

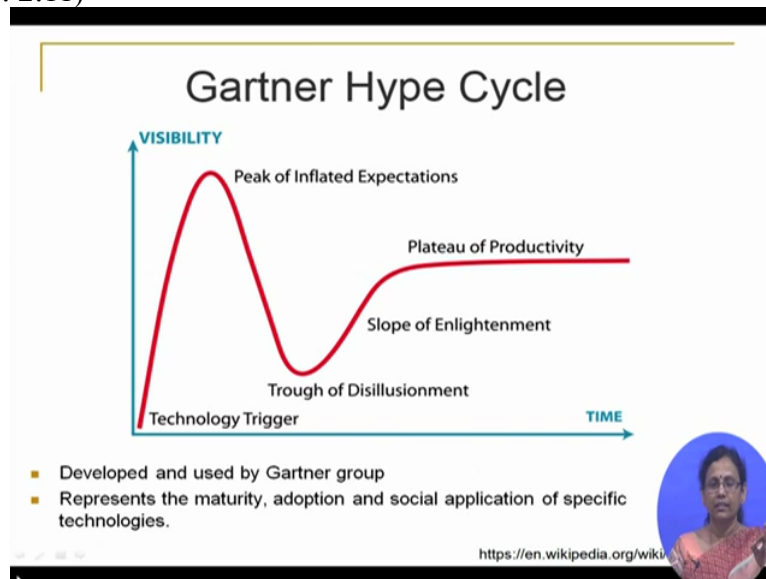
Course on E-Business
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Module No 01
Lecture 03: Business Models On The Web - I

Welcome back, today we are going to continue our discussion again on e-business models but specifically, last time let us try to understand what did we talk last time. Last time we were talking about the transaction models okay? By transaction model, we mean the various entities that exist in the in the business and how do they interact with each other. And in this context, we saw that these transactions can be of various types, depending on the stakeholder, whether it is business, customers or government.

And we also saw discussed that there are, these 3 models can exist both in brick and mortar businesses and in Internet businesses both. Brick and mortar businesses we mean, the the businesses which are otherwise existing before the Internet. And not only before the Internet, they can exist after the Internet as well. But they are basically not dependent on the Internet for their business. Internet is just a tool to enhance their business processes. Okay?

So today we are going to see what are various models which business models which were developed because of the web. Try to understand the difference. The difference is the 1st model that we are talking about, it is the brick and mortar. The physically, the organisation is existing, it is dealing with some kind of product and service where Internet is just used as a tool to facilitate it further to improve the business. Whereas the businesses that we are talking about, they started because of the web okay?

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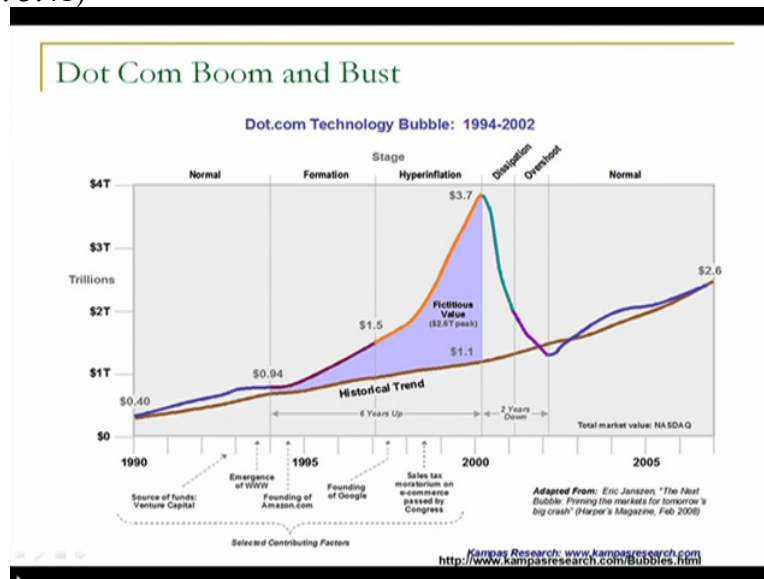


Now to continue our discussion, let us 1st see this Gartner hype cycle. This is a tool developed by Gartner's group and this is actually used for understanding how the technology progresses. This, if you look at this curve, this curve has various parts. Whenever any new technology comes into practice, there is a lot of hype about it and people actually try to invest more, their expectations are more, they invest more and so on. And there is a boom. It increases.

Then after some time, the expectation that was there by the customer and the business, they suddenly see that it is not actually up to that. What happens? There is a sudden drop in their illusions about the hype tries to vanish. And what the business actually technology comes through a trough. This is called the trough of disillusionment. Then what happens?

Because it has technology and it has some advantage, the 2 advantage comes up because of the learning in the organisation and the process becomes stable when the technology is actually used for enhancing the productivity.

