

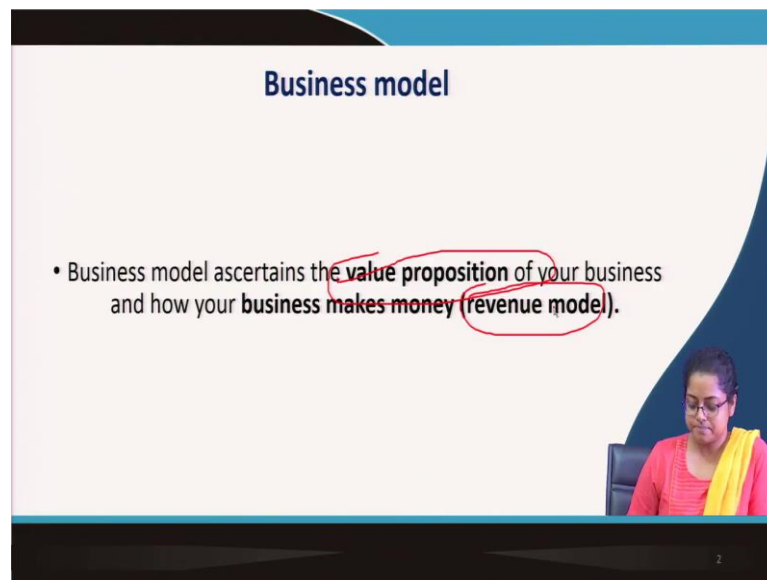
Management Information System
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Module – 08
E-commerce: Digital Markets, Digital Goods
Lecture – 36
B2C Business Models

Hi, welcome back! So, we were discussing about e-commerce and the various features that distinguish an e-commerce website from a traditional brick and mortar business. And we had also spoken about the various challenges or issues that an e-commerce business could face. So, in this session which is the 2nd session of this module, we will be talking about the ‘Business to Consumer Business Models’.

So, we had said that, there were four typical categories of ecommerce business models; B2C, B2B, C2C, and mobile commerce. So, today we will be focusing entirely on B2C Business Models.

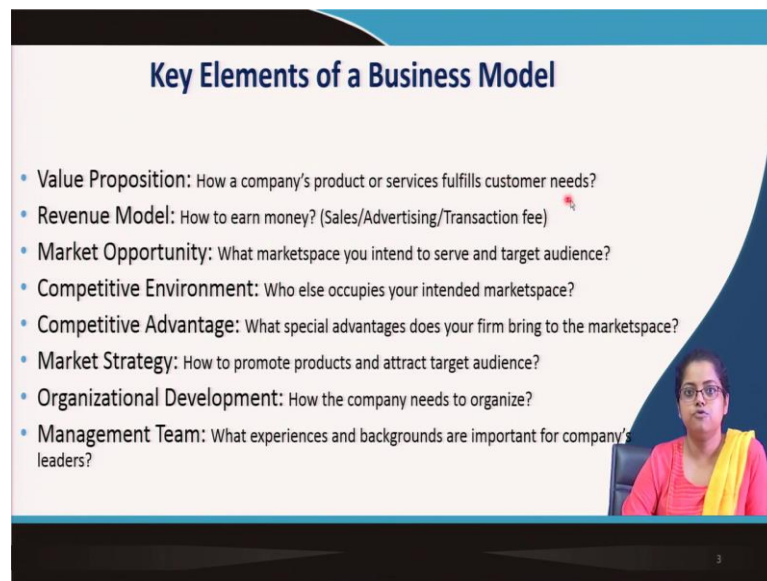
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But prior to that quickly; let us talk about, what a business model is, what is a business model? Business model ascertains the value proposition of your business and how your business makes money or your revenue model. So, these two features here are very important; value proposition of your business and revenue model of your business.

So, value proposition means, the value that your business gives to consumers which others do not, other businesses do not. So, that is the integral value proposition of your business that is the most important feature of a business model; along with the second feature that is the revenue model. So, how does your business generate revenue or how does it make money?

