

**Course on E-Business**  
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**Module No 01**  
**Lecture 04: Business Models On the Web-II**

Welcome back. So far what we have been talking, let us try to recapitulate. We were talking about the revenue model, the business models that exist because of the Internet and the web. And in this category, we saw there are various types of models and later we covered few of them and we are again going to start, we are going to continue with that and the next model that we are going to talk about is actually merchant model.

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### Merchant Model

- Wholesalers and retailers of goods and services on the Web
- Sales may be made based on list prices or through auction.
- Virtual Merchant -- [Amazon.com](http://Amazon.com)
- Catalog Merchant -- [Lands' End](http://LandsEnd.com)
- Click and Mortar -- [Barnes & Noble](http://BarnesandNoble.com)
- Bit Vendor -- [Apple iTunes Music Store](http://Apple.com)

What this merchant model? These merchant models are they are wholesalers and retailers of goods and services on the web. Their sales may be made based on the list prices or through auctions. So there are many virtual merchant and there are many click and mortar merchants okay? By virtuals we mean, they truly do not have their own stocks, warehouses, et cetera but they have the list of products available with them and depending on what the customer demands, they tries to arrange that product and sell.

For example, is your Amazon. Amazon does not have any products of your own but you can see, you can buy books. You can buy books, you can buy electronic products, all from Amazon

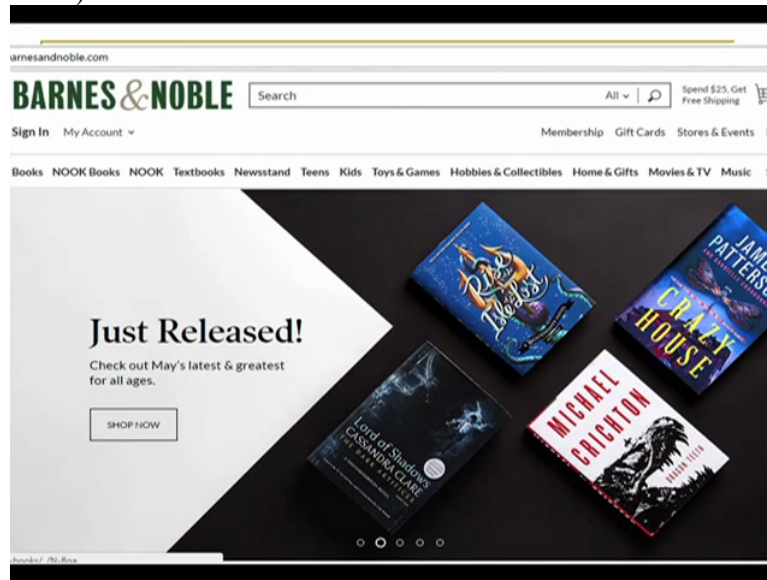
directly, not from a 3<sup>rd</sup> party. That is what I am trying to say. Okay? In a brokerage kind of model, it is just a facilitator where it brings in sellers and buyers. But here, it is a virtual seller himself. It is a virtual seller himself who you can say cannot have in fact they do have right now at least all of them have some kind of physical infrastructure.

But in general, they need not have physical infrastructure. Okay? Physical infrastructure, they need not maintain their stock, they need not maintain good inventory of everything but they do exist and they are the sellers. Then we also have in this category, we have something called catalogue merchant. These catalogue merchants are specifically for let us say for Land's End, it is specifically for clothing. It brings in various brands together, it is a store. If you go to a cloth store, you naturally have many brands. The store, the retailer cloth store actually is not producing on its own but it is a cloth store and deals with various brands and you can buy from, choose from any of the brand. Your Land's End is of that type.

Then click and mortar. They do have a physical infrastructure. This Barnes & Nobles is they have their physical stores around United States of America and additionally, it has its web store. So , their way of managing inventory is different. Then, there is another category called Bit vendors you can say, who sell audios, videos and so on. Your example is Apple iTunes Music Store.