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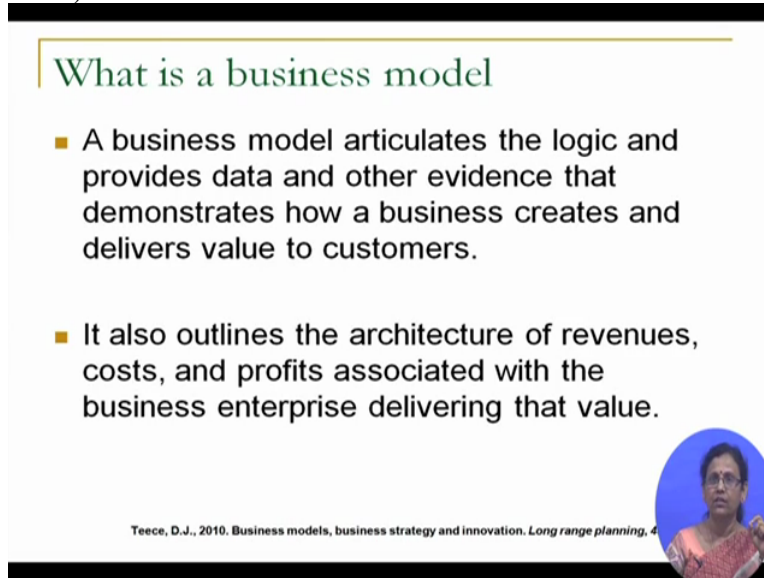
This is in general true for any technology but if you look at how this dot coms were came into picture because of the Internet, similar thing happened in the market. In fact, this is, this particular phenomenon is called market bubble. Because of any event, not only technology, because of any event, sometimes the market becomes, the stock market becomes inflated. And later on, later on when the hype is down, the true picture comes in, the prices again come down okay?

So as I was telling you, in 1990 when Internet becomes commercialised, people started using it for their business purposes but towards the beginning of 2000 when it was the 2000, many venture capitalists, they tried putting their money into a specific kind of companies which were otherwise known as dotcoms. These dotcom companies were become so popular and because of their advertisement policy, et cetera, they were so hyped that people tried investing huge amount of money in them okay?

So their value went up, their values in the market went up. However, after some time it again started coming down. Inside, during that time, around 2001 and 2000, between 2001 to 03, people started thinking, probably this dotcom model is not going to survive. The many companies that you see today, like that of your Amazon, your eBay, all of them suffered losses. Many companies actually went out of the business but there were few who survived.

And as we see, this dotcom though people thought at that time there is a dotcom boom and that bubble was very big and it busted. But still, people thought that these Internet companies are not going to survive any more. But no, they survived. Now the question is what happened that some of the companies survived and some of the companies went out of the business.

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What is a business model

- A business model articulates the logic and provides data and other evidence that demonstrates how a business creates and delivers value to customers.
- It also outlines the architecture of revenues, costs, and profits associated with the business enterprise delivering that value.

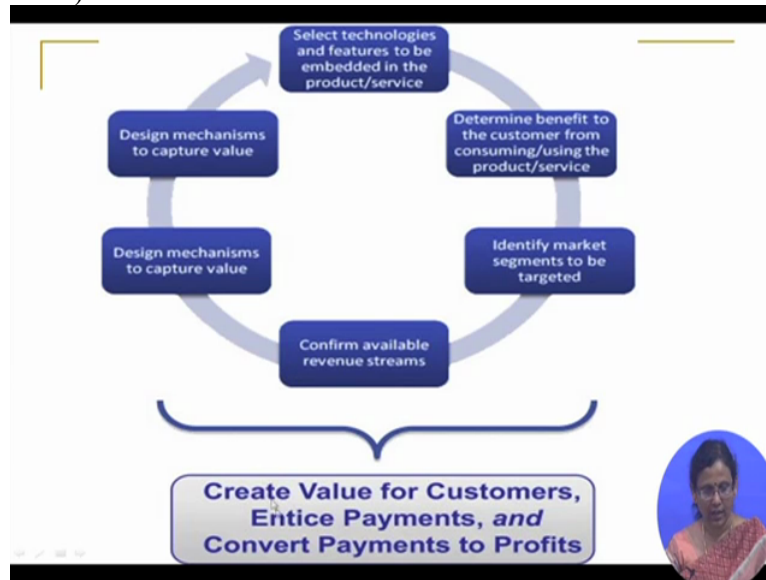
Teece, D.J., 2010. Business models, business strategy and innovation. *Long range planning*, 4

There comes the role of a model. In one of our earlier discussions, we told that the businesses do exist. Why do they exist? They exist to deliver value to the customer, to satisfy them and in turn make profits. So if anyone of these components is not there, then businesses cannot exist. They have to, the company has to go out of the business. So what a business model is? A business model articulates the logic and provides data and other evidence that demonstrates how a business creates and delivers value to the customer.

It also outlines the architecture of revenue, cost and profit associated with the business enterprise delivering that value okay? So if you have a, if a company have a true good business model in place, it is able to generate revenue then definitely and of course it has to provide it has to deliver value to the customer, satisfy the customer and in turn makes revenue then only it is a sustainable model. Otherwise, like many dotcoms actually went out of the business, any new company without any thought about a good business model, can actually go out of the business.

So therefore today we are going to see what are some of the companies which are actually existing because of the Internet and in turn, they are having a good business model to deliver value to the customer, to satisfy the customer and in turn, they are making revenue. We are going to have a short discussion on this particular topic.

