just a few years, many businesses, both large and small, have established a Web presence in one way or another. According to some analysts, online retail sales could account for as much as 10 per cent of total U.S. retail sales by 2003. Yet so far, the financial performance of most Web-based retailers has not turned out as well as expected. Large players such as Amazon.com and e-Toys.com are still burning investors' money without any sign of profit making despite the hype they have created.

According to 2011 research data, 38 per cent of U.S. banking customers bank online and 18 per cent are mobile-enabled. However, 3.1 million other customers gave up on it, illustrating how quickly consumers abandon websites even after businesses have invested in costly Internet architecture and launched expensive promotion packages. With results like these, it is no wonder whispers are beginning to grow that B2C e-commerce has been a comparative bust, at least for the time being. Considering the amount of hype generated by B2C in the past few years compared with the (lack of) return on the huge investment, it is hardly surprising that the stock price of most dotcoms has dropped so drastically. What has gone wrong?

According to a recent survey, over half of all online transactions are abandoned before completion. Common reasons cited by online buyers are:

- Unexpected fees for delivery or for using specific methods of payment.

- Lack of clarity over prices, particularly delivery costs.

- Too many promotions and supplementary items pushed at checkout.

- Checkout process takes too much time, requires submitting of too much information or has too many steps.

- Checkout process is ill-suited to the device being used, e.g. mobile.
- Baskets that time out if a customer gets distracted.
- Difficulties applying gift vouchers or promo codes.
- Repeated requests for the same information, e.g. address.
- Items are not offered via the customer's preferred delivery method.
- Baskets do not successfully sync between devices, e.g. Web to mobile.

See more at: **http://www.experiencelab.info/2013/06/ten-reasons-why-customers-abandon-online-shopping-carts.html#sthash.5y0BuaeN.dpuf**

Security concerns are another important reason for shoppers abandoning online shopping, especially when it comes to online payment. In addition to these problems, even after customers have made an online purchase, the problems they experience trying to receive after-sales support, damage their confidence in online shopping. Customer loyalty in the cyber world is no different from in the physical world. A single incidence of failure (e.g. non-delivery or difficulty in returning damaged or wrong products to the vendor) will make a customer give up this new mode of buying forever.

Customer acquisition costs on the Web are much higher than in the physical marketplace. However, marketing budgets devoted to tapping customer loyalty are even higher than those allocated to spreading brand awareness. According to Internet shopping research, a customer needs to make three purchases before the average online retailer breaks-even on the cost of obtaining that customer. Most e-tailers lose money on every transaction.

Amazon is losing about USD 7 an order on its non-book sales after taking into account product, shipping and fulfilment costs. Of the 66 U.S. retailers surveyed, 86 per cent said they had specifically addressed the issue of profitability. Another 40 per cent had renegotiated or cancelled portal deals. About 29 per cent deferred site upgrades. Does this indicate the end of B2C e-commerce?

In general, a successful click-and-mortar strategy consists of several key elements:

- **Attracting and simulating purchase** — Web presence should not be just intended to capture online transactions but also to influence the consumer's choice of product and service, whether for on- or off-line transactions. Retailers should leverage the nature of their Web presence with features such as detailed product information, personalisation, real-time visibility and item

availability, and quick customer service. Most of the time, information provided online can drive traffic to stores.

- **Transactions across multiple channels** — this is critical for retailers to seamlessly integrate online channels with the various traditional channels. The key to success in multi-channel e-commerce is a successful integrated order management. Imagine the scenario of a customer who may look at a product in a store, research its details and place the order online, contact the retailer's call centre to modify the order and, if it's necessary to return the product for some reason, return it to a store. You can see how seamlessly merging the various order processes, irrespective of the channels and the degree of integration of these channels, determines its future success.

- **Retaining customers with superior customer services** — as we saw earlier, the cost of acquiring an online customer requires three purchases to break even. In the cyber-world, competitors are only a 'click' away and customer loyalty is much lower than any other mode of business operation. The challenge of retaining customers is more critical than ever. Online customers are more sophisticated and demanding. A good online customer service must be supported by other traditional customer services such as call centres and return spots. In addition, retailers can leverage customer interaction time and information to make recommendations and suggestions leading to increased sales.

