

CPET 581 E-Commerce & Business Technologies

E-Commerce Business Models

References:

- *Chapter 2. E-Commerce Business Models and Concepts, 1 text book: *e-Commerce: Business, Technology, and Society*, 8th edition, 2012, by K. C. Laudon and C. G. Traver, publisher Pearson Education Inc.,
- * World Street Journal
- * U.S. Census Bureau

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Topics

- Twitter – the Social Network Site
- Eight Key Elements of A Business Model
- Revenue Model
- GroupOn Business Model
- E-Commerce Business Models
 - B2C, B2B, C2C, P2P, M-Commerce Models
- E-Commerce Enabling Technologies
 - Internet and Web Technologies
 - Web, Database, Application Servers
 - Programming Tools
- Industry Structures, Value Chains, and Business Strategy

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Twitter (2006-2011)

- Twitter.com, the social network site based on 140-character text message
- An innovative service originated in 2006, by Odeo – offered Podcasting and Search service, based at San Francisco
- Spin-off as a stand-alone company: Twitter.com
- Social Network Sites Ranking: Facebook, LinkedIn, Twitter
- Twitter's Major Components
 - Home || @Connect || #Discover
 - Tweets || Following || Followers || Favorites || Lists
 - Twitter Help Center, <https://support.twitter.com/groups/31-twitter-basics>

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Twitter (2006-2011)

- 2009 - June, Iran rebellion: reported to be over 200,000 tweets per hour worldwide
- 2010 World Cup - over 200 million tweets dispatched (3000 a second)
- 2011
 - Estimated 200 million registered users worldwide
 - Adding around 460,000 new users a day
 - Not clear on how many continue to actively use the services after signing up
- Financial Report (2010)
 - \$360 million in funding since its inception
 - Produced \$45 million in revenue, zero profits
 - Major Challenges – How to make money?

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Tweet Tweet: What's Your Business Model?

- What characteristics or benchmarks can be used to **assess** the **business value** of a company such as Twitter?
- Have you used Twitter to communicate with friends or family? What are your thoughts on this service?
- What are **Twitter's most important assets**?
- Which of the various methods described for monetizing Twitter's assets do you feel might be most successful?

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E-Commerce Business Models

- Business Model
- Business Plan
- E-Commerce Business Model

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8 Key Elements of A Business Model

1. Value Proposition
2. Revenue Model
3. Market Opportunity
4. Competitive Environment
5. Competitive Advantages
6. Market Strategy
7. Organizational Development
8. Management Team

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5 Primary Revenue Models

Revenue Model | Example | Revenue Source

- **Advertising** | Yahoo | Advertisement Fees
- **Subscription** | WSJ | Fees for news content
- **Transaction Fee** | eBay, E*Trade | Commissions/fees
- **Sales** | Amazon, iTunes | Sales of Good, info, or services
- **Affiliate** | MyPoints | Fees for business referrals

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Is Groupon's Business Model Sustainable?

- Founded in 2008
 - Originated the concept of using collective buying power to get a daily deal on local goods and services
 - Combines **two major trends in E-Commerce**:
 - Localization
 - Social Networks
 - Who are the winners?
 - The customers: Discount
 - The merchant (Hope)
 - Generate repeat purchase
 - Loyal customers
 - A large customer base
 - The Groupon: Fee

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Groupon

- 2010
 - Early in 2010, Russian DST Global invested \$135 million in Groupon at a \$1.35 billion valuation
 - Nov. 2010, Yahoo offered to buy all of Groupon for \$3 - \$4 billion; turned-down
 - Dec. 2010, Google offered \$6.5 billion, 10 times Groupon's revenue
- June 2011
 - More than 83 million customers
 - Operates in 43 countries
 - Sold over 70 million Groupon
 - Generated \$688 million

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Groupon

- **2010 – 2011 Struggling to show profit**
 - Revenue \$313 million, Expenses \$733 million, Lost \$450 millions
 - Spent \$285 million on advertising and email
 - First half of 2011
 - Spent \$432 million to attract 65 million new subscribers
 - These customers generated \$688 million in revenue
- **Critics**
 - Revenue per customer is falling
 - The conversion rate of customers into subscribers is slowing down
 - Poorly targeted emails (inform users of deals)