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Key Elements of a Business Model

- **Value Proposition:** How a company's product or services fulfills customer needs?
- **Revenue Model:** How to earn money? (Sales/Advertising/Transaction fee)
- **Market Opportunity:** What marketplace you intend to serve and target audience?
- **Competitive Environment:** Who else occupies your intended marketplace?
- **Competitive Advantage:** What special advantages does your firm bring to the marketplace?
- **Market Strategy:** How to promote products and attract target audience?
- **Organizational Development:** How the company needs to organize?
- **Management Team:** What experiences and backgrounds are important for company's leaders?

The slide features a video inset in the bottom right corner showing a woman with glasses, wearing a pink top and a yellow shawl, speaking. The slide has a blue and white background with a dark blue curved border on the right side.

Now, moving on key elements of a business model. So, we have in the previous slide discussed two elements; one is the value proposition and the second is the revenue model. Along with those two, there are six other elements which are very important elements or components of a business model. So, we will quickly highlight those as well.

Value proposition that is the first one, talks about how a company's product or services fulfills customer needs or what additional value does it provide to customers. Revenue model, how to earn money. So, there could be multiple revenue models in an ecommerce business; we will soon focus on the different revenue models that are, that exist in an ecommerce business.

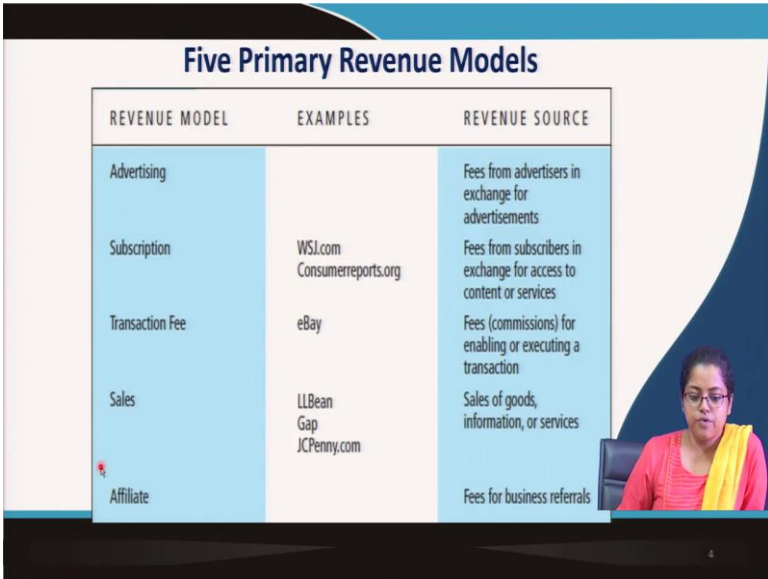
So, it could be sales, it could be advertisements, it could be transaction fee and there are several others. Market opportunity; so market opportunity talks about, what market pay space you intend to serve and your target audience. So, who exactly are your target audience and which is the market space that you want to serve?

Fourthly, fourth point here is the competitive environment. So, who are your competitors or who else are there; who are the other players or businesses in the same market space? Competitive advantage, very important element; it is it talks about how your organization or your business differentiates itself from its competitors or what are the special advantages that your firm brings to the market space.

Then market strategy: so how to promote your products and attract the target audience? Organizational development: so how the company needs to organize? So, this talks about the organization structure. So, how is your organization structured and finally, the management team?

So, this talks about what experiences and backgrounds are important for the company's leaders? So, this basically talks about the background of the company's managers and leaders. So, here we see that these are the eight essential elements of a business model.

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REVENUE MODEL	EXAMPLES	REVENUE SOURCE
Advertising		Fees from advertisers in exchange for advertisements
Subscription	WSJ.com Consumerreports.org	Fees from subscribers in exchange for access to content or services
Transaction Fee	eBay	Fees (commissions) for enabling or executing a transaction
Sales	LLBean Gap JCPenny.com	Sales of goods, information, or services
Affiliate		Fees for business referrals

So, moving on revenue models; there are five primary revenue models in an ecommerce business. So, the first one, advertising; you would observe that most ecommerce businesses today have advertising as a revenue model. So, you would see that, you know if you are; if you have opened Amazon, you could see that there is a small Ad from say Coursera at the sidebar or at this, on the side of your screen.