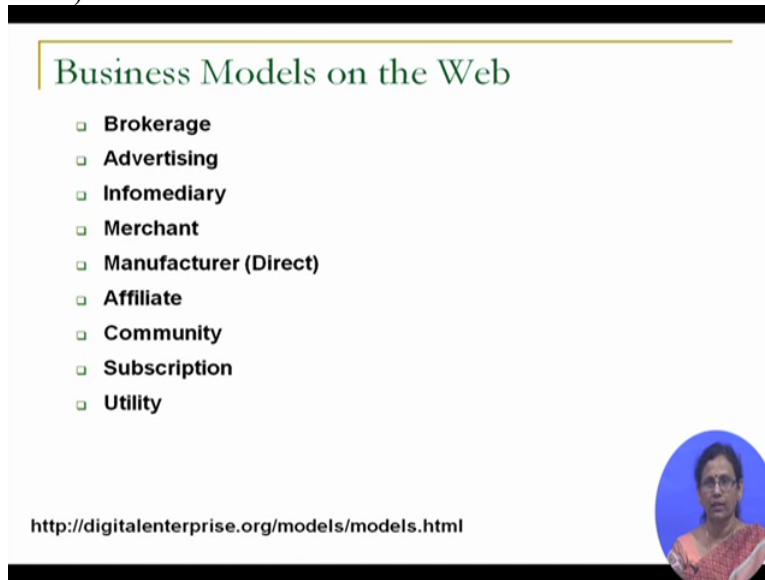
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Now when we look at, as I told you, the businesses do exist to deliver value to the customer, so they are in a particular position in the value chain. So what they have to do? They have to select the technology and the features to be embedded into the products and service. They determine the benefits to the customer for using this particular product and service, they identify the market segment to be targeted, they confirm the availability of the revenue stream.

Then they design mechanism to capture the value, design mechanism to deliver this value and the cycle continues. As a result, you create the value for the customer, you entice payments and convert payments into profits. So this is the model a company has to follow.


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Business Models on the Web

- ❑ Brokerage
- ❑ Advertising
- ❑ Infomediary
- ❑ Merchant
- ❑ Manufacturer (Direct)
- ❑ Affiliate
- ❑ Community
- ❑ Subscription
- ❑ Utility

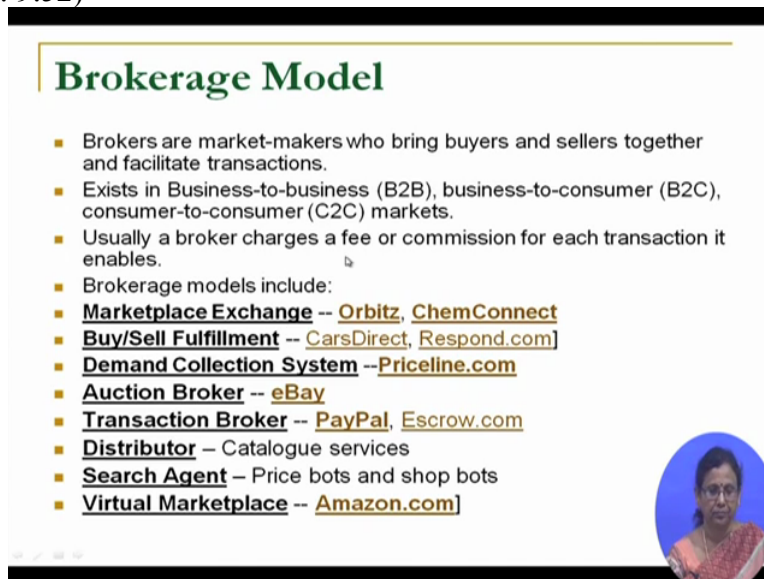
<http://digitalenterprise.org/models/models.html>



So these are some of the business models on the web which are actually successful. 1st one is brokerage model, advertising model, infomediary model, merchant model, manufacturers or direct model, affiliate model, community model, subscription model and utility model. These are the few models, few successful models. It does not mean that a company has to follow exactly one of these models. A company can have multiple of these models and these models are not exhaustive.

This can be, there can be other models as well but we are these are some of the models which we are going to discuss in today's class.

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Brokerage Model

- Brokers are market-makers who bring buyers and sellers together and facilitate transactions.
- Exists in Business-to-business (B2B), business-to-consumer (B2C), consumer-to-consumer (C2C) markets.
- Usually a broker charges a fee or commission for each transaction it enables.
- Brokerage models include:
 - **Marketplace Exchange** -- [Orbitz](#), [ChemConnect](#)
 - **Buy/Sell Fulfillment** -- [CarsDirect](#), [Respond.com](#)
 - **Demand Collection System** -- [Priceline.com](#)
 - **Auction Broker** -- [eBay](#)
 - **Transaction Broker** -- [PayPal](#), [Escrow.com](#)
 - **Distributor** – Catalogue services
 - **Search Agent** – Price bots and shop bots
 - **Virtual Marketplace** -- [Amazon.com](#)

So 1st one is the brokerage model. In fact, about this brokerage model, we have already discussed in though not in exactly in terms of brokerage word but we have discussed. During our discussion, we came across this one auction, broker model that is eBay. EBay is a very successful model and we came across that. But there are other models as well. This, what are these brokerage model? These brokers are market-makers who bring buyers and sellers together and facilitate transactions.