- **Fulfilling and delivering** —a robust e-fulfilment infrastructure is critical to an e-retailer's success. Whether it's fulfilment through a warehouse or directly from the manufacturers and suppliers, a scalable, flexible e-fulfilment infrastructure will drive customer satisfaction and increase top line growth. Information such as confirming an item's availability, or confirming delivery date, order completion, carrier tracking information, notice of late delivery, etc. have to be available online.

Business models for e-business and e-commerce

A model, in the sense we are using here, is the brief representation of a large or complex object. In this section, we will discuss business structures. In order that we do not become overwhelmed by the mass of data needed to understand a business or type of business, we shall be talking of models to represent this. We need and use business models each and every time we think about or discuss an organisation. The question: 'What do you do?' looks for a business model as an answer! To understand the answer 'I am a medical doctor' needs the model of what a doctor does; what a hospital is; how society sees the job of a doctor, and so on. To say, 'I am an exporter,' refers in turn to a model of business and trade across community boundaries, and so on.

A good model is one that captures and displays the important elements in a simple fashion. It offers a handy shorthand way of referring to, or analysing, a more complicated state of affairs by concentrating on the

essentials and ignoring unnecessary complications. For example, we can say that McDonalds and KFC outlets are both examples of the franchise model of doing business. Once we know the features of the franchise model, we have no difficulty in mapping this onto other businesses. We ignore, for the moment, what it is that each sells, whether they aim at the same buyers, or even operate in the same countries. Knowing the strengths, costs and weaknesses of the franchise model will serve as a shortcut when we discuss a franchise beachwear operation, a college education operation, or any other business we can imagine. We do not get bogged down in the point-by-point comparison with a known operation: we use the bare bones, or the model, to serve as a guide and shorthand in discussion.

We are surrounded by instances of familiar business models: we immediately know what is meant by the terms 'department store,' 'factory,' 'fast food outlet,' and so on. As students of electronic commerce, however, we must ask ourselves whether the models – and their associated strategic plans for implementation – that we have inherited since the industrial revolution and the advent of mass production are still appropriate. Can we simply paste modern ICT over existing forms of doing business and hope to gain the maximum benefit from them? If we do not change our models of the way we do business to take advantage of opportunities that have never before existed, are we missing out?

Let us illustrate a recent shift in business models within a single company, Encyclopaedia Britannica Inc. (EBI), the 200-year-old publisher of the world's most prestigious work of reference. This work was published as a set of printed volumes, sold primarily directly to the consumer by a sales force which rose to nearly 2,500 in 1990, although orders were also taken by bookstores and supplies delivered to libraries and the like on demand.

In the early 1990s, the CD-ROM emerged as a household toy for the literate and wealthier segments of the market in the U.S. – the traditional target market for EB. The management of EBI, while allowing its lower-priced Compton brand to be packaged on CD-ROM, resisted a similar move for Encyclopaedia Britannica. Sales for EB dropped until in 1994 only 1100 salespersons remained and the Compton brand was sold off for cash to keep EB afloat. Sticking to the traditional, respectable, model of hardcover publishing on quality paper, EBI waited until1996 before recognising that direct sales of a printed product to consumers was also an obsolete sales model. Since that time, EBI has experimented with CD-ROM distribution and Internet distribution, initially on a subscription basis. In 2012 EBI went totally digital.

The traditional business model of raising revenue from sales has been supplanted by a model which looks to advertising to support research and raise profits.

E-commerce has developed in stages, with each new phase driving development into the next. The first was the growth of EDI (electronic data interchange) that offered closed, expensive proprietary networks between buyers and suppliers. This was followed by the global rise of supplier-driven company websites, mainly used for marketing. In order to

increase sales opportunities, buyers have demanded applications that helped streamline the selection, internal processing, and ordering of suppliers' goods and services. This has led to the growth of buy-side portals.

Traditional sell-side and buy-side B2B e-commerce have been limited in scale and displayed only partial efficiency in market economics. The need for more efficient trading ground has given rise to the growth of electronic marketplaces in the past two to three years. These electronic marketplaces are leveraging existing B2B applications and technology to streamline trade between multiple buyers and suppliers.

Electronic marketplace options

Electronic marketplaces in their simplest form enable exchange between busters and sellers. In their more advanced forms, they also integrate community collaboration enabling tools between businesses. Marketplaces are described by a range of names, the meanings of which vary according to who is using them. Examples are:

- B2B e-hubs
- B2B e-marketplaces
- B2B Market Communities
- B2B Exchanges.