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Groupon

- **Company Response about the Customer Acquisition Cost**
 - Trends are similar and typical of the early years of Amazon, Netflix, and even Google
 - As rapidly grow the customer base, revenues per customer and profit will decline
 - But with enough customers and fast enough growth, these lower margins are still highly profitable
- **Company's Proposed Solution**
 - Get big really quick, develop scale, and develop the brand
 - It's the Google and Amazon strategy of "Winner-Take-All Market"

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Groupon

- **Is Groupon's Business Model Sustainable**
 - Hire 3,500 local sales force who recruit local merchants to offer deals
 - How long will merchants agree to take a 75% cut in the revenue?
 - Restaurants, bars and retailers have been running local coupon and discount programs for centuries: Buy one, Get one free, etc.
 - Repeated customers for merchants?
 - 150 Groupon merchants surveyed
 - 1/3 of deals – unprofitable for the merchants
 - 42% said they would not run a Groupon promotion again

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Groupon

- **Competitors are springing up everywhere (~500 competitors)**
 - U-Deals – Upside down model
 - Subscribers request the deal they want
 - If merchant accepts, subscribers recruit others to join them using Twitter and Facebook

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Is Groupon's Business Model Sustainable?

- Merchants?
 - What is the value of Groupon to merchants?
 - What types of merchants benefit the most?
- Investors?
 - What is the value of Groupon to investors?
 - Is Groupon overvalued?
- Obstacles/Barriers
 - What Obstacles does Groupon face?
- Competitors
 - **Google Offers**, <http://www.google.com/offers/business/> (Brings the Rights Customers to Your Door)
 - Does Google Offers present a threat to Groupon's business model?

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Groupon Inc. IPO and Current Status

- June 2011
 - Filed to become a public company
 - Wall Street expects the IPO to value the company at \$30 billion
- Groupon Prices IPO at \$20 a Share, by Shayndi Raice and Randall Smith, The Wall Street Journal, Nov. 4, 2011
 - The Daily-deals web site valued almost \$13 billion, pricing at \$20 each share, above an initial range of \$16 to \$18

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Groupon Inc.

- Groupon's IPO biggest by U.S. Web company since Google, by Alistair Barr and Clare Baldwin, Reuters, Nov. 4, 2011
 - Global Leader in "Daily Deals" sells Internet coupons
 - Raised \$700 million (Google Inc raised \$1.7 billion in 2004)
 - Valued almost \$13 billion, pricing at \$20 each share, above an initial range of \$16 to \$18
- Groupon Inc (GPRN) – NasdaqGS, Jan. 20, 2012, After Hours: \$20.89, source: Yahoo Finance

Major B2C Business Models (Table 2.3)

Business Model | Examples | Revenue Model

- Portal
- E-Tailer
- Content Provider
- Transaction Broker
- Market Creator
- Service Provider
- Community Provider

Major B2B Business Models (Table 2.4)

Business Model | Examples | Revenue Model

(1) NET Market Place

- E-Distributors
- E-Procurement
- Exchange
- Industry Consortium

(2) Private Industry Networks

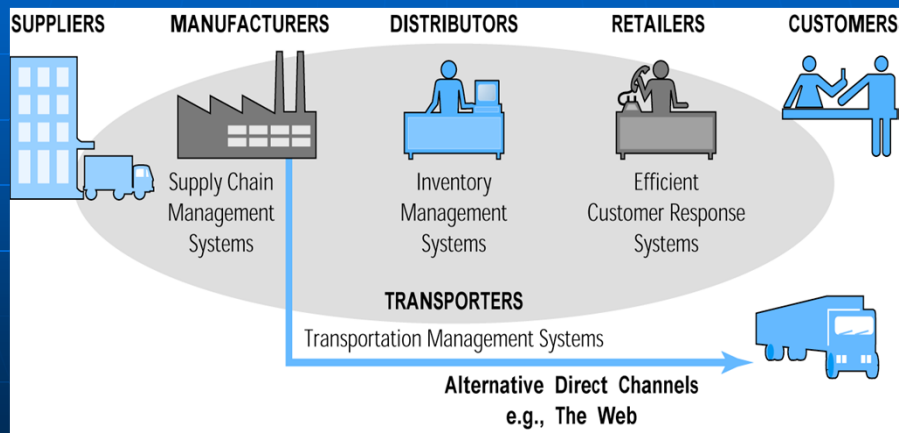
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E-Commerce and Industry Value Chains