So which means, they do not have any product or service of their own. They are just a market broker or the facilitator. Okay? And within this segment, within this business model, you can have both, B2B, i mean either B2B, B2C or C2C kind of business. And we saw in case of eBay how it happens. Usually these brokers charge a fee or some commission for each transaction and that is how they generate money.

There are again various types of brokerage model. 1st one is your marketplace exchange. Inside one of this marketplace exchange we have already discussed, that was metaljunction. In metaljunction, is also a brokerage model, they do not buy, they do not make steel, they do not sell steel but they are just a facilitator. So similarly, there is another thing called chemconnect. This is for chemical industry.

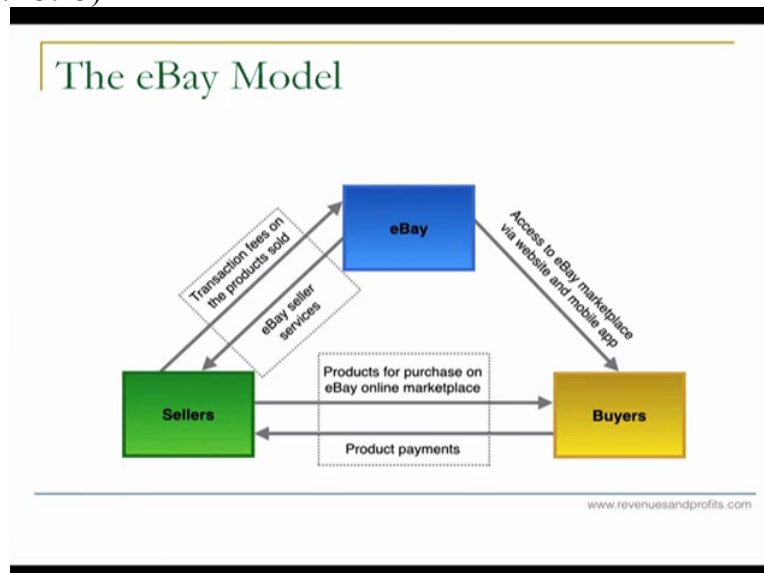
There is something for buying and selling fulfilment, there are again various examples, you can go through that and there are some demand collection systems, like your priceline.com, what does priceline.com do? They sell tickets, air tickets. So what do they do? They try to sense the demand in the market and they try to collect the available seats from various airlines and they compare prices and offer the best price to a customer.

So they are also 3rd party service provider, they are brokers. Then 3rd one, next one is auction broker. Your eBay, even Amazon, all of them are auction broker. There are some transaction brokers. PayPal is a transaction broker. PayPal or this Escrow.com, they are actually payment services. We are going to see little bit more about them.

There are various catalogue services and through catalogues, there, you get the advertisement and it is a, it is a place where many small businesses come together and people can connect to those small businesses. Then there are search agents, there are price bots or shop bots who actually try to collect data from various sources about the prices available in the market and provide services. There are virtual marketplaces like that of Amazon as well.

And all of them are, one thing common to all of them is all of them are market broker. They do not have any products or services of their own.

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So again little bit we go about eBay. Many of you might have done transactions through eBay. I do not know whether as a customer or as a seller as well. If you like to sell your old stuff, sometimes you might have also transacted through eBay. So how do this eBay generate its money? How do its it provides a service? So through that, it provides value and its customers must be satisfied and it must be coming back, that is how it is successful.

But how exactly it generates value, generates its money, let us try to understand. 1st of all, look at this. This eBay has 2 kinds of users, group of sellers and group of buyers. So if you are a seller, if you would like to sell something and put an advert easement, put an transaction in put an advertisement for your product or service over the web, you have to pay some fees. 1st of all, there is a seller registration fee. This is, everybody has to pay.

Then besides that, besides that if your transaction is successful, depending on the value of the transaction, they also take one variable amount of fee. Okay if let us say you are selling something with Rs. 100 and if you are selling something with Rs. 10,000, the additional transaction fee after the product is sold is different in both the cases and depends on the value of the transaction.

As you know, eBay is a marketplace where even there are examples of aircrafts being sold on auction okay? So which means the transaction fee on the aircraft and transaction fee on a old currency note that is getting auctioned naturally has to be different. It is quite obvious. Okay. Now besides that, the buyers do connect. As a buyer, do you have to pay any fee? No.

Do you? No. Why not? Because buyers are very sensitive entities. Once you start asking money from the beginning, they are going to run away. So therefore, buyers are not asked for the money from the beginning. Okay. So but there is certain mechanism through which the money is, they try to get money from the buyers as well. So buyer registers okay? Then it either it, you know that eBay provides 2 options, either it is buy it now with whatever price the seller suggests, with that money, somebody has to buy or you have to auction.

So whatever may be the case, once you agree to buy the product, you have to make payment okay? While making payment you have to be using certain payment service. One such payment service, in fact here let me tell you one thing, this auction market online auction market, though

it is an extremely successful model, business model over the web, this is the model which is most prone to fraud.

In fact, some if you go through the statistics of this fraud over the Internet, contribution from the auction market is the highest. It is the highest kind of fraud. So to avoid this, there are various, in the course of time basically when we talk about the online auctions and all, we are going to see what are various kinds of fraud that happen in the auction market but right now, let me tell you just one thing, because of this fraudulent transactions, what happened?