Models for a commercial face

Digital models

In her book Internet Commerce (Lawrence et al., 1998), the authors suggest that an easy way to use a set of models for developing an Internet-based business is to take models found in existing businesses and select those appropriate to developing an electronically enabled business.

The six models initially proposed are:

1. Poster model
2. Yellow Pages model
3. Brochure model
4. Shop front model
5. Subscription model
6. Advertising model.

In addition, they supplement these with three further models that are:

7. Hybrid and strategies models
8. Customer service lifecycle
9. Integrated marketing model

Poster model

Advocated as a low-cost entry model, this entails having an email address and promoting it at every opportunity. The email address should be included in each and every advertisement, publication and activity. Responses to the email service should not stop at simple freeform messaging. This is simply substituting email for the telephone to cut costs and improve flexibility only, so it should include the use of a list server set up by the organisation to respond to requests for standard literature, requests to be put on mailing lists, and so on.

Yellow Pages model

Moving on from simple email messaging, Lawrence et al. (1998) suggests that an advertisement be placed on the Web in the same way as one would be taken out in the classified advertisement pages of the telephone directory. This costs more, as it necessitates setting up one or more Web pages with information content. This serves as a faster way of making modified information available, reducing communication costs and allowing users to browse material in their own fashion and at their own pace. Additional information, such as special offers, announcement of events, and interactive communication with forms extends the usefulness of simple unchanging Web pages. This model is intended primarily as a promotional tool to capture those looking for a company or service such as you provide, but are not sufficiently familiar with you to know to approach you directly.

Brochure model

The cyber brochure model proposed is merely a more sophisticated Yellow Pages model. It relies on moving away from promotional and advertising material to the provision almost entirely of information like a sophisticated set of leaflets, brochures, fact sheets and so on. The advantage is that real-time updates are possible with instant dissemination of if information to users and customers. This is intended to service the customer base, not merely to trawl for extensions to it.

Shop front model

This model suggests that just as a retail outlet operates in real space, a virtual shop front can be established in cyberspace, on the Web. This model extends beyond the advertising for customers (Poster) and the active soliciting for customers (Yellow Pages) models, as it includes the full provision of information (brochure model) with the ability to effect sales online. In cyberspace, two-way encrypted traffic is becoming gradually accepted for the sale and purchase of many items. Initially,

information goods, such as software and music, which could be downloaded over the Internet, were found to be viable commodities for Internet sales. Increasingly, companies like Dell and Cisco Systems are using the Internet as their prime sales channel.

Subscription model

The subscription model has long been used in the world of physical publishing. On the Internet, just as a customer may subscribe to have a newspaper delivered daily, so access to a website may be restricted to those who have paid subscriptions. As mentioned above, Encyclopaedia Britannica has abandoned this model, yet the Oxford English Dictionary had sufficient faith in it to begin operations to use it, from the year 2000. This is an attractive model for sellers on continually updated or modified products, whose enhancements can be delivered online, and is used by several software companies. For an example of this where a one-off subscription is solicited, visit **http://www.ferretsoft.com**. You may wish to contrast this with other models in which the subscription fee is periodic (**http://www.oed.com**) or, simply the wealth of provision and capture of information about the user (which is considered of sufficient value to the content provider).

Advertising model

The advertising model resembles a free community newspaper: there is no subscription elicited and there is no pretence that the cost of providing the content is not entirely borne by advertising revenue. Examples familiar to every Web user are the major search engines, which have from the very beginning been created as vehicles for advertising. Some advertise the skills and expertise of their makers; others merely serve as platforms for the banners and promotions of others. The use of targeted advertising, for example, drawing relevant advertisements from a database to match search strings, allows for better targeting of prospects by advertisers and reduces the annoyance factor that browsers experience when they are in receipt of irrelevant advertising. This use of channelled advertisements is likely to increase with technical advances and may even threaten the value of traditional broadcasting methods.

Activity 4.6

Activity

E-business venture

Using your experience of working for, or observing organisations, identify a strategic opportunity for the development of a new e-business venture, using one of the six models described earlier.

Project 2000 Research

An active research group at the Owen Graduate School of Management at Vanderbilt University publishes on many aspects of the Internet and Internet-enabled commerce. You may access research and current activities of this group at **http://elab.vanderbilt.edu/ .**

Destination sites

Destination sites are those to which a Web user wants to get to, and which compete for the consumers' share of Web time. This group further divides into Online Store Fronts, Internet Presence Sites and Content Sites.