Now how are they different from the Broker? Because they are the direct sellers of certain products. They are the merchants who directly sell the product, responsible for its, starting from its buying from the let us say they are dealing with Amazon is dealing with a specific book, buying from the publisher and ending the cycle by sending it through, using its supply chain to send it to the end customer, the whole thing is managed by the company. Okay?

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Look at this. This is the website of Barnes and Noble and it what it does, it has all the books and additionally, it will be showing the advertisements about the newer releases and all so that the customers in a convenient manner can shop it, shop from there.

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## Manufacturer (Direct) Model

- Reaching the buyers directly and thereby compress the distribution channel.
- The manufacturer model can be based on efficiency, improved customer service, and a better understanding of customer preferences.
- Ex.: Dell Computer



Then the next category is actually manufacturer or the direct model. In fact, about this manufacturer or direct model, we have already discussed while in the beginning, in the introductory classes and we saw that Dell has this direct model. Dell is one example of this manufacturer model. In fact, not only Dell, there are many companies who can directly have

their B2C kind of transaction. From their business houses, they can directly to our customers from their web stores. Dell is one such company.

And while discussing about Dell, we know that Dell is not only selling its newer products but products which are about to get obsolete, it also does auction on those products. And specifically for computer parts, it also takes, it also provides a, it is also a auction facilitator for other companies as well. ok? But here when we talk about the manufacturer direct model about Dell, it is about selling its own product directly to the customer.

And as you know, Dell as such a company which does not even, it is a company with almost 0 inventory. Okay? It does not even have a place, it does not even own a place where it makes its products. It buys, so its supply chain works in a very nice, very interesting manner. Once the customers put the order, it actually connects to another company who will be assembling assembling the product and that company in turn will be collecting the the part from other vendors around the world and finally they will be assemble the product and it will be sent to you.

But anyway, it is, they use it as a mechanism for reaching the buyers directly and they are buy from, they compress the distribution channel. In fact, it is very interesting to know that during, when this Internet became commercialised, that time of course IBM was a very established computer manufacturer and Dell was not that well-known but what happened? This IBM decided to retain its regular supply chain network where as because Dell was, before also, Dell was not, Dell was directly dealing with the customers and Dell was not i mean , not having a circular supply channel, it used to have retailers who will be buying Dell's products and selling through their retail channel., Dell decided to move to this direct model.

So as a result, during that period, Dell's sale was at par with IBM because it could directly connect with the customer. So it is about reaching the buyers directly and thereby compress the distribution channel. This manufacturer model can be based on efficiency, improved customer service and better understanding of customer's preference and that is how they make money.

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## Affiliate Model

- The affiliates provide purchase-point click-through to the merchant.
- It is a pay-for-performance model -- if an affiliate does not generate sales, it represents no cost to the merchant.
- Variations include, banner exchange, pay-per-click, and revenue sharing programs.
- Barnes & Noble, Amazon.com with DoubleClick



Then the next one, we are going to talk, is about affiliate model. This affiliate model provides a purchase point click through to a merchant. It is a pay for performance model. If an affiliate does not generate sales, it represents no cost to the merchant. Otherwise, it provides some money. Then variations include banner exchange, pay per click and revenue sharing program and so on. We were discussing about double click.

Now and we talked that DoubleClick has certain revenue model. It is a revenue, it is a advertising network. It is a advertising network. Now, if some banner ad by DoubleClick is posted on let us say Barnes and Noble site or with the Amazon site, what happens? As long as somebody clicks, as long i mean the if the banner is displayed, the site actually provides the space and no money is charged by the site, let us Amazon or Barnes and Noble.

Or there may be some very minimal fee they might be charging to display the advertisement. But the moment somebody clicks the advertisement, who will be paid? DoubleClick will be paid and Amazon will be paid their shares. So that is how DoubleClick gets affiliated with Amazon and Barnes & Noble and generates its revenue. So it is affiliation model.