So, advertising is a very important revenue model in an ecommerce business; it means fees from advertisers in exchange for advertisements. An advertisements could be of different forms. So, for example, some advertisements could be very contextual in nature.

So, for example, if you are trying to browse on say, you know an educational website. So, if you have come to the website of say, you know Vinod Gupta School of Management and you have moved to some other you know; from there you have moved to some other platform, you could get an advertisement from Coursera, because that would be contextual or related to your interest

Or there could be advertisements that could be based on your location. So, they are. So, if you are located in a particular geography, then you could get geography specific advertisements. So, advertisements is one of the primary sources of revenue for most e-commerce businesses. Now, coming to the second revenue model, subscription; fees from subscribers in exchange for access to content or services.

So, this primarily happens in case of, in case the you know you are a content website. So, you have content or you deliver services. So, if you deliver either of these, then your revenue model is generally on a subscription basis. So, consumers would subscribe to your organization, to your business and it could be a monthly subscription, it could be buy bimonthly subscription or it could be an annual subscription. So, it could be any kind of subscription.

So, popular examples of websites that work on a subscription basis are Wall Street Journal, Consumerreports dot org we; the Harvard business review website, the Harvard business website. So, for example, we have this Harvard Business School website, which is in short call HBS website it operates on this on those, on the basis of subscription revenue model.

Now, within subscription, there is another concept called freemium revenue model. What freemium means is that a certain portion of the content, which is the basic content is free to all consumers.

But if you want more advanced or more superior content, then you have to pay a fee for that. So, freemium stands for free plus premium. So, if you, if you are going ahead with

basic content, it is free; but if you are going ahead with more advanced content, then you have to pay a fee.

So, most of the websites that operate on the subscription basis today also operate on the freemium basis. Thirdly transaction fee; so a transaction fee says that, it is especially you know relevant for a market place, wherein a particular website provides a platform for the buyers and the sellers. So, buyers and sellers interact and there could be transactions.

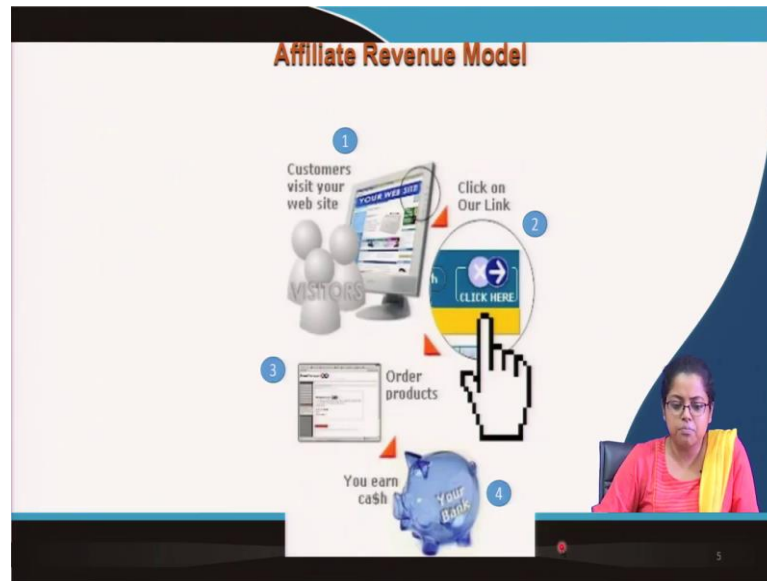
Now, the platform generates revenue by the transaction fee. So, these are fees or commissions for enabling or executing a transaction. So, the fee could be in cash or the fee could be a certain percentage of the revenue. Also transaction fees go hand in hand with another kind of fee for these market places, which is known as the listing fee. Listing fee is another revenue stream which is not mentioned here.

But listing fee means is, means that you know, if you are a marketplace and if you have certain buyers and sellers; the sellers may have to register themselves by paying a listing fee. So, that would be an additional source of revenue; but in general buyers do not have to pay a listing fee, but again that depends on the business, on the strategy of the business. So, listing fee is another very important revenue stream for many ecommerce businesses.