The Online Store Front is conceived as a website that offers the possibility of a sales transaction, whether this is completely affected by electronic interaction, or relies on a phone call, fax or other means to complete it. The sites of this nature range from utility companies allowing users to pay bills, through to virtual grocers like Webvan, florists and even bankers.

The Online Shop front combines the attractions of direct mail shopping with in-store shopping and has possibilities for customising product presentation and delivery far in advance of anything yet seen. Unfortunately for its devotees, this model will rely on fast and cheap bandwidth to deliver satisfactorily. This is not yet a widespread reality.

Internet Presence Sites cover the same ground as the Brochure, Yellow Pages and Poster models, but Hoffman (please see the material on the Project 2000 site) makes the distinction between image presence and information presence. Using this model requires the user to formulate more clearly in advance just what purpose the site is intended to achieve. Image sites that entertain and engender a feel-good response are particularly suited to products such as clothing and lifestyle objects. The information presence model suits businesses whose success (or so it may appear to them) is predicated upon the provision of timely and accurate customer information – airlines being an obvious example. Others might include travel packages, financial investment opportunities and car makers.

Hoffman's **Content Sites** are divisible into fee-based, sponsored and searchable database systems, with examples and websites given in the article cited.

Traffic control sites

Although each of these sub-groupings has evolved since they were originally proposed, the categories of Malls, Incentive Sites, and Search Agents are still useful to work with.

The Mall typically constitutes a collection of online presences. These may be individually created and specified, or made by the mall provider to a common format, for ease of navigation and sharing common

technology – for purposes such as customer tracking, electronic payments, mailing lists, shopping cart technology and the like. You may like to see these in action at **http://www.worldshopping.com**/ and **http://www.internetmall.com**/.

It is interesting to search for malls relevant to your business, and to compare the costs. Obviously taken from the idea of a physical shopping centre or street in which businesses cluster to gain mutual advantage from the presence of shoppers looking to spend, it takes more care and thought to justify association in the virtual world in which physical proximity counts for nothing. When another site is only a link away, what advantage is there in being on the same server? There are advantages of sharing the costs of supply and service of common technology and services, but the effective implementation of these definitely calls for different strategies than those operative in the physical world, as we shall explore in following modules.

The Incentive Site is the next type of *traffic control site*. This site, intended to attract surfers and searchers, aims to pull traffic to the commercial sites it promotes, functioning in much the same way as Malls, but not offering the support services. The incentive to visit these sites is that seen at the front end, not the underlying sponsor. Free Web-based e-mail services may be viewed in this way as pure or hybrid Incentive Sites.

Making their appearance now, as they recognise the importance of traffic control, are free Internet Service Providers (ISPs). The old model of paying a service for access to the Web is being replaced in many countries by the model of companies offering connection for nothing. These companies aim to benefit from the advertising space on the viewers' screens and to promote their own businesses. A single simple Web search for free ISPs in the U.K. will produce a list of many from which to choose and all this at your fingertips in under a second. Many companies clearly believe in this model for a successful enterprise.

Search agents are in their infancy, but as the number of Web pages increases with no signs of slowing the pace of expansion, they will become ever more numerous and sophisticated. More than 3000 search engines are available today, either without payment or for a small fee. Their common purpose is to identify sites of interest through searches of compiled lists or software-generated databases. Advertisers sponsor these engines and directories, although not all emerging strategies are meeting with user approval. The practice of allowing sponsors to pay for banner ads, to emerge in response to a search string, payment for higher placement in return listings, and other forms of preferential treatment will be developed and evaluated continually, we suspect.

Search engines face increasing challenges in terms of proliferation of both pages and engines, but also from the emerging technology of personal search agents. These software utilities under development are destined, their developers hope, to reside on the user's machine and learn to conduct effective searches for that user alone – a customised search engine responding to need, not advertising.

Activity 4.7

Activity

E-mall model

Visit the Yahoo! shopping mall at **http://shopping.yahoo.com**. Take a tour around the mall and get a feeling of what kind of stores are in the Yahoo! mall. Are they big names or small brands? What type of business has the largest number of stores? Do some research on the procedures, terms and conditions of opening a Yahoo! store. (Select the 'Build a Yahoo! Store' page and read the details.)