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## Community Model

- Revenue can be based on the sale of ancillary products and services or voluntary contributions; or revenue may be tied to contextual advertising and subscriptions for premium services.
- **Example:**
- **Open Source** -- software developed voluntarily by a global community of programmers who share code openly. Instead of licensing code for a fee, open source relies on revenue generated from related services like systems integration, product support, tutorials and user documentation. [Red Hat]
- **Public Broadcasting** -- user contributor model used by not-for-profit radio and television broadcasting extended to the web. The model is based on the creation of a community of users who support the site through voluntary donations. [The Classical Station]
- **Social Networking Services** -- sites that provide individuals with the ability to connect to other individuals along a defined common interest (professional, hobby etc.). Social networking services can provide opportunities for contextual advertising and subscriptions for premium services. [LinkedIn]



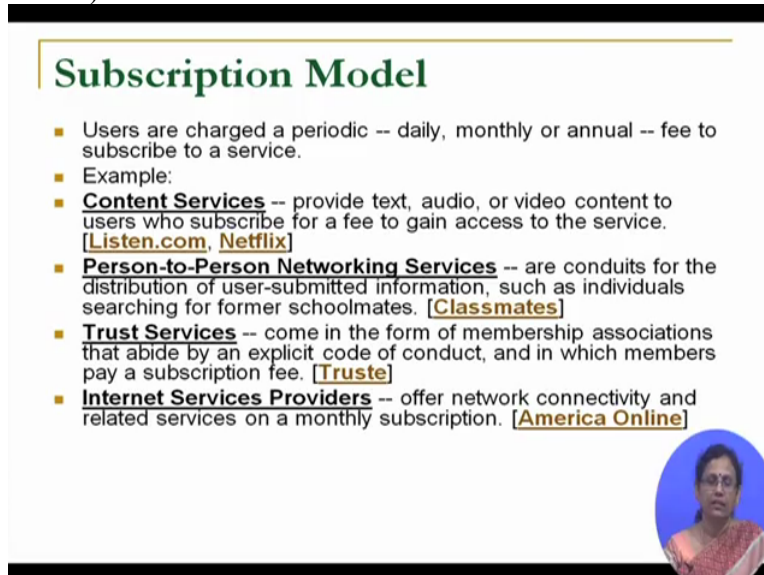
Next one is actually your community model. So this community model, this revenue can be based on the sale of ancillary products and services or voluntary contributions. Or revenue maybe tied to contextual advertising subscriptions for premium services and so on. For example, look at the open source software platform like that of your Red Hat Linux. It is actually open source and all the open source products, are they really open source? Are they really free?

Of course, to the users at the lower segment, they are free. But the moment you actually need a very specialised technical component of that open source platform, you need to pay. And when you need to pay, that is actually a huge amount of money, it is not small amount. And that is how they charge. And many times, they will they will be asking for donations. If somebody is happy with the kind of product or service they are providing, people can donate. That is how they will be surviving.

Then, you have public broadcasting. Here, the useruser contribution model used by not-for-profit radio and television broadcasting is extended to the web. The model is based on the creation of a community of users who support the site through voluntary donations. So they actually survive because of donations. Then your social networking services. Here, the site provides individuals with the ability to connect with the other individuals and the social networking sites, there is nothing special to talk about because now everybody is a social network user.

So now the question is how you get, how do they generate money? So many of them actually provide many premium services. Let us say, you are a LinkedIn user and as a LinkedIn user, if you would like to connect to a specific company or you would like to have your profile being showed up to specific groups to increase your visibility, then you have to become a premium member and there they charge some additional money for that.