Figure 2.4, Page 100



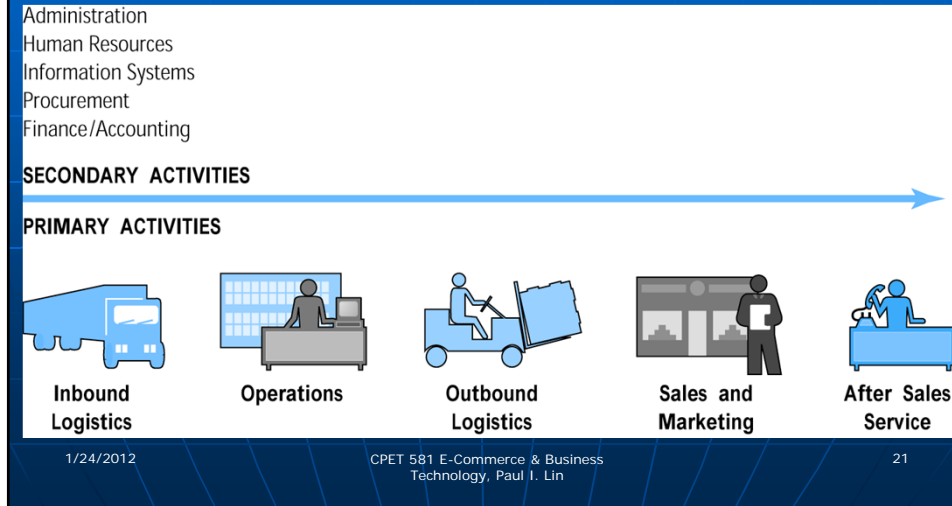
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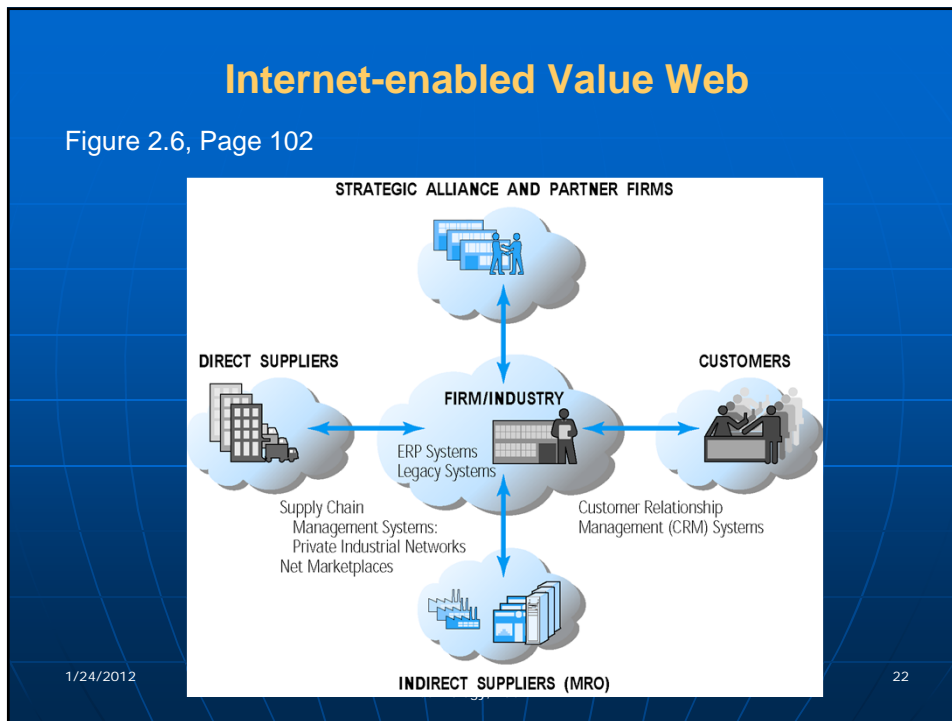
E-Commerce and Firm Value Chain

Figure 2.5, Page 101



Internet-enabled Value Web

Figure 2.6, Page 102



Summary

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