1. Imagine you are the business manager of a major brand (such as Dell or IBM). What are the reasons for deciding to have a presence in the Yahoo! mall?

2. Now imagine you are the owner of a small shop. Why would you want to build a Yahoo! store? What are the advantages and disadvantages?

Here is the rationale for including this as a business model:

An e-mall, in its basic form, consists of a collection of e-shops, usually either with a common theme (see examples 1 and 2 below) or hosted by a well-known brand (see example 3). It might be enhanced by a common (guaranteed) payment method. The mall typically charges its merchants set-up, monthly listing, and/or per transaction fees. Some e-mails specialise in a particular market segment, thus becoming more of an industry marketplace with the added value of virtual community features (FAQ, discussion forums, and so on). In other cases, the e-mall operator may not be interested in specific markets but rather is aiming to improve sales through the use of technology. Other benefits are sought in services, advertising space and/or brand reinforcement, or in collective benefits such as increased traffic (a customer visiting one shop in an e-mall may move on to 'neighbouring' shops). For merchants who join the e- mall, the obvious benefits are lower cost and ease of access to the Web, with sophisticated hosting facilities such as e-payments, and additional traffic generated from other e-shops on the e-mall, or from the attraction of the hosting brand.

Typical e-mall examples are:

1. **General e-mall**: **http://onestopfoods.com** which presents itself as a one-stop shopping mall for the family.

2. **Specialised e-mall**: **http://www.Pakwheels.com** which is an e-mall specialising in the auto business. Inside the site, you can find links to auto news and a discussion forum for automobiles.

3. **E-mall under a well-known brand name**: **http://shopping.yahoo.com** such as the e-mall under the famous Yahoo! Web page.

Activity 4.8

Activity

Commercial viability of e-malls

The commercial viability of the e-mall model has been questioned in its current implementation and in the current state-of-the-market. Many malls have gone out of business.

Discuss possible reasons leading to the downfall of the e-mall model.

Alternatively, try and give a plausible reason why anyone should think, even for a moment, that a shopping and experience concept based firmly on our experience of travelling in physical space — with smells, chance sightings of friends and neighbours, places to sit, public toilets and life in general, should in any way resemble looking at a screen. Any site on the Internet is only a few clicks from any other. In this way the whole Internet already resembles a mall, as far as it can. Now, can you give any reason for anyone imagining, even for a minute, that the e-mall model could work?

The virtual face

Virtual faces are the cyberspace incarnations of an existing non-virtual organisation (often described as a 'place' as opposed to 'space' organisation). Contemporary ICT may shift the focus of activity, as these new services need not copy the activities of the parent organisation, but extend them. We already see the scope of activities extending by use of facilities such as electronic procurement, contract tendering, electronic auctions or trying for new markets by participating in an electronic mall, with or without added enrichment such as a common payment mechanism. There is obviously an extremely tight link between the virtual face and the parent organisation, as what is happening is that a new way of reaching the customer has emerged.

Many companies offering Web pages with varying degrees of interactivity to add to, rather than replace, other market channels, are readily using this model. In some cases organisations find that the different communication challenges require them to establish an entirely new management model independent from the parent group – this has been proposed in a number of electronic retailing situations where the traditional forms of management cannot be successfully maintained in an electronic market. This virtual face model commends itself, especially to small companies, as a starting point.

The co-alliance

Co-alliance models are shared partnerships where each partner brings approximately equal amounts of commitment to the virtual organisation to form a group. The membership of the group may change in response to shifting opportunities, or to reflect changing competencies of each member. Focus can be on specific functions such as collaborative design or engineering, or, in providing virtual support with a virtual team of

consultants. Links within the co-alliance are normally contractual for long-lasting alliances or by mutual convenience on a project-by-project basis. Within the lifecycle of a project, there is not usually much room for membership substitution. This organisational form is not new, but its attractiveness as a virtual model are a consequence of the benefits flowing from cheapness and speed of real-time communication and the ease with which such groupings can be made and unmade. This form of cooperation is not new: what is new is the speed and efficiency with which such alliances can form, do their jobs and reform as a result of ICT. This means that it is easy for other businesses or groupings to deal with the partners as a virtual (single) entity existing for a specified time.