This eBay itself hosted any other kind of payment, it is not only hosted a payment service that is today is generic enough for any other kind of payment. Not only it is not limited to eBay anymore. It is PayPal. What they used to do for PayPal? Suppose you are the buyer, you got the product. You agree to, suppose you pay, so without payment, the product is not going to reach you.

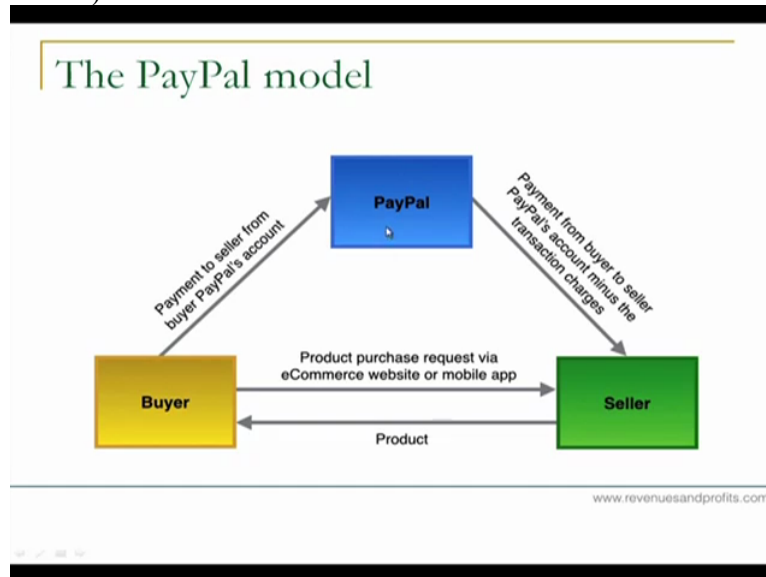
Suppose you pay and you pay directly to the vendor. So what happens? The vendor, you see it is a 3rd party marketplace. Tomorrow the vendor may not exist. Okay? So what happens if the vendor does not send the product? So the PayPal and other escrow payment services, what they do? They, once you pay them, they hold that payment.

They hold that payment, then the product arrives at the customers end, then the customer confirms that he has got the product in whatever way it was promised to be delivered and whatever features it was supposed to have, then after he agrees, he confirms that it is the right kind of product he was expecting, then the payment gets released to the seller.

So in the process, what is the benefit? The benefit to the I mean it is a just a win-win kind of situation. The buyer is not selling any more. Maybe some processing fee he can pay, little bit, that is very minor. But at least he is assured that he is getting the product okay? And what is the benefit to the 3rd party? At least now everybody trust him.

If I am doing some transaction through eBay, I am not going to get cheated. Okay? And in this process of payment, some transaction fee is taken by PayPal. And now PayPal is a separate company but earlier, this PayPal used to be a part of eBay. So that is how eBay, you can say eBay also makes money from the customers after the transaction is over.

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So this is your PayPal's model that I was telling you. Okay? The buyer's payment to the seller, to the PayPal's account. Then payment from the buyer to the seller from PayPal account minus the transaction charges happen and the product is delivered from the seller to the buyer.

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Advertising Model

- The web advertising model is an extension of the traditional media broadcast model.
- web site, provides content and services 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.
- The advertising model works best when the volume of viewer traffic is large or highly specialized.
- **Examples:**
- **Portal** -- [Yahoo!](#)
- **Classifieds** -- [Monster.com](#), [Craigslist](#), [Match.com](#)
- **Query-based Payment** -- [Google](#)

Then the next model we are going to discuss is the advertising model. And it is again a very successful model as you know, this advertising model. in fact, if you look at the statistics of all the websites you visit, you see that most of the websites actually fire you with some

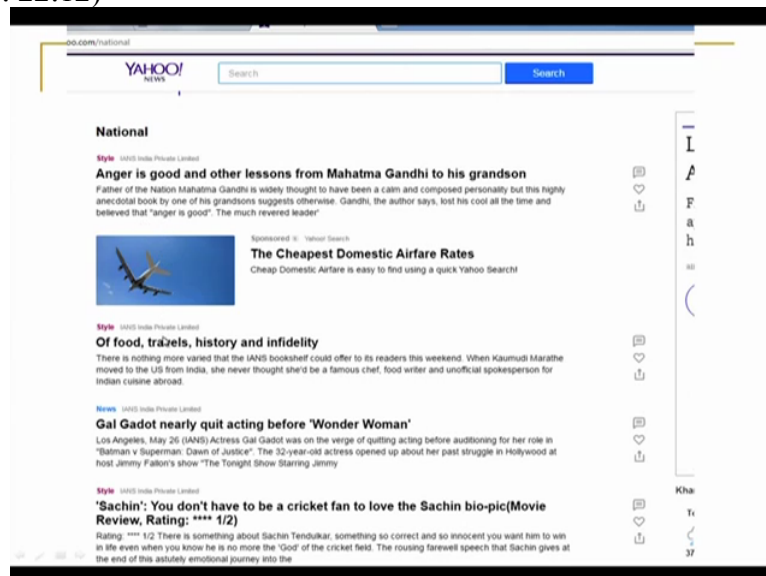
advertisements. And why do they do it? Because that is the way they generate money. Nobody can actually survive free.