Now, coming to the fourth one here sales; sales is like you know it is very similar to that in the context of a traditional brick and mortar store. It the revenue comes from sale of goods, information or services, so it is very similar. This there are a lot of examples of companies which have sales as their primary revenue model; LL Bean, Gap, JCPenny etcetera all of them. Now, coming to the last one here affiliate; affiliate my the revenue source is fee for business referrals.

What this means is? A particular company will you know if a particular company is directing traffic towards my company, then I will be paying that company a certain amount of money, that could be in terms of cash, that could be in terms of points, that could be in terms of a percentage of the revenue that I am generating from that particular traffic. So, affiliate is another very important and a very very unique revenue model in case of an ecommerce business.

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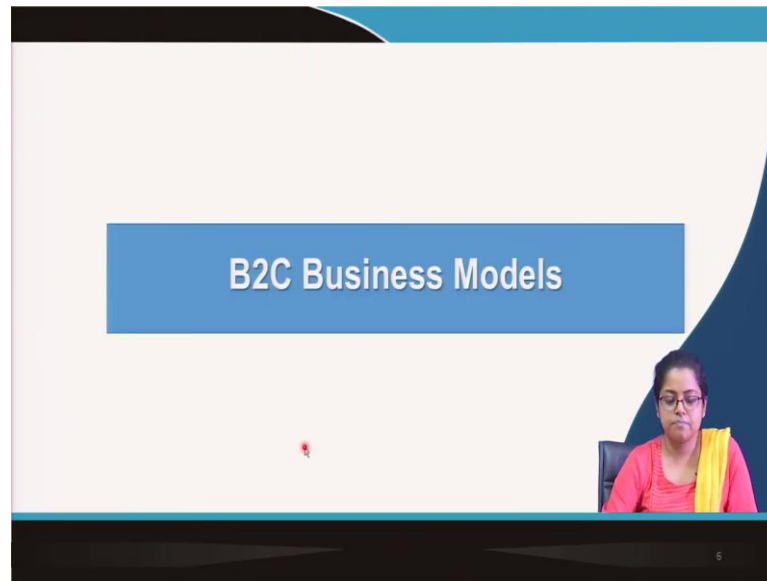


Lot of examples are there of you know most; I think most ecommerce business models or ecommerce companies have affiliate as one of their revenue streams. So, how exactly does the affiliate revenue model work? This diagram talks about it; the first step is customers visit your website and on this particular website which is a third party website, there is a link to my company. So, assuming I have a company, which you can consider today as signees website.

So, my website has a link and that link is now posted on this third party company's website. Now, visitors or customers or traffic come to this third party, which could be say Amazon and they click on my link and they click on my link. So, if this is the link of my of signees website; they click on that link that is step 2 and they order products from signees website. This is signee's website from where they are ordering product.

And when they order products from my website; I will give the first company that is Amazon in this particular example, some cash in return or say a percentage of the revenue that I am generating from this transaction or maybe some points. So, now, this original website which referred the customer to me; that is amazon in this example earn some money or some points. So, this is how the affiliate revenue model works.

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Now, moving ahead B2C business models. So, there are a lot of B2C business models that we see in the world around us.

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Business Model	Variations	Examples	Description	Revenue Model
Portal	Horizontal/General	Yahoo AOL MSN	Offers an integrated package of content and services. Seeks to be a user's home base	Advertising
	Vertical/Specialized (Vortal)	Sailnet	Offers services and products to specialized domains	Effective for advertisers
	Search	Google	Search Services	Advertising
Virtual Merchant	E-tailers/ Pureplay/ Resellers	Flipkart(pre-2013) Netmeds Amazon	Online version of retail store	Sales of goods
	Brick and click	Walmart.com Shoppers Stop	Online distribution channel for a company that already has physical stores	-do-
	Click and brick	Lenskart.com Bluestone.com Pepperfry.com	Physical stores for an existing online company	-do-
	Manufacturer direct	Dell.com Sony.com	Manufacturer uses online channel to sell directly to customer	-do-

Let us talk about some of them. The first category of website or B2C business models that we would want to highlight here is a portal. What is a portal? A portal offers an integrated package of content and services; it seeks to be a users' home base. What this means is a portals generally seek to be a users home base; that is initially in the early days of ecommerce, when portals came into existence.