The star alliance

Star alliance models are networks made up of a core, and surrounded by satellite organisations. At the core are the dominant players in the market who supply competency or expertise to members. These alliances are commonly based around similar industries or company types. While this form is a true network, typically the star or leader is identified with the virtual face (perhaps by brand ownership). As a result, the core is very difficult to replace, whereas the satellites may have a far greater level of substitutability. Communication channels are controlled by the core and this may lead to quite hierarchical communication structures.

The value alliance

Value alliance models bring together a range of products, services and facilities in one package and are based on the value or supply chain model. Participants may come together on a project-by-project basis but generally the contractor is project manager and also provides coordination.

Where longer-term relationships have developed, the value alliance often adopts the form of value constellations where businesses supply each of the companies in the value chain, and a complex and enduring communications structure is embedded within the alliance. Substitutability has traditionally been a function of efficiency and transaction costs: searching for, evaluating and commencing operations with potential partners has been a costly and slow business procedure, relying as it does on information transfer, the establishment of trust and business rules across time zones, culture, currency and legal frameworks. These have determined the relative positioning of partners on the chain, and the reciprocity of the relationship. This model is particularly suited to taking advantage of communications efficiencies not previously available and therefore changing components extremely rapidly in response to evanescent market forces and opportunities.

The market alliance

Market alliances are organisations that exist primarily in cyberspace, depend on their member organisations for the provision of actual products and services, and operate in an electronic market. Normally, they bring together a range of products, services and facilities in one

package, each of which may be offered separately by individual organisations. In some cases the market is open and in others serves as an intermediary. These can also be described as virtual communities, however, a virtual community can be an add-on, such as exists in an e-mall rather than a cyberspace organisation perceived as a virtual organisation. Fast and responsive communication channels are essential to preserving such alliances which could only have formed occasionally, and relied on duration to be cost-effective from here on.

The virtual broker

Virtual brokers are designers of dynamic networks. These prescribe additional strategic opportunities either as third party value-added suppliers (such as in the case of common Web marketing events or as information brokers providing a virtual structure around specific business information services). This model has the highest level of flexibility with purpose-built virtual organisations created to fill a window of opportunity and dissolved when that window is closed. New intermediaries using the Internet (such as e-bay and the many auction enterprises) epitomise the growing trend to take fast and inexpensive communications across time and space for granted, and to configure themselves for advantage accordingly.

The virtual space

The virtual space is characterised by being wholly dependent upon virtual contact with the client. This business has no other channel to market, nor need be dependent upon any particular existing intermediaries between it and the makers/suppliers of goods and services it sells. Unlike alliances, which may act as the virtual face for chains of retail shops with walk-in retail outlets and existing brand image, the supply chain of these companies is hidden from, and of no importance to, the customer. They may elect to choose goods and services from companies with a retail face, but they may equally elect to operate (or subcontract) warehousing and delivery services specifically designed for this channel to market. Different forms are emerging using this basic model, although there is evidence that the temptation to focus on ‘core competencies’ and form market alliances with others still operates.

The value of the various models outlined above is that they enable a company to select a model, or type of business to implement. It will be instructive to visit commercial sites and, using the above types of models provided, see how they fit into proposed frameworks — bearing in mind the fact that the B2C sites you will normally have access to visit, are just the tip of the iceberg of electronic business.