I mean there is nothing called free service. If you are getting some service free, there is definitely some revenue model behind it. Otherwise the business cannot survive okay? Now what is this advertising model? This web advertising model is an extension of the traditional media broadcast model. Website provides contents and services mixed with advertising messages in the form of banner ads.

These banner ads may be the major or sole source of revenue for the broadcaster. In fact, this banner, it need not be banner ad, it can be a line ad as well. This broadcaster may be a content creator or distributor of the content which is created elsewhere. This advertising model works best when the volume of viewer traffic is very large and highly specialised.

And we have seen the, if you visit portals like Yahoo or classified site like that of monster, craigslist or match.com or query based paid placement like that of Google, so everywhere you see advertisement. But there is certain difference between all these advertisement models. And how do they put advertisements?

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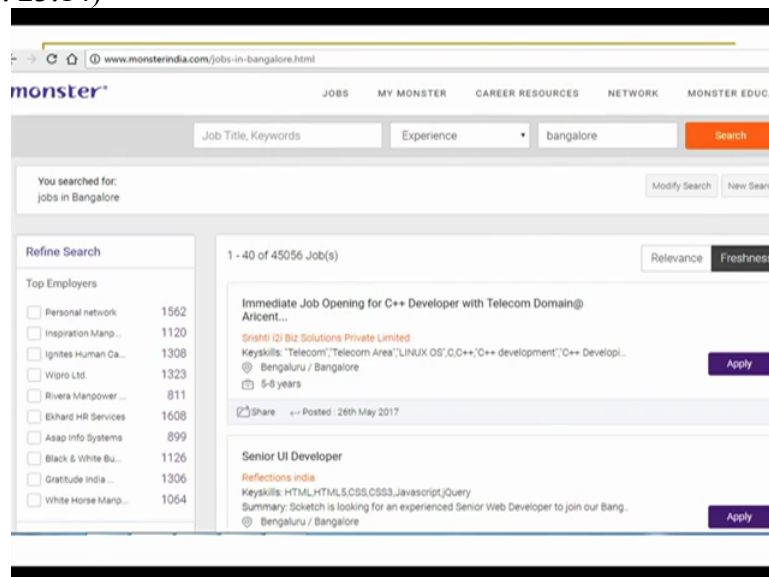


For example, if we look at this, this is a page from Google news. If you look at the Google News, along with the news articles that it provides on different categories, suddenly in between, it puts

some link which it writes as sponsor. So this is a link, sponsored link for a specific company which advertises in Yahoo's portal. So it has a policy of embedding it within the news articles. Now how do they generate money?

1st of all, providing a place to the company for hosting the advertisement, it charges some money. Now you click on this. Once you click on this, you visit the site, again they will charge some money. If you do not click, probably you will not be charged anything.

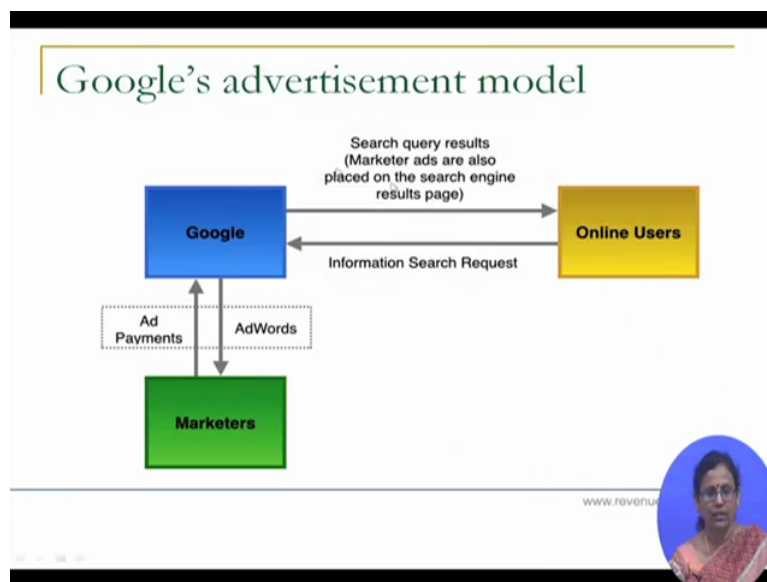
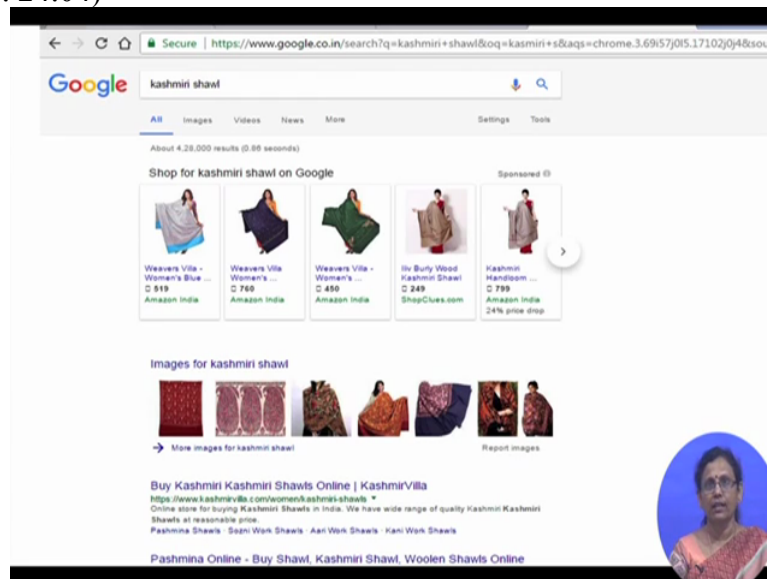
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2nd one is that of monster. Here the model is a bit different. It is a 3rd party service provider, it is a kind of broker but it takes the advertisement responsibility for other companies. Other companies put their advertisement through this. So it shows the advertisement and if and for hosting the advertisement, it charges some money and for contacting jobseekers with that of the company, it takes some money.