Portals thought that they would be the user's home base; that is the users would login to the portals and from the portals, they would perform all their ecommerce activities and fulfill all their ecommerce requirements and then log out from the portal itself. So, a popular examples of portals were Yahoo, AOL, MSN, etc. So, Yahoo for example, is a very popular portal, which has you know a lot of other allied activities.

For example, there is Yahoo, Yahoo email; their service there is Yahoo astrology, there is Yahoo cricket, there is Yahoo shopping, there is Yahoo news. So, everything that the customer could possibly want to do, when he or she logs on to the internet was possible through the Yahoo's portal. So, that was the purpose of coming up with the portal. There are different categories of portals; they could be horizontal or they could be general or.

So, sorry they could be horizontal or they could be vertical in nature. So, this is a, you know typo here; it could be vertical in nature. So, I will talk about a vertical portal in very soon, but horizontal portal is generic in nature; sorry this is not a typo, because here I am talking about two variants or two terminologies for the same thing.

So, a horizontal portal can also be called as a general portal; there is of course another category of portal which is called a vortal and I will come to that. So, that is a vertical portal. Now, coming to the revenue model; so, as you understand, the revenue model of a portal is essentially advertisements. So, there could be a lot of advertisements on a portals website from which the portal could earn revenue.

Coming to the next variant of a portal is the vortal or the vertical portal; it is called a specialized portal or a vortal. So, the description of this is, it offers services and products to specialized domains; which means that, it offers services to people with specialized interests, for example, Sailnet.

Sailnet is a very popular vortal for people who are interested in sailing and boat, boats. So, they would log on to this vortal which would try to be their home base and from the vortal, they would perform all their activities and they would log off.

But online activities and they would log off; but the vortal would be you know catering to people of special interests, such as in this context people interested in sailing and boats. Now, here you see revenue model vortal's are very effective for advertisers; in fact they are more effective for advertisers than a horizontal portal.

So, why do we, why do you think so? The reason for this is very obvious; portals cater to people with particular interests. So, if advertisers know the interests of the people who are logging into a particular portal, they can serve advertisements based on those catering to those interests.

And if you as a user, you see certain advertisements which are catering to your interest; there is a higher probability that you would click on them and maybe go there and purchase something. So, portals were very very effective for advertisements.

Now, coming to the third variation which is search. So, search is very popular you and the most popular search engine today is Google; you also have Yahoo search and several other searches such as Bing, but Google by far is the most popular search engine. And it provides search services, again here revenue model as advertisements.

And on Google you see a lot of advertisements. So, Google earns its revenue through something called you know paid listings; wherein a lot of companies who want to want their company's links or their company's you know information to appear first, when a customer searches for products that are sold by your company would actually pay a price, a fee to Google to be ranked higher.

So, advertising is again an integral part of Google's revenue model. Now, coming to the second category of business models, B2C business models are virtual merchants. There are four variants; the first variant is E-tailers, which is also called alternatively, pure play e-commerce company or resellers.

Now, these companies, popular examples are Flipkart which is an Indian e-commerce company; prior to 2013, it had a reseller business model. Netmeds which is which is again an Indian medicine store, it is an online medicine store and of course Amazon. So, what is the definition? It is an online version of a retail store. So, if there is a physical retail store, E-tailers or pure play ecommerce companies or resellers are the online variants of that particular retail store.

So, it is very simple, all retail stores that you see around you; if you consider the online equivalent of those that is called a pure play ecommerce company or an E-tailer or a reseller. And their revenue model is nothing, but the sales of goods. The second variant

brick and click; the term itself suggests that brick and click companies are those which initially had physical stores, but moved ahead and also had had an online presence.

So, now they have both a physical store and an online presence, but the physical store came first. So, online distribution channel for a company that already has a physical store. Popular examples are Walmart, Shoppers stop, etcetera. So, again their revenue is purely based on the sale of goods.