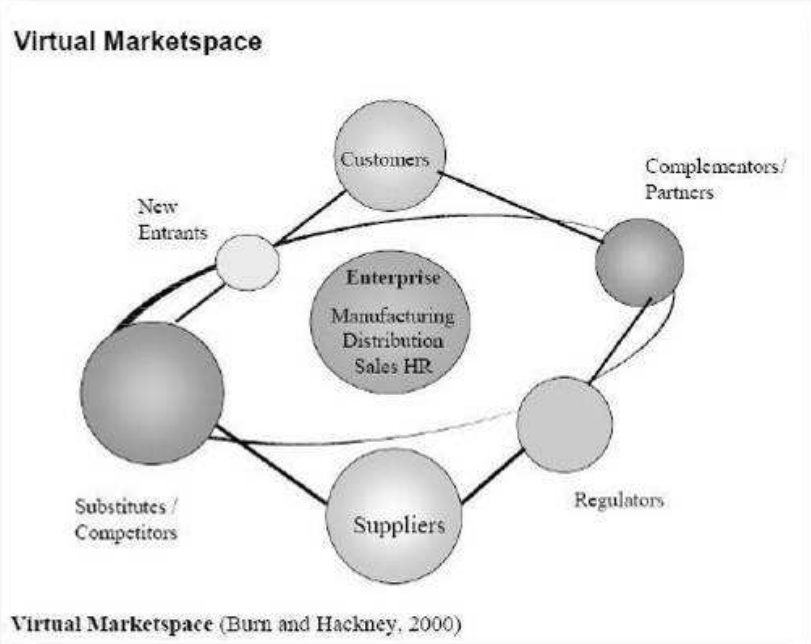

Figure 4.1: Virtual market place

Activity 4.9

Activity

Alliances

Visit the site of a business that has links and relationships with other companies visible from the website. (**Hint**: if you don't remember any, test out some large retailers who are coming online – or even the computer companies.)

See if you can identify all the links in their alliances and the different forms of business model adopted by members of the alliance chain. (**Hint**: It is probable that you will find that in the case of complex and extended groupings such as this, several models may be embedded within the whole.)

Note it!

In the next module we will turn to look at how ICT allows for the implementation of new forms of business organisation, particularly with regard to those described in the Value Alliance Framework. However, we shall be discussing these primarily in the more restricted and widely known categories of intra and inter-organisational systems, sometimes referred to as intranets and extranets.

Virtual communities as facilitators for e-business

While much discussion of e-business and strategy is rightly concerned with the internal activity of enterprises and the relationship between

enterprises, an introduction to virtual communities and their importance will be useful in framing the strategy of any enterprise.

What is a virtual community? By virtual communities we mean those groups of people and or organisations with interests in common who use online technologies to meet, exchange ideas and share ideas. Many members and creators of these groups are technically curious or just seeking to expand their circle of contacts beyond those they meet physically. As the Internet becomes more pervasive and users more sophisticated, these are evolving from groups with common discussion interests to powerful centres for the exchange and criticism of ideas and often wielding significant purchasing power and influence. Users of a product, drawn into discussion to solve problems or get better value from their goods, may find that their collective expertise rivals that of a product's producer. Further, issues of price, reliability and value are discussed with a knowledgebase and intensity not found in the smaller groups that may find each other offline. This, at first sight, may be forbidding to companies who are not used to such informed and cohesive scrutiny, yet may in fact prove to be a stimulus and valuable input when handled correctly.

What incentive is there for a company to encourage online discussion of its wares? Vendors may choose to ignore these communities, but as more and more customers join in and become knowledgeable, they may find themselves forced to seek out ways of using the force and influence of these groups, rather than ignoring them. As customers become more informed, they become, as a virtual community, an important source of information about how the market is evaluating products, what it expects from new products, and even how much it is willing to pay for them. In short, a virtual community promises to yield much of the information previously harvested at great expense by market research organisations on behalf of vendors.

Traditionally vendors have enjoyed a power advantage over consumers because the consumer was ill-informed about rival products, value and problems associated with a purchase. As discussion groups, user groups and similar groupings emerge – many with knowledgeable users willing to share expertise freely – customers are becoming better informed about products and pricing. Helping them in this regard is the army of emerging software agents performing Web searches, comparison shopping and the like. The result is that, in place of promoting brand image as sufficient reason for purchase, vendors may increasingly use virtual communities as information channels to market, using the release of information and support for users as a tool in its own right.

Traditional mass marketing has focused on products that have a broad and general appeal with little customisation and individual support owing to the cost of providing these. The existence of online communities expressing their needs, wishes and experiences is a rich resource for vendors seeking to know their markets and the ease with which such groups can be informed makes two-way communication at a low cost a viable business platform. The aim now can be the delivery of a product value proposition tailored to create the most profitable types of relationship with targeted customers.

Given the pervasive, fast and inexpensive communications environment of today, many believe that the companies that win will be the ones that get closest to their key customers, suppliers and employees. The way to achieve that is through community. Online communities offer tangible benefits across all three types of communities:

1. business-to-business
2. business-to-consumer
3. employee-to-employee.

Activity 4.10

Activity

Online communities

Go to **http://www.pewinternet.org** and download the pdf file on Online Communities found at **http://www.pewinternet.org/Reports/2001/Online-Communities.aspx**

(There are other reports you may access from this source by using the search box at the top of the page).