So both way, it charges some transaction fee and it is its business model. So it is a bit different. See, there it is sponsored but it is specifically for job advertisements of different category.

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And this one, all of us know. For example if try searching for some item on Google, so before your search the webpages which are important comes in, before that you will be seeing the Google ads. Is not it? For example, here I made some thing for Kashmiri shawl. See what has happened. All the shops which are selling Kashmiri shawl are appearing here. So now the question is, how do I mean this again Google has a very interesting model.

What it does? It does auction on adwords. It does auction on adwords and that is how it arranges the advertisements on its screen. That is how it arranges the advertisements on the screen. So this

is actually your Google's advertisement model. Your marketers who would like to be advertising with the way with Google, Google provides a set of adwords and the auction takes place on the adwords and the highest paid person gets the place on the top.

And online user, when they fire the query and search for the information, they also get to know about the company which has put the ad and possibly if they click on this, they have to pay more. So this is your Google's advertisement model.

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Infomediary Model

- Some firms function as infomediaries (information intermediaries) assisting buyers and/or sellers understand a given market.
- Target marketing campaigns.
- Comparative Purchasing

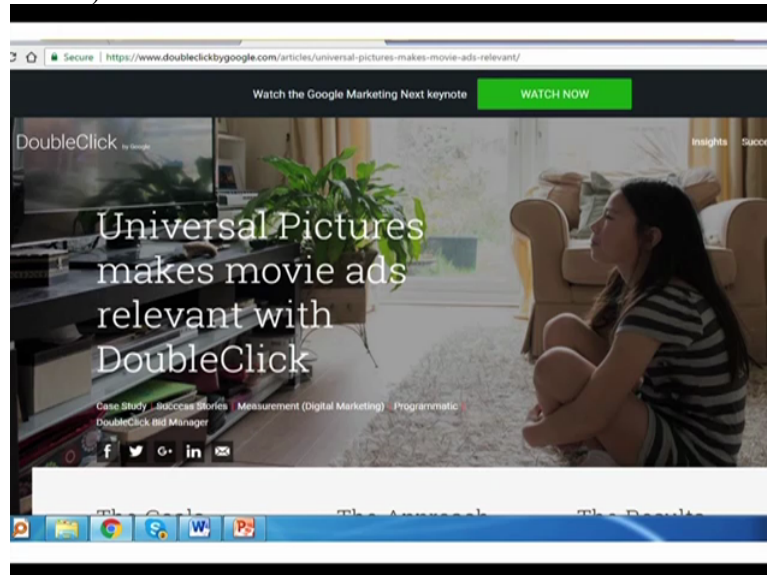
- Advertising Networks -- DoubleClick
- Audience Measurement Services -- Nielsen/Netratings

Then the next category is actually infomediary model. So they are again intermediaries but they provide information to the 3rd party and that to specific companies. Now coming to this infomediaries, these infomediaries are actually there are again different models. 1st one is the advertising network which is DoubleClick . In fact DoubleClick was the company which is not taken over by Google and its business model is now different.

But earlier if you look at DoubleClick , let us say you visit Yahoo's portal, the advertisement will be fired to you depending on your personal characteristics that is that Yahoo captures and shares with DoubleClick and DoubleClick in turn looks at your browsing pattern, etc and it fires advertisement to you. The advertisement that you see may not be same as that of your friend because it is customised as per your this thing.

But now even DoubleClick is now taken over by Google and we are going to shortly look at this DoubleClick model. Then 2nd is your audience measurement service by Nielsen ratings. So they take ratings for net ratings for the web and as a company, if you would like to get benefit from the statistics they collect, you have to buy this information from them, information, their reports, et cetera.

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Now look at this, one study from DoubleClick . DoubleClick again provides many case studies of its success story, this is again one of the case studies how it made this Universal Pictures, it managed the advertisement of this Universal Picture movies and made it successful. What it did?