The third variant, which is just the opposite, diametrically opposite of click and brick. So, here very interestingly the online company came first and then over a period of time, due to myriad reasons, the online company had a physical presence.

So, physical stores for an existing online company and there are a lot of examples, Lenskart dot com, Bluestone dot com, Pepperfry dot com; most of these had online presence initially and then over a period of time also set up their own physical stores. Their revenue model is also sale of goods.

And fourth and the last variant here is the manufacturer direct. So, here manufacturer uses online channel to sell directly to the customer; there are no intermediaries involved in this process. Therefore, manufacture directs also operate on the principle of disintermediation.

Examples are Dell, Sony, etcetera which directly sell their goods to the customers without any intermediary. Here also the revenue model is the sale of goods.

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Business Model	Examples	Description	Revenue Model
Content Provider	HBR WSJ.com CNN.com	Information and entertainment providers such as newspapers, sports and special interest guidance	Advertising, Subscription fees (Freemium), Affiliate Referral fees
Transaction Broker	Makemytrip Hotels.com RedBus Yatra.com	Processors of online sales transactions such as stockbrokers and travel agents (OTAs).	Transaction fees
Market Creator/ Marketplace	Flipkart (post 2013) Housing.com	Web-based businesses that use Internet technology to create markets where buyers and sellers meet, search for products and complete transactions,	Transaction fees Listing fees
Service provider	VisaNow.com BharatMatrimony.com MOOCs RocketLawyer	Online Service sellers	Sales of services, Commission fees, Listing Fees
Community provider	Facebook Linkedin WebMD The Motley Fool	Social networking for people with common interests, hobbies.	Advertising, Subscription fees, Referral fees

Now, moving on, there are some other very important B2C business models in the world of ecommerce. So, the first one here is content provider. Content providers are provide information and entertainment, news to the customers. So, they could be newspapers, they could be sports, and they could be special, they could also give special interest guidance. Generally, a content providers as the name suggests provide content in an electronic form.

Now, popular examples are the HBR website, that we have spoken of earlier; Wall Street Journal, CNN dot com all of them give content to the customers in the digital format. Their revenue models again advertising, subscription fees, freemium we have just discussed this.

So, the prior the primary revenue model for them is subscription fee; they also have advertisements as another additional revenue stream, and they may also have affiliate referral fees. The next one transaction brokers. So, a transaction brokers are those that, process online transactions, sales transactions; and in effect they actually save a lot of time and money of the customers.

So, they could be online stock brokers or online travel agents that we see all around us. Their revenue model is again transaction fees; because if there is a transaction that has happened between the transaction, between the customer and the provider, the company, then that is you know transaction brokers do have a lot of you know sellers.

Say for example, if we take the context of Yatra dot com or say Price line, which is a very popular transaction broker; they have a lot of you know airlines and also a lot of hotels which are part of the platform. They are sellers here. So, these hotels or these airlines are the sellers and there are a lot of customers who are the buyers.

So, once a transaction happens between a buyer and a seller, the transaction fee goes to the transaction broker or the platform; in this case the transaction broker examples are Makemytrip, Hotels dot com, RedBus, Yatra, Priceline these are all very popular transaction brokers.

Along with transaction fees, transaction brokers also may have listing fee as I mentioned before as a part of the revenue model; because many of these hotels and airlines, may have to register on these companies by paying a listing fee. But that again as I said depends on the, depends on the business strategy of the company.

Marketplace or market creator; I think most of the ecommerce companies today that we see around us are moving towards a marketplace business model, which is very popular. So, web based businesses that use internet technology to create markets, where buyers and sellers meet search for products and complete transactions.

So, here buyers and sellers meet, they search for products and they complete transactions. Again here transaction fee and listing fee are the revenue models. Some popular examples are Flipkart, again post 2013 went ahead with the marketplace business model, and Housing dot com. Housing dot com is the company, which you know is involved in buying and selling rented properties or new houses.