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### Subscription Model

- Users are charged a periodic -- daily, monthly or annual -- fee to subscribe to a service.
- Example:
  - **Content Services** -- provide text, audio, or video content to users who subscribe for a fee to gain access to the service. [[Listen.com](#), [Netflix](#)]
  - **Person-to-Person Networking Services** -- are conduits for the distribution of user-submitted information, such as individuals searching for former schoolmates. [[Classmates](#)]
  - **Trust Services** -- come in the form of membership associations that abide by an explicit code of conduct, and in which members pay a subscription fee. [[Truste](#)]
  - **Internet Services Providers** -- offer network connectivity and related services on a monthly subscription. [[America Online](#)]

Then the next one is actually a subscription model. So in this subscription model, the users are charged on a periodic basis, either daily, monthly, annual, this way and once you and who are they? There are many such service providers. Let us say, for example you talk, think about Netflix. If you are a Netflix member, Netflix is a content provider. It provides videos and movies and all. So if you are a Netflix member, again and again, you can ask its content if you subscribe it for once.

So that is one. Then you can have person-to-person networking services like that of connecting to your classmates and all and they are, they actually distribute the user submitted information for connecting schoolmates. Then, there are many trust services and you have to be a member of a trust service. When we talk about the security in the e-business systems, we will be talking more on trust services but before that, let me tell you something.

In many of the websites, you must have trust E mark, this is powered by trust E. Is not it? So what exactly is this trust E and what do we mean by it is powered by a trust E? Look, if you are visiting a website and you would like to do transactions through the website, the 1<sup>st</sup> thing you will be looking at is that whether that particular site is trustable or not. How do you ensure it? Of course, the 1<sup>st</sup> thing is that you have 1<sup>st</sup> hand information from your friends and whom you know, physically you know and you know that they have already done some transactions through this particular website, so you can also transact.

However, if you are visiting for a first-time to a site, and you are keen to buy something, you need some 3<sup>rd</sup> party who will be providing you with that support. In fact, trust E and other such companies, they provide certain trust services. What do they do? They physically verify the company's existence, its record and so on and they provide a certificate to the company, with the company displayed on its website okay?

And because you believe trust E and trust E has certified other other websites and you visited and never faced any problem, it is a trusted 3<sup>rd</sup> party, you also believe that new website and you do transactions through the website. And how do this trust E? It is about generating the money. So how do this trust E generate its money? How do the trust E generate its money? From the company, while providing the trust services. It does not charge money from the users of the website. Okay?

Then of course, you know this Internet service provider, they also do exist because of the net and they provide services and because of their, if you subscribe to some ISP, you have to pay. And this payment is again is of different ways you can pay. Either, you can pay on a monthly basis, there are various options for paying also. Either you get, provide monthly subscription or you provide a base price, then for day transaction, how much amount of data you are using and so on.

So they basically provide service, they generate their money from the users who take their service.



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## Utility Model

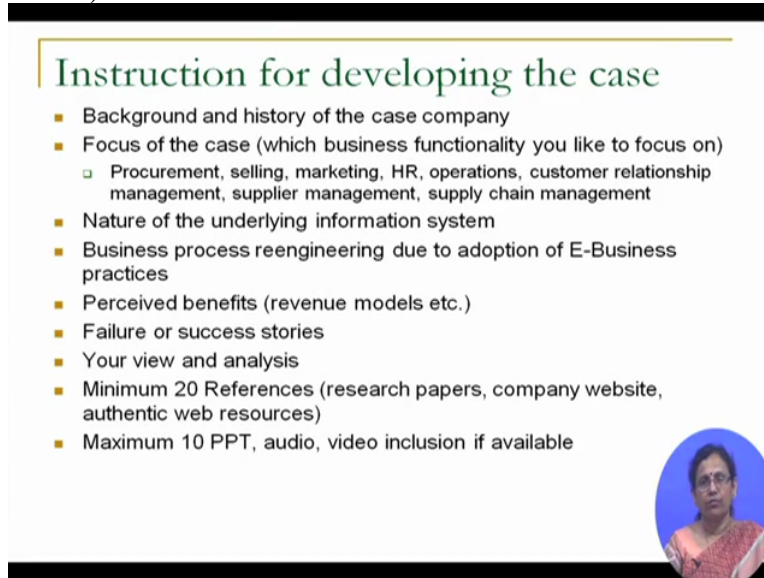
- The utility or "on-demand" model is based on metering usage, or a "pay as you go" approach. Unlike subscriber services, metered services are based on actual usage rates.
- **Metered Usage** -- measures and bills users based on actual usage of a service. Internet service providers (ISPs) in some parts of the world operate as utilities, charging customers for connection minutes, as opposed to the subscriber model.
- **Metered Subscriptions** -- allows subscribers to purchase access to content in metered portions (e.g., numbers of pages viewed).  
[\[Slashdot\]](#)