1. In the past, many have criticised new developments in communication — radio, television and the Internet — on the grounds that they weaken community life and encourage people to be solitary in front of a machine. What evidence is there for this view in this report?
2. Do you think that the findings of this report would be the same if the study were conducted in your social environment?
3. Do you think that this study was impartial, or did there appear to be any reason why the organisers might have looked for one answer, rather than accept whatever they found?
4. In what ways can communities create value for an organisation?

Specific community advantages

Recognising that communicating with suppliers and business customers is a highly important and recurring task, proponents of online business communities advance the following, in support of the creation of virtual communities for business partners:

- They strengthen relationships with affiliated business customers to increase loyalty, retention and revenue opportunities;
- They provide a forum to actively listen and respond to business customers;

- They allow a business to improve channel effectiveness through sharing of best practices.

In the area of business to consumer operations, the following may be advanced:

- Communities lower the cost of finding new customers who actively seek out communities of shared interest and so find the business provider;
- Communities allow for active listening and response;
- Communities provide a forum within which viral marketing can occur (the freely given recommendation of a product or service from one customer to a potential new customer);
- Communities provide the opportunity for a business to keep its name, image or product in the consumer's view for longer than mere advertising.

In addition, many companies are creating virtual communities for employees in the same way that large companies have always promoted welfare activities, sports and recreation and company outings. They promote a feeling of togetherness and allow for the informal exchange of information.

Case Study

Case study

The Online Garage

The On-line Garage

In a very short time the website **http://www.wrenchead.com** has become an extremely popular centre for an online community of American car enthusiasts.

Founded in March 1999,Wrenchead.com has become an easy way for professional and weekend mechanics to find the car parts and accessories they need and the advice and discussions they enjoy. On this site the company has a growing selection of millions of brand-name parts. And its inventory system contains records dating back to 1972, making the site a wide-ranging resource source for everyday and hard-to-find parts and accessories.

American car enthusiasts are an incredibly passionate group. The only thing they like more than working on cars, is talking about their cars and the work they've put into them. Using this fact, Wrenchead's executives wanted to build a community that reflected the personality of its site and spurred visitors to buy the parts and accessories found there. They began by creating a message board titled 'Under the Hood,' a section spotlighting members and their vehicles called 'Wrenchead Showcase,' and a volunteer programme known as the 'Pit Crew.

For this community to really take off though, it had to meet the needs of its members and deliver the content that would keep them coming back.

This required the company to manage the community daily; however, Wrenchead's team didn't have the resources or capability to do so. Consequently, active management was outsourced to a specialist company.

This company allocates staff to immerse itself within the communities it manages every day. It takes note of what is being shared among community members, which is then reported back to the client. Recommendations have included creating a Pit Crew Member of the Month page, tripling the number of message boards to serve a growing community, and adding live monthly celebrity chats.

This community almost immediately attracted members' attention, helping Wrenchead.com to average 20,000 visitors a day. The 'Under the Hood' message boards, with experienced members providing prompt expert-level answers to do-it-yourself questions, have made this online community a popular destination for enthusiasts to visit again and again. However, a direct line to customer perceptions has given the company feedback that has implications far beyond the community. Wrenchead.com has used this information to not only improve its community offering, but also to continue refining its on-line merchandising and ordering and delivery process as well.

Activity 4.11

Activity

The Online Garage

1. Visit the Wrenchead site**, http://www.wrenchead.com** and make a list of the components aimed at individual enthusiasts and those aimed at trade purchasers.

2. Do you find an overlap between the two?

Module Summary

Summary

In this module, you have seen how B2C e-commerce can bring business values to corporations. Based on these business values, various kinds of B2C business models are derived to leverage the characteristics of the Internet and maximise the profitability of various business operations.

As Internet technology (or other online channels) is advancing and the business environment is changing rapidly, new models will emerge. Successful use of these B2C business models will certainly create revenue and business opportunities. However, as indicated by business research data, pure-play business models did not work out as most analysts predicted. Instead, many retailers have changed their direction to adopt the so-called click-and-mortar strategy, which combines traditional physical sales channels with the online channel.

We have also looked at how these strategies consist of smaller tools that may be used to enhance smaller forms of e-commerce business models individually or as a whole. For sure, there will be more applications available with advancement of technology as well as changes in the business environment and we need to be kept informed so as not to miss out on opportunities that will put us ahead of the competitor.

References and further reading

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Web links

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