It is more of an information giving company, does not directly facilitate the buying and selling; but nonetheless it is a market creator. Service provider; as the name suggests, this is an online service provider. So, it provides various services online. Very popular examples are VisaNow dot com; as the name suggests would help you with your visa transactions, Bharat matrimony again another website which would help you in your you know in performing marital matches, so matches.

MOOCs, various MOOCs that we have; the massive open online courses Coursera, you know MOOCs could also be considered as content providers. So, for example, NPTEL platform, through which you are actually you know taking up a lot of courses. Could be

in some way it is, it is a MOOC and a MOOC is a service provider; it could also be a content provider. So, it not only provides a service; it also provides, you know the service is provided in form of an online content.

So, it can be categorized under either of the two business models. Then RocketLawyer is another example, which gives you legal services online. So, here I would just like to take you know deviate from this topic and tell you that, we have this listed these business models as distinct business models. But in today's world, there exists a very fine line that demarcates many of these business models.

So, many companies today which exist in the online world exist in the form of they, they provide to consumers two or three of these business models together. So, for example, Amazon com; it could it, it is both a market creator as well as it is an E-tailer at the same time it also has a B2B platform, similarly Alibaba also has so many of these together.

So, that is why today we come up with the term, there is a term called internet conglomerates; which means that these internet giants or companies, provide cannot be distinctly categorized into only one of these business models. They provide you content, across content or services across two or three of these business models.

So, for example, here when we say MOOC, MOOC could be a content provider as well as a service provider. Again when we say, you know when we talk about housing dot com; housing dot com could be a market creator, it could also be a transaction broker. Because it eliminates a physical broker in the process of connecting the buyer and the seller of the property; right.

So, service providers have sales of services as their primary revenue model; they also have commission fees and listing fees as part of their revenue model. And finally, the last business model in the B2C business online world is the community provider. So, community providers are social networking sites for people with common interests or hobbies.

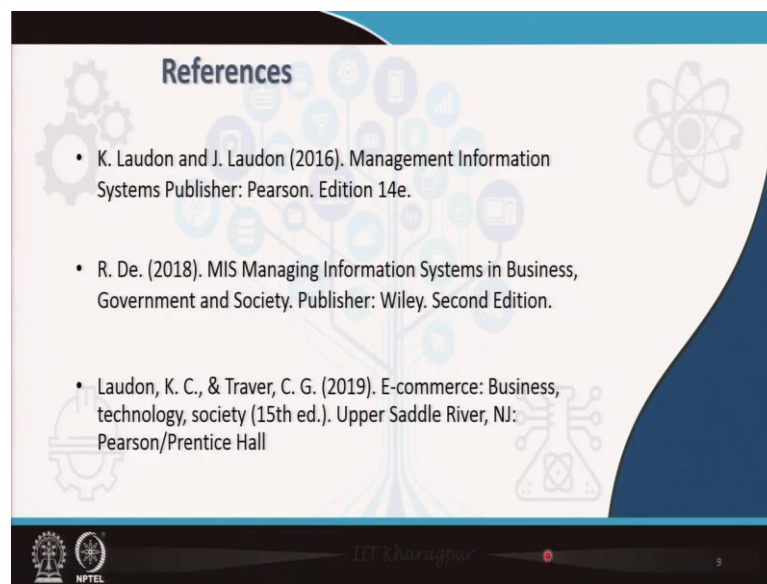
They bring together people with common interests, and they cater to people with similar special interests or hobbies. So, very popular examples are Facebook, LinkedIn; LinkedIn which caters to people with you know, it is a professional networking site; WebMD which is a very popular community provider for people in the medical world.

The Motley Fool is another very very interesting community provider of people who are interested in investments and in financial services. So, social networking sites do not have any sales in general on their platform.

So, community providers have advertisement as their primary source of revenue; along with it they may also have subscription fees. If you want to join some of these platforms, you may have to pay a subscription fee, and they may also have referral fees or affiliate referral fees as part of the revenue model.

So, in brief, what we have discussed is various categories of business models or variants of business models that exist in the B2C online world today. And we have also seen their examples and their revenue models. So, with that, we come to the end of this particular session.

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And in the next session, we will discuss about the B2B business models that exist in the world of e-commerce.

Thank you!