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DoubleClick by Google Insights Success Stories

The Goals

- Raise brand awareness of Universal Pictures' latest films
- Promote new releases such as The Huntsman and Jason Bourne
- Leverage ad-centric data to profile and target audience passions
- Stimulate pre-booking sales

The Approach

- Unified media buying across all film releases into single platform
- Consolidated marketing assets including online video, YouTube TrueView, Google Preferred, YouTube Mastheads and video banners
- Produced data-driven creatives mixing 1st, 2nd and 3rd party data
- Completed media buys using both open auction and Programmatic Guaranteed

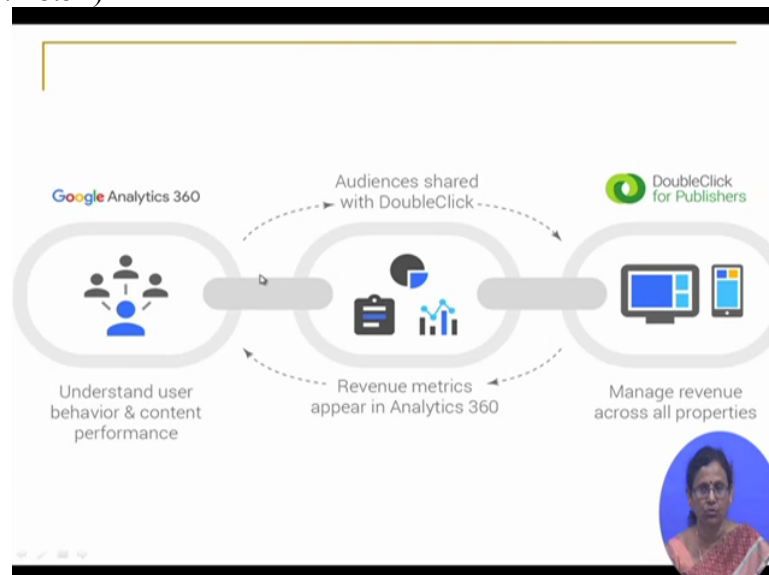
The Results

- New media buying app brand to meet and exc
- 68%* average view-thr
- 2.5* average frequency
- 69%* average viewabil

Published May 2017

Its goal was to raise the brand awareness of the Universal Pictures latest films, it promoted the new releases such as the various movies and it created various ad centric data to profile and target audience specific action. Then stimulated pre-booking sales. It did all this. How it did all this, it is of course we are not going to discuss but it did all this because it has the data. And how, what is its source of data, that we are going to see shortly and now DoubleClick has become very powerful because of Google.

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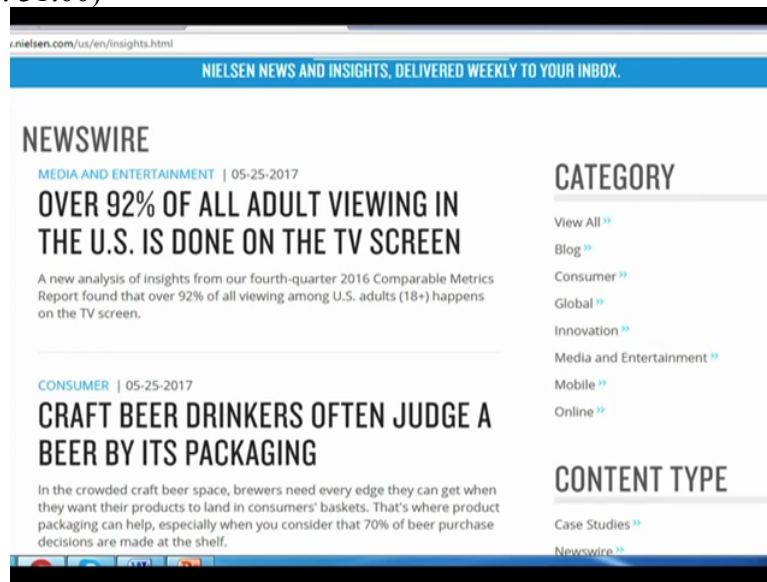


So let us just look at this, what this Google, what is the power behind this DoubleClick ? It is actually Google analytics. Google analytics many of almost all the companies use Google analytics because it provides them with the statistics about what kind of customers visited their site, wherefrom they visited that, and many statistics about the customers who visit. What exactly we have to do?

Within your webpages, there is a chunk of code which is to be inserted within the webpages of your company. And the customer's visit pattern, their behaviour pattern, their details how they are browsing through your site, everything is collected and sent to the Google. So any time you login to your Google analytics of your company, then you can actually see your customer behaviour pattern geographical region from where they are coming, what all advertisements, what is their interest pattern depending on, the kind of links they click through on Google search and it collects data because Google search, Google is now almost to everything.

Take it your mobile phone or taken any other device, everywhere you have Google's presence and that is how it collects the data in and you most of the time you actually remain connected and Google recognises you. And that is the most advantageous thing for it, so it gets all the data and this data is actually shared by the DoubleClick . And the people, the people who are using this DoubleClick as a tool, they have every opportunity to know the user behaviour, what their users are looking at, what all it can do for their users, they try to analyse and ultimately, they generate their revenue.

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But your Nielsen ratings model is little bit difficult, is little different. They actually study the market, they have the data, and they prepare reports and if you are interested in anyone of your report which you think can benefit your company, then you can buy from them. That is their model. So both of them actually, infomediary, they create their money from selling information whether it is DoubleClick network, advertisement network or whether it is Nielsen's rating, the data that it tries to sell, both of them are actually infomediaries. Thank you very much.