Then the last one is actually utility model. This utility model just like your electric meters, if you are using certain utility, after certain amount is over, I mean you prepay the service, and you consume the service till that amount is over. So this is basically is the utility model. So in this utility model, there are again, is of two types, one is metered use and another is metered subscription.

They are actually on demand services as you know. In case of metered use, it measures the measures and bills the user based on the actual usage of the service and then you pay. For example, this Internet service providers in some parts of the world operate as utilities. They do not, they work, I was telling you in last slide that some of them actually take monthly subscriptions. So they have a subscription-based model. Now there are certain who are utility-based model.


In certain parts of the world, they actually work just like in electric service provider and all, electricity service providers and all. What they do? Depending on how much data you use, they will be charging you. It is not a monthly subscription. Then, there are metered subscriptions. They allows users to purchase access to the content in a metered portion which can be measured, the number of webpages you see, number of advertisements you see, number of lists you browse and so on. So this is the model that we had to discuss.

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### Instruction for developing the case

- Background and history of the case company
- Focus of the case (which business functionality you like to focus on)
  - Procurement, selling, marketing, HR, operations, customer relationship management, supplier management, supply chain management
- Nature of the underlying information system
- Business process reengineering due to adoption of E-Business practices
- Perceived benefits (revenue models etc.)
- Failure or success stories
- Your view and analysis
- Minimum 20 References (research papers, company website, authentic web resources)
- Maximum 10 PPT, audio, video inclusion if available



Now at the end of this whole exercise, I want all of you to develop a case study. From the beginning, I have told you, in this course, is basically made into 3 different parts. This is so far whatever we have been talking, these are actually introductory part. Then, in the 2<sup>nd</sup> part, what we will be doing? We will be looking at the various functional areas and how this e-business has actually enabled the functional areas.

And in the 3<sup>rd</sup> part, what will be looking at is the technologies that is used for that is behind the success of this e-business transactions. Then the 4<sup>th</sup> part which actually requires some kind of background in in terms of, some kind of mathematical background, I expect at that point of time and there we will be discussing about various decision support models. Okay? But whatever, right now, at the end of this, I expect all of you to develop a case which you will be submitting online.

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### Instruction for developing the case

- Background and history of the case company
- Focus of the case (which business functionality you like to focus on)
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- Business process reengineering due to adoption of E-Business practices
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And this is the instruction for developing the case where you have to choose a company, whether it is a, it is immaterial whether you choose a Internet based company which exist because of the web or you can have some brick and mortar company and you can also see how they have used Internet to increase their reach to the customer to increase their revenue and so on. So in this the focus is you can actually choose any of the business functionalities you like, whether it is procurement, selling, marketing, HR, operations and so on.

You have to talk about the nature of the underlying Information Systems. You have to be talking about what was their original business process and how it is re-engineered due to adoption of e-business practices, what are the perceived benefits? Different types of models, business models, revenue model and so on, whether the models that they adopted, were they failure or a success? That stories also you have to write and your views and analysis.

So I expect that you will have minimum 20 references that include the website of the company, various research papers and other resources, you refer them and prepare the case study. Okay? So you can make maximum 10 slides, you can also include audios and videos are available. And the main purpose of this is because right now at least this part of the course, I have been only doing talking, you may not realise the actual potential of this particular field if you do not make some search of your own. So therefore, it is, you have to develop this case study and you have to make submissions online. Thank you very much.