2

Opportunity analysis for digital business and e-commerce

Chapter at a glance

Main topics

Case studies

Web support

The following additional case studies are available at **www.pearsoned.co.uk/chaffey**

→ SME adoption of sell-side e-commerce
→ Death of the dot.com dream
→ Encouraging SME adoption of sell-side e-commerce

The site also contains a range of study material designed to help improve your results.

Scan code to find the latest updates for topics in this chapter

Learning outcomes

After completing this chapter the reader should be able to:

- Complete an online marketplace analysis to assess competitor, customer and intermediary use of digital technologies and media as part of strategy development
- Identify the main business and marketplace models for digital communications and trading
- Evaluate the effectiveness of business and revenue models for online businesses, particularly digital start-up businesses

Management issues

The fundamentals of e-commerce imply these questions for managers:

- What are the implications of changes in marketplace structures for how we trade with customers and other partners?
- Which business models and revenue models should we consider in order to exploit the Internet?
- What will be the importance of online intermediaries and marketplace hubs to our business and what actions should we take to partner these intermediaries?

Links to other chapters

The main related chapters are:

- *Chapter 3* explains the hardware and software infrastructure enabling these new business models
- *Chapters 4* and *5* consider appropriate strategic responses to these new models and paradigms
- *Chapter 6* explores new models of the value chain in more detail and explores the effect of new intermediaries and marketplaces on procurement
- *Chapter 8* discusses models of online customer behaviour, which is another aspect of environment analysis

Introduction

Digital marketplace
Exchanges of information and commercial transactions between consumers, businesses and governments completed through different forms of online presence such as search engines, social networks, comparison sites and destination sites.

Path to purchase
The different sites, channels, devices and information sources that consumers use to inform their purchase decision for a product or service. Also known as conversion pathways on a site.

Multiscreening
A term used to describe simultaneous use of devices such as digital TV and tablets.

In the first part of Chapter 2 we show how companies can review their presence in the **digital marketplace** to increase their visibility across different customer touchpoints. The **path to purchase** is now much more complex, since purchase decisions are influenced by many more touchpoints today (see Figure 2.1). For example, decisions are influenced when accessing social media sites via desktop and mobile sites plus communications in traditional channels. Increasingly, multiple devices are used simultaneously, for example when using smartphones or tablets while watching TV – the process known as **multiscreening**.

The path to purchase (from start to finish) is rarely a linear journey – sometimes one search can lead to a new idea or a change in what a customer wants to buy. The customer journey in Figure 2.1 shows a typical search path, i.e. tablets, smartphones, laptops and TVs.

Microsoft conducted research with a sample of US adults who were technology decision-makers looking to purchase a consumer electronics device over the next 30 to 90 days, that cost $100 or more (Cosley, 2015). The questions they were trying to answer were:

- When on the journey do consumers cross over from the Internet to the physical world – and vice versa?
- Which influencers have the greatest reach and impact on consumers?
- Along the journey, where are the pain points? Conversely, what delights along the way resonated the most?

In this 'typical' customer journey map, you can see that most consumers follow a fairly consistent pattern when seeking to purchase an electronics product. They tend to start with general searches on features, prices and store locations; they also seek out information from product manufacturers.

Once they have some basic information, potential buyers search for user reviews from blogs, Amazon and traditional retailers such as Best Buy, etc. At this point, they typically visit a bricks-and-mortar retailer to validate their purchase decision and then complete their purchase either online or in-store, depending on pricing considerations.

Tip: visit **www.thinkwithgoogle.com/tools/customer-journey-to-online-purchase.html** to explore customer journeys across different industries, business sizes and regions.

Destination site
Typically a retailer or manufacturer site with sales and service information. Intermediaries such as media sites may be destination sites for some.

Online intermediaries
Websites that help connect web users with content they are seeking on destination sites. Includes new online intermediaries such as search engines and shopping comparison sites and traditional brokers, directories and newspaper and magazine publishers with a digital presence.

To determine the best way to influence purchasers requires careful consideration. Businesses must collect and review insights that help them understand this behaviour and then improve their visibility and communications on different channels to improve this. Consider a B2B organisation; traditionally, it will have sold its products through a network of distributors. With the advent of e-commerce, it now has the opportunity to bypass distributors and trade directly with customers via a destination website, and it also has the opportunity to reach customers through new types of online sites such as blogs and B2B marketplaces. Similarly, for B2C organisations such as an e-retail **destination site**, there is the opportunity to market its products through **online intermediaries** or influencers such as search engines, price comparison sites, social networks, blogs and other publisher sites. We will show you how different information sources can be used to assess customer usage of different types of intermediary. We then look at how digital communications have facilitated restructuring of the relationships between members of the digital marketplace – a key feature of e-commerce.

Business and revenue models for e-commerce

Digital communications have given rise to many exciting new business and revenue models that we evaluate in the second part of this chapter. We will use the Business Model Canvas, which is an excellent framework for reviewing the business models for both digital

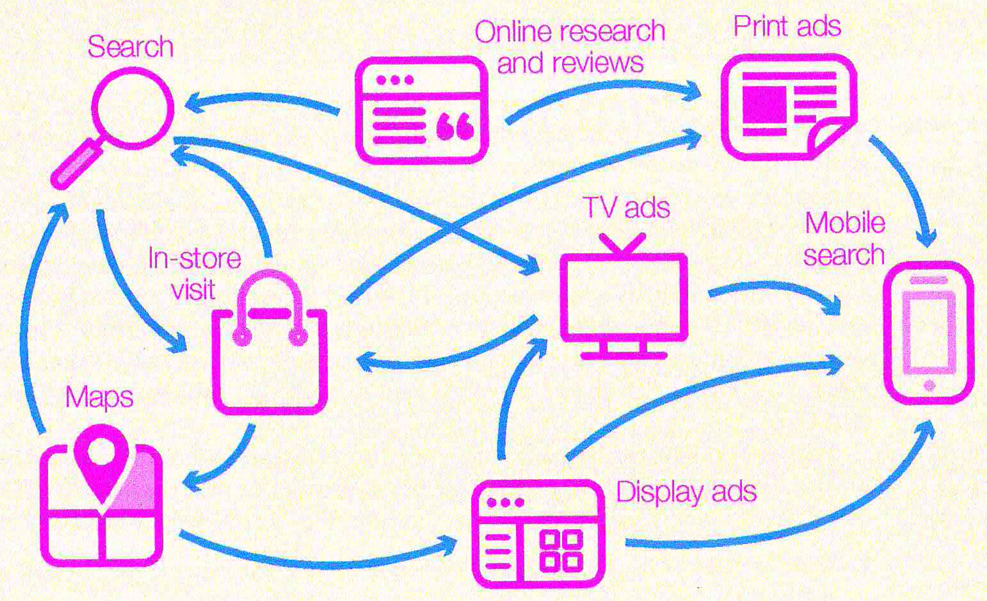

Figure 2.1 The path to purchase
Source: White paper, From campaigns to context, Experian, https://www.experian.co.uk/assets/marketing-services/white-papers/wp-contextual-marketing.pdf, Page 5. used with permission.

start-up businesses and existing businesses who are developing new propositions. Throughout this chapter we mainly consider the sell-side elements of e-commerce rather than the digital business as a whole. (A review of the entire supply chain is completed in Chapter 6.)

Case study 2.1 provides the history behind successful British clothing retailer Boden and gives an example of what a well-managed, customer-focused online business can deliver.

Digital marketplace analysis

Situation analysis
Collection and review of information about an organisation's external environment and internal processes and resources in order to inform its strategies.

Environmental scanning and analysis
The process of continuously monitoring the environment and events and responding accordingly.

Understanding the online elements of an organisation's environment, which are shown in Figure 2.2, is a key part of **situation analysis** for digital business strategy development. There is also the need for a process to continually monitor the environment, which is often referred to as **environmental scanning and analysis**.

Knowledge of the opportunities and threats presented by these marketplace changes is essential to those involved in defining business, marketing and information systems strategy (which we cover in Chapter 5). In this chapter we introduce a number of frameworks for analysing the immediate marketplace of the micro-environment.

To inform e-commerce strategy, the most significant influences are those of the immediate marketplace of the micro-environment that is shaped by the needs of customers and how services are provided to them through competitors and intermediaries and via upstream suppliers. (In Chapter 4 we examine the issues of the broader e-commerce environment in more detail using the SLEPT framework to examine Social, Legal, Economic, Political and Technological issues.)

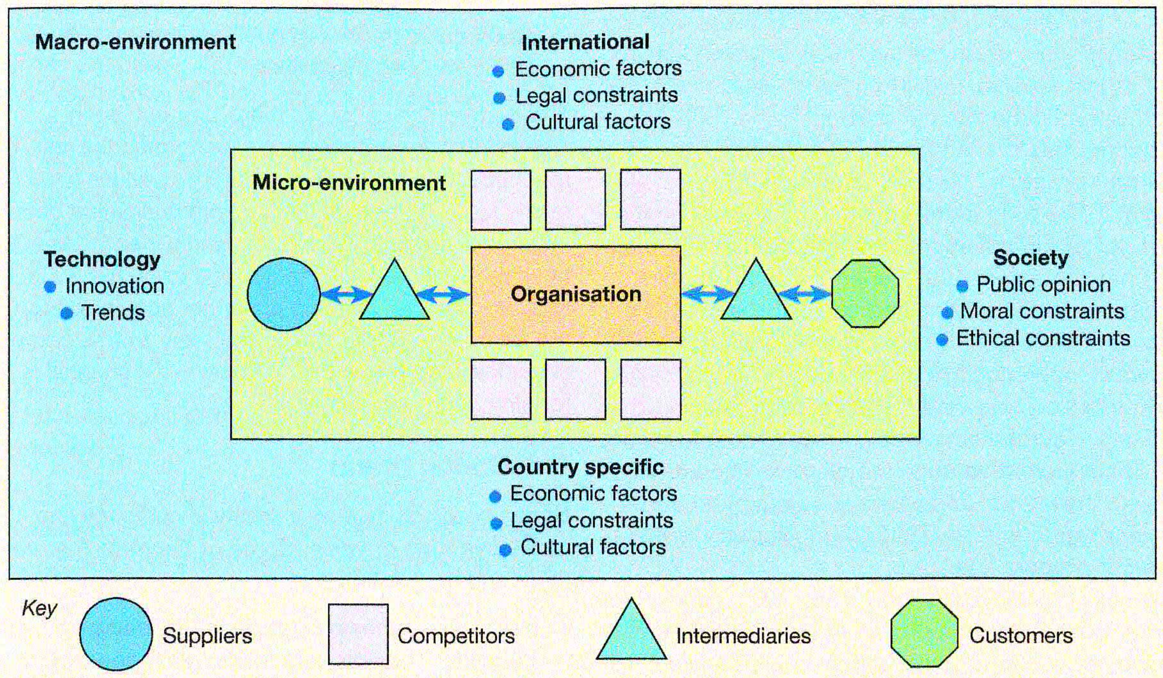

Figure 2.2 The environment in which digital business services are provided

Case Study 2.1 How Boden grew from an eight-product menswear catalogue to an international brand with over £300 million in sales

This case study is about a global clothing mail-order and e-commerce company, focusing on 'middle-class' customers. It illustrates some of the issues of starting up an omnichannel business and key areas of customer acquisition.

Boden background

Online clothing retailer Boden was set up in 1991 and has gradually grown to become a British success story. In 2015, the company generated sales worth £300 million – around 55% coming from overseas trading. Boden is the second-largest British clothing brand in America (where it was launched in 2002) and employs over 800 people in the UK. Around 1.5 million people wear Boden clothes.

The typical household income of a UK Boden customer is between £60,000 and £70,000. The brand targets women aged 25 to 50 but their 'bull's eye' is a 35-year old woman who typically has children and is looking for clothes that provide a flattering fit.

Figure 2.3 Johnnie Boden
Source: Alex Lentati/Evening Standard/Shutterstock

The history of Boden

Johnnie Boden, founder of the middle-class clothing company Boden, which has fans such as David Cameron and Michelle Obama, initially had a 10-year 'rocky ride' as a mail-order and Internet start-up.

Johnnie left university to work in the City as a stockbroker and, by his own admission, 'was not very good at it'. He went on to work in America and noticed that a lot of his colleagues bought clothes via mail-order catalogues. In 1991, when his uncle left him an inheritance, Johnnie decided to set up a mail-order clothing business. Initially, he offered eight menswear products – operating in a niche industry sector, selling 'basic classics'. However, Boden soon realised that the menswear market was very small and, at the time, men spent limited amounts on clothes. Therefore, he followed the market and a year later launched a womenswear range and, in 1996, 'Mini Boden'– a childrenswear product line.

To help provide financing for the next stage of its growth, Boden raised capital from Piper Private Equity (**www.piper.co.uk/portfolio/boden**) in 1999 and 2003. It was hard to work out what was important, so a lot of different things were tried. Also, the womenswear market is constantly evolving; for example, nowadays, women no longer want to dress their age – instead they want innovation. Clothing companies can never become complacent; business, by its very nature, is competitive and Boden takes the view 'you are only as good as last season's range'. The company's turning point came in 2001, when Johnnie could take a small dividend. When the private equity firm exited in 2007, Boden had delivered a 30x multiple on its investment. Johnnie's perseverance has paid off – he is now listed on the Sunday Times Rich List with an estimated personal worth of around £215m.

Main acquisition channels

Boden initially started as a mail-order catalogue and then in 1999 launched its first UK website. Even now, catalogues still remain an important part of the company's marketing strategy. Although 80% of sales are online, around 60–70% can be attributed to catalogues as part of the customer journey (tracked via key codes/offer codes).

Johnnie takes the view: 'For most people, receiving a catalogue is the most *unimportant* event in their life, so you have to use every device in your disposal to attract their attention'.

In the early years, the main customer acquisition channels used were:

- rented mailing lists;
- two-stage advertising;
- public relations;
- recommend a friend;
- promotional deals with publications such as *Country Living* and *Red* magazines.

The company has found there has not been a single channel that has constantly out-performed the rest. They recommend trying a mix of different activities and not to overly focus on one marketing communication channel. In terms of profitability, 'recommend a friend' has always been the best marketing tactic, and using rented mailing lists has been an ongoing customer acquisition tool for the company. Boden takes the view that a company should 'always follow the numbers' – if a channel is performing badly, stop using it.

The Boden brand

Boden positions itself as a 'lifestyle' company and has a distinctive tone of voice. Some of the main features of the brand proposition are:

- *Personal business:* Customers like being spoken to honestly. The company uses 'plain-speaking communications' – they want to engage with people's emotions. All of the letters/emails come from Johnnie and, despite having a team of copywriters, he still approves everything before it goes out. They take the approach that brand communications should be informative and uplifting – the only way to get that is to employ people who share the same values as the company.
- *PR:* This is always focused on the products and marketing offers. All of the company's PR is done in-house (agencies have not worked well for the brand in the past – they like to keep control of the messaging).
- *Photography:* Having a great product is the most important thing; photography is the second most important thing. Boden's mantra is that a good shot should look like a really nice photo in your family's photography album.
- *Brand building:* It is important to define the brand proposition. However, do not spend money unless there's a return. The company's catalogues and website(s) are the brand.
- *Free returns:* Everyone expects them, and Boden uses them as a tactical device. Offering free returns works well regarding uplifting sales (although postage and packaging has to be built into product margins). The company is always testing offers against each other using a segmented database. They also take the view that offering free returns is a good acquisition tactic – if items are easy to send back, it demonstrates confidence in the product. This encourages speculative buying.

Johnnie's start-up tips

Always focus on the core business. Boden opened a couple of shops in 2000 and tied up a lot of capital into offline retail. However, they captured customer data in the stores and realised that cannibalisation was very high – only 40% of sales were incremental; the majority were from existing Boden customers. They decided that growth was important in other markets, rather than via other channels, and launched in America and Germany. America was a more difficult market to penetrate but, in its first year, £2 million of sales came from Germany and they were relatively easy to fulfil from the UK.

Johnnie's advice to anyone launching an online clothing business is:

- Be clear who you are in the marketplace (customers have a lot of options – direct and high street). Provide a compelling offer that stands out from the competition.
- Listen to your customers – a lot of mistakes were based on trusting instincts, rather than listening to customers. You have to be ruthless; if something isn't working, stop doing it!
- Hire good people – don't quibble about paying people a bit more for a good employee and make sure you spend time on recruitment.
- Listen to the numbers – use quantitative and qualitative research to help decision-making.

Sources: Johnnie Boden – Interview at ECMOD2010:
www.youtube.com/watch?v=Jj59htgaQ8o
www.youtube.com/watch?v=Ah2ukPYK9Vk
www.youtube.com/watch?v=iCnCIFt1zA0
www.youtube.com/watch?v=3EcSnF422jQ
High50 – www.youtube.com/watch?v=3fFCJyFKUeQ
www.bbc.co.uk/news/business-26334330
http://startups.co.uk/10-secrets-of-clothing-brand-bodens-success/

Strategic agility
The capability to innovate and so gain competitive advantage within a marketplace by monitoring changes within an organisation's marketplace and then to efficiently evaluate alternative strategies and select, review and implement appropriate candidate strategies.

Strategic agility

The capacity to respond to these environmental opportunities and threats is commonly referred to as strategic agility. **Strategic agility** is a concept strongly associated with knowledge management theory and is based on developing a sound process for reviewing marketplace opportunities and threats and then selecting the appropriate strategy options.

Case Study 2.2 Unilever demonstrates strategic agility

Unilever: Strategic agility in the personal care market

In July 2016, Unilever acquired online-only subscription service Dollar Shave Club for a rumoured $1 billion. The digital start-up delivers razors by post for a fixed monthly price and, according to Euromonitor, currently holds 54% of the online shaving market in the US. Dollar Shave Club has rapidly disrupted the shaving market, which has traditionally been dominated by Gillette (owned by Procter & Gamble). Gillette has seen its overall share of the shaving market drop from 71% in 2010 to 59% in 2015.

The monthly subscription service has also branched out into other product categories, including hair gels and body washes. According to Unilever, the acquisition was a push to 'embrace disruption' and the start-up's direct-to-consumer business model provides Unilever with unique consumer and data insights. By moving from

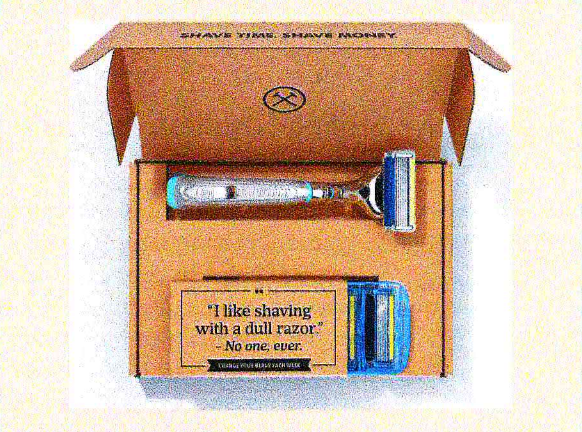

Figure 2.4 Dollar Shave Club
Source: https://www.dollarshaveclub.com/

selling single products through third-party retailers, to targeting consumers directly via a subscription service, Unilever are becoming a consumer service company. Building relationships and nurturing customer loyalty will help secure longer term revenues.

Disrupting the supply chain model by building more direct relationships with consumers means that Unilever will be less reliant on one route to market (via retailers) and the company can cross-sell and bundle personal care products.

This direct-to-consumer approach has come at a time when a power struggle between 'brand and retailer' was recently demonstrated, after grocery giant Tesco removed a number of Unilever's brands from its shelves, following a pricing row between the two companies. The fall-out happened when Unilever increased the price of a number of household brands by up to 10%, to help offset the fall in the value of the pound following 'Brexit'.

In contrast, Procter & Gamble (P&G) has struggled with sustainable growth since 2010, following a slowdown in the global economy. As a result, it has undergone a strategic shift to shed almost 100 brands. According to CEO David Taylor, in order to 'restart' growth, P&G needs to 'get back to making consumers aware of its products and communicating their benefits'. One way they have been trying to win back market share (from Dollar Shave Club) has been by launching 'Gillette Shave Club', an online subscription service, in June 2015. The company has also launched a subscription service for its Tide Pods laundry brand, to try to stop other markets it operates in being disrupted by online start-ups.

P&G has been shifting its resources and investment into digital (particularly mobile) to make the most of e-commerce – reports have said that the company is growing its e-commerce businesses at a rate of up to 180 per cent per annum and is worth around $100m in business, across six of its eight major markets.

Unilever has also seen the importance of e-commerce for its business; the channel is growing at 20% per annum globally, and e-commerce in the UK and Ireland is growing at around 15%. Online transactions have led to a significant change in the way Unilever communicates with consumers and the way they shop.

Unilever has identified the need for digital innovation for a number of years and, in 2014, launched the Unilever Foundry in the UK – a start-up accelerator designed to mentor and invest in digital marketing start-ups, in exchange for insight into new technology and trends. Since then, the Unilever Foundry has also launched a global crowdsourcing community, to encourage people to collaborate and aid its sustainability efforts.

The company has also been using other forms of collaborative innovation, such as an annual e-commerce hackathon in London. Participates are given multiple briefs, highlighting challenges faced by the company and its retail partners, such as:

- How do we get delivery for any grocery shop within 60 minutes or quicker and still drive profit?
- What business models can brands and retailers create to win sales using voice, VR, sensors and gesture-based technology?
- How can technology help drive efficiency in the supply chain for online grocery shopping and thus increase profitability?
- How can technology enable a seamless branded shopping experience no matter where you shop: online, in store, on your mobile, on your TV, etc.?

Strategic agility and incorporating innovation via entrepreneurial start-ups seems to be at the core of Unilever's business, whereas P&G appear to be lagging behind and playing 'catch up'.

A process for digital marketplace analysis

Online ecosystem
Describes the customer behaviour or flow of online visitors between search engines, media sites and other intermediaries to an organisation and its competitors.

Analysis of the digital marketplace is a key part of developing a long-term digital business plan or creating a shorter-term digital marketing campaign. Completing a marketplace analysis helps to define the main types of online presence that are part of an '**online ecosystem**', which describes the customer journeys or flow of online visitors between search engines, media sites and other intermediaries to an organisation and its competitors. Prospects and customers in an online marketplace will naturally turn to search engines to find products, services, brands and entertainment. Search engines act as a distribution system that connects searchers to different intermediary sites for different phrases, so the flow of visits between sites must be understood by the marketer in their sector.

Major online players such as Facebook, Google and Salesforce have developed their own infrastructure, or online market ecosystem, which connects websites through data

exchange, giving opportunities to enhance the customer experience and extend their reach and influence. For example, Facebook has developed the Facebook platform API to enable exchange of data between websites and applications, including mobile apps. This enables other site owners to incorporate information about consumer Facebook interactions into their own websites and apps and share social objects across the Facebook ecosystem to extend their reach. Google has developed its own ecosystem related to search marketing and mobile – the Android ecosystem. As part of marketplace analysis, companies have to evaluate the relative importance of these ecosystems and the resources they need to put into integrating their online services with them, to create a plan. Nowadays, most retailers take either a multichannel or omnichannel strategy approach, which are defined in Figure 2.5. Case study 2.3 highlights how Macy's department store uses omnichannel growth strategies to help improve its customer experience.

Analysing the impact of different ecosystems on online consumer behaviour or customer journeys is, today, as important as observing their physical behaviour in the real world.

The main elements of the online marketplace map presented in Figure 2.8, which should be reviewed as part of the process of marketplace analysis, are:

Multichannel strategy
Offers a range of direct and indirect communication channels for consumers to interact with, but channels have limited or no integration and consumers are forced to repeat steps or receive different messages as they switch channels – e.g. websites, retail stores, mail-order catalogues, direct mail, email, mobile, etc.

Omnichannel strategy
Fully integrates all consumer touchpoints and data sources to provide consumers with a *seamless* experience, regardless of how or where they choose to interact with the brand (i.e. desktop or mobile device, by telephone or in a physical store, etc.).

	Multichannel strategy	Omnichannel strategy
Concept	Division between the channels	Integration of all widespread channels
Degree of integration	Partial	Total
Channel scope	Retail channels: store, website, and mobile channel	Retail channels: store, website, mobile channel, social media, customer touchpoints
Customer relationship focus: brand vs. channel	Customer-retail channel focus	Customer-retail channel-brand focus
Objectives	Channel objectives (sales per channel, experience per channel)	All channels work together to offer a holistic customer experience
Channel management	Per channel	Cross-channel
	Management of channels and customer touchpoints geared toward optimising the experience with each one	Synergetic management of the channels and customer touchpoints geared toward optimising the holistic experience
	Perceived interaction with the channel	Perceived interaction with the brand
Customers	No possibility of triggering interaction	Can trigger full interaction
	Use channels in parallel	Use channels simultaneously
Retailers	No possibility of controlling integration of all channels	Control full integration of all channels
Sales people	Do not adapt selling behavior	Adapt selling behavior using different arguments depending on each customer's needs and knowledge of the product

Figure 2.5 Multichannel vs Omnichannel Strategy
Source: Juaneda-Ayensa, M., Mosquera, A. & Sierra Murillo, Y. (2016)

Activity 2.1 Digital ecosystems

Purpose

To explore the increasing importance of facilitating communications through online platforms and service providers.

Activity

Discuss in a group, or make notes to identify, the main companies (e.g. Facebook) and platforms (e.g. mobile phones) used by consumers that are important for companies to review their presence on. Once you have identified the main companies or service types, group them together so that their overall importance can be reviewed.

Case Study 2.3 Macy's – using omnichannel growth strategies to improve customer experience

Figure 2.6 Macy's department store
Source: Stuart Monk/Shutterstock.com

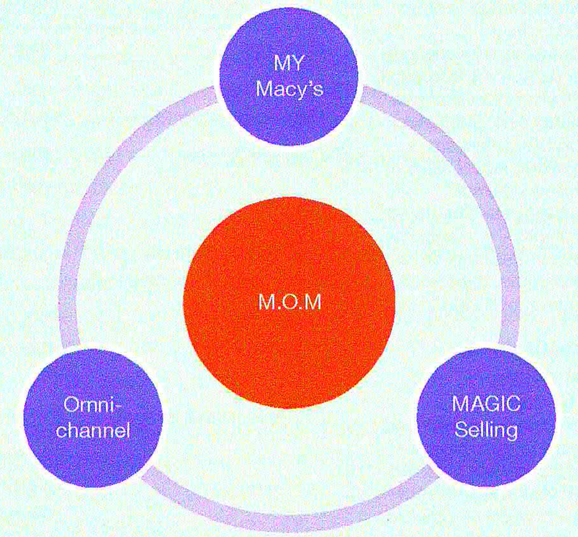

Figure 2.7 Macy's has developed a MOM customer engagement strategy

Macy's, known as the 'Great American Department Store', opened in 1858 and is now a global brand. The retailer has a total of 887 stores, including Bloomingdale's and Blue Mercury.

Macy's has grown through a combination of organic growth and acquisition. More recently, the company has been aggressively expanding its digital capabilities and services across channels, while regularly refreshing its store portfolio.

Macy's has seen many years of consecutive growth, despite industry experts forecasting the 'death of the department store'. The company rapidly responds to shoppers' new digital behaviours and calls itself 'America's Omnichannel Store' – by adopting a 'digital hybrid' model, the company uses technology to create a tailored shopping experience.

According to Brian Leinbech, Senior VP of Systems Development & Field Services, 'Ninety per cent of [Macy's] customers research online at least occasionally before purchasing in-store'. As a result, the retailer has introduced, and is constantly refining, a 'My Macy's' campaign, which is focused on guiding purchase behaviour in local markets. This includes initiatives and technologies ranging from customer-facing smart fitting rooms to RFID pilot programs. Some of the digital initiatives used include:

- Macy's and Bloomingdale's adopting Apple Pay;
- unveiling the Macy's/Bloomingdale Wallet through the mobile apps to easily store and access offers;

- integrating buy online/pick-up in-store ('click and collect');
- order fulfilment across store portfolio and distribution centres;
- testing same-day delivery for items purchased online and through its mobile app;
- developing new technologies at the Ideas Lab;
- handheld PSO devices to engage with customers and manage inventory;
- shopBeacon technology in stores to improve sales, providing more personalised sales to Shopkick app users.

M: My Macy's localisation – delivering a merchandise collection and shopping experience in each location that meets the needs of the local customer.

O: Omnichannel integration – creating a seamless experience for the customer.

M: Magic selling – selecting products to meet the needs of specific consumers.

Ultimately, Macy's uses technology as an enabler to help the customer experience across different communication channels. For example, its shopBeacon program involves the integration of iBeacon technology with the Shopkick app. The beacons help deliver personalised discounts, product recommendations and rewards to Shopkick app users via their smartphones. As shoppers enter Macy's stores, shopBeacon reminds Shopkick users who have opted-in to receive notifications to open their app.

Sources: www.slideshare.net/DwightHill/macys-omnichannel-innovations-case-study
http://marketingland.com/macys-100162

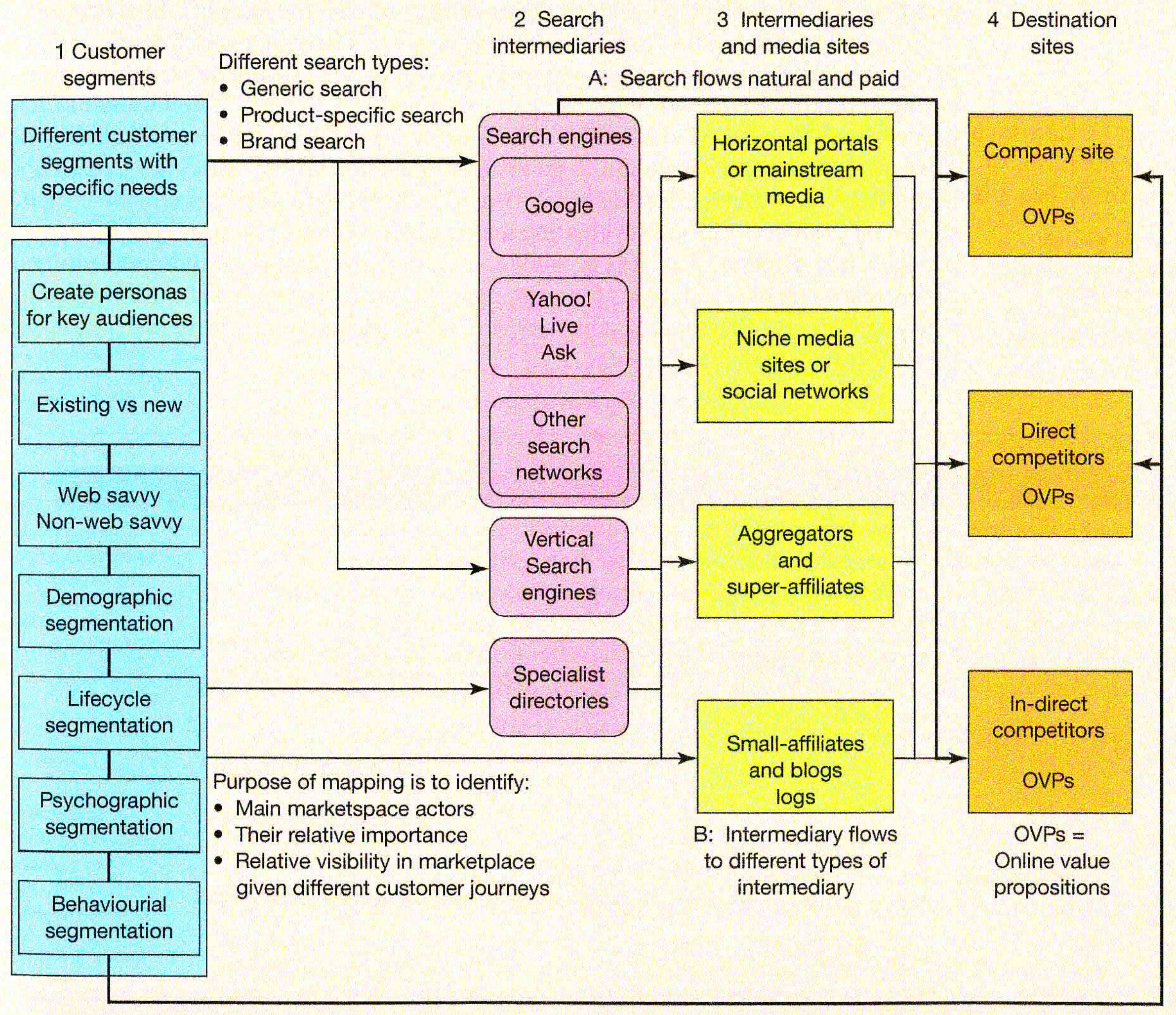

Figure 2.8 A digital marketplace map

1 Customer segments

The marketplace analysis should identify and summarise different target segments for an online business in order to then understand their online media consumption, buyer behaviour and the type of content and experiences they will be looking for from intermediaries and your website. (We cover customer analysis further in Chapter 8.)

2 Search intermediaries

These are the main search engines in each country. Typically they are Google, Bing and Yahoo!, but others are important in some markets, such as China (Baidu), Russia (Yandex) and South Korea (Naver). You can use the audience panel data from different providers indicated in Box 2.1 to find out their relative importance in different countries. The Google Trends tool (Figure 2.9) is a free tool for assessing site popularity and the searches used to find sites and how they vary seasonally, which is useful for student assignments. The example in Figure 2.9 shows relative preference for five social networks.

Choi and Varian (2011) note that Google Trends data may help in predicting the present, or 'nowcasting'. They argue that '. . . the volume of queries on automobile sales during the second week in June may be helpful in predicting the June auto sales report, which is released several weeks later in July'. They found that Google Trends queries can be useful indictors for subsequent consumer purchases in situations where consumers start planning purchases significantly in advance of their actual purchase (the research/discovery phase).

Companies need to know which sites are effective in harnessing search traffic and either partner with them or try to obtain a share of the search traffic using the search engine marketing and affiliate marketing techniques explained in Chapter 7. Well-known, trusted brands that have developed customer loyalty are in a good position to succeed online since a common consumer behaviour is to go straight to the site through entering a URL, a bookmark, email or searching for the brand or URL. Hitwise provides this type of insight, as shown in Table 2.1. Through evaluating the type and volume of phrases used to search for products in a given market, it is possible to calculate the total potential opportunity and the current share of search terms for a company. '**Share of search**' can be determined from web analytics reports from the company site, which indicate the precise key phrases used by visitors to actually reach a site.

Share of search
The audience share of Internet searches achieved by a particular audience in a particular market.

Figure 2.9 Google Trends – useful for consumer interest in products
Source: www.google.com/trends

Table 2.1 Search terms

Search term	Food retailers	Volume of search relative to the top term	Textiles clothing and footwear	Volume of search relative to the top term
1 Top term	Tesco	100	Shoes	100
2	ASDA	50	Boots	75
3	Tesco Direct	15	Dress	55
4	Morrisons	10	Clothes	45
5	Sainsbury's	10	Next	40
6	Aldi	5	Dresses	35
7	Clubcard	5	Nike	35
8	George ASDA	5	River island	35
9	Ocado	5	Watches	35
10	Sainsbury	5	New look	30

Source: Chamberlin (2010)

3 Intermediaries, influencers and media sites

Aggregators
An alternative term for price comparison sites. Aggregators include product, price and service information, comparing competitors within a sector such as financial services, retail or travel. Their revenue models commonly include affiliate revenues (CPA), pay-per-click advertising (CPC) and display advertising (CPM).

Affiliate
A company promoting a merchant typically through a commission-based arrangement, either directly or through an affiliate network.

Media sites and other intermediaries such as aggregators, affiliates and influencers such as blogs and vlogs are often successful in attracting visitors via a search, or direct since they are mainstream brands. Companies need to assess potential online media and distribution partners in the categories shown in Figure 2.8, such as:

(a) **Mainstream news media sites or portal,** including traditional, e.g. FT.com or Times, or pureplay, e.g. Google news, an aggregator.
(b) **Social networks,** e.g. Facebook, Instagram, Snapchat, Pinterest, Twitter and LinkedIn.
(c) **Niche or vertical media sites,** e.g. Smartinsights.com, SearchEngineLand.com, ClickZ.com, Econsultancy.com, coveringB2B marketing.
(d) **Price comparison sites** (also known as **aggregators**), e.g. MoneySuperMarket, PriceRunner, Comparethemarket, uSwitch.
(e) **Superaffiliates, affiliates** gain revenue from a merchant they refer traffic to using a commission-based arrangement based on the proportion of sale or a fixed amount. They are important in e-retail markets, accounting for tens of per cent of sales.
(f) **Niche affiliates, influencers or bloggers/vloggers,** these are often individuals, but they may be important; for example, in the UK, Martin Lewis of MoneySavingExpert.com receives millions of visits every month and lifestyle vlogger Zoella has significantly more YouTube subscribers than the BBC. Smaller affiliates and bloggers can be important collectively.

Again, the relative importance of these site types can be assessed using the services summarised in Box 2.1.

4 Destination sites

Online value proposition (OVP)
A statement of the benefits of the brand positioning (content/products/services/experiences) to help engage customers online, which ideally should not be available from competitor offerings.

These are the sites that the marketer is trying to generate visitors to, whether these are transactional sites, like retailers, financial services or travel companies, or manufacturers or brands. Figure 2.8 refers to OVP, or **online value proposition**, which is a summary of the unique features of the site (see Chapters 4 and 7). The OVP is a key aspect to consider within marketplace analysis – marketers should evaluate their OVPs against competitors' as part of competitor analysis and think about how they can refine them to develop a unique online experience. (Competitor analysis is also covered in Chapter 7.)

Box 2.1 Resources for analysing the online marketplace

There is a wealth of research about current Internet usage and future trends that strategists can use to understand their marketplace. In Table 2.2, we summarise a selection of free and paid-for services that can be used for online marketplace analysis to assess the number of people searching for information and the popularity of different types of sites measured by the number of unique visitors.

Unique visitors
These are the individual visitors requesting pages from a website, measured through cookies or IP addresses on an individual computer or device that the user is browsing from.

Econsultancy (**www.econsultancy.com**) provides a summary of much of the latest research from these sources, together with its own reports such as the Internet Statistics compendium. The pages author Dave Chaffey curates on Smart Insights link to the latest sources on online consumer behaviour, which we introduced in Chapter 1 (**www.smartinsights.com/book-support**).

Table 2.2 Research tools for assessing your digital marketplace

Service	Usage
1 Google tools. Mainly included within their AdWords service (**http://adwords.google.com**).	Google is one of the best sources of accurate tools for marketplace analysis, including: • Display Planner (this Adwords tool generates targeting ideas, impression estimates and historical costs) associated with running a campaign on Google's Display Network. • Keyword Planner – this tool available within AdWords gives additional detail (sign-in required). • Google Trends – variation through time of search volume by country – no sign-in required. • Think with Google (thinkwithgoogle.com) – market research and digital trends.
2 Alexa (**www.alexa.com**). Free tool, but not based on a representative sample, see also **www.similarweb.com**.	Free service owned by Amazon that provides traffic ranking of individual sites compared to all sites. Works best for sites in top 100,000. Sample dependent on users of the Alexa toolbar.
3 Connexity (**www.connexity.com**). Paid tool, but free research available in its 'Resources' section.	Paid service available in some countries to compare audience size and search and site usage. Works through monitoring IP traffic to different sites through ISPs.
4 Nielsen (**www.nielsen.com**). Paid tool. Free data on search engines and intermediaries available from 'Insights' section.	Panel service based on at-home and at-work users who have agreed to have their web usage tracked by software. Top rankings on-site give examples of most popular sites in several countries.
5 ComScore (**www.comscore.com**). Paid tool. Free data on search engines and intermediaries available from 'Insights' section.	A similar panel service to Nielsen, but focusing on the US and UK. A favoured tool for media planners.

Table 2.2 Continued

Service	Usage
6 Google Analytics	Free and paid-for services, which provide insight into website audience behaviour.
7 Forrester (**www.forrester.com**). Paid research service. Some free commentary and analysis within the 'Research' section.	Offers reports on Internet usage and best practice in different vertical sectors such as financial services, retail and travel. Free research summaries available in media resources section (**www.forrester.com/mediaresources**) and on its marketing blog (**blogs.forrester.com**).
8 Smart Insights Digital Marketing Statistics (**http://bit.ly/smartstatistics**).	A regularly updated compilation of statistics including the top 10 recommended statistics sources.
9 Internet or Interactive Advertising Bureau (IAB). US: **www.iab.com**, UK: iabuk.net, Europe: **www.iabeurope.eu**.	Research focusing on investment in different digital media channels, in particular display ads, affiliate marketing and search marketing.
10 Internet Media in Retail Group (IMRG) **www.imrg.org**.	The IMRG has compilations on online e-commerce expenditure and the most popular retailers in the UK.
11 YouGov Profiles. Free audience profiling tool (today.yougov.com/profileslite) and professional service (**yougov.com**).	UK media planning and audience segmentation tools for brands and their agencies. There is a free and paid-for audience profiling tool – they also offer BrandIndex, which measures brand perception and customised research services.

Location of trading in the marketplace

While traditional marketplaces have a physical location, an Internet-based market has no physical presence – it is a virtual marketplace. This has implications for the way in which the relationships between the different actors in the marketplace occur.

The digital marketplace has many alternative virtual locations where an organisation needs to position itself to communicate and sell to its customers. Managers need to understand the relative importance of different types of sites and consumer and business interactions and information flows. In this section we will review how marketplace channel structures, the location of trading and multichannel marketing models can be assessed to inform digital business strategy. Finally, we will review commercial arrangements for transactions.

Review of marketplace channel structures

Marketplace channel structures describe the way a manufacturer or organisation delivers products and services to its customers. Typical channel structures between business and consumer organisations are shown in Figure 2.10.

A distribution channel will consist of one or more intermediaries such as wholesalers and retailers. The relationship between a company and its channel partners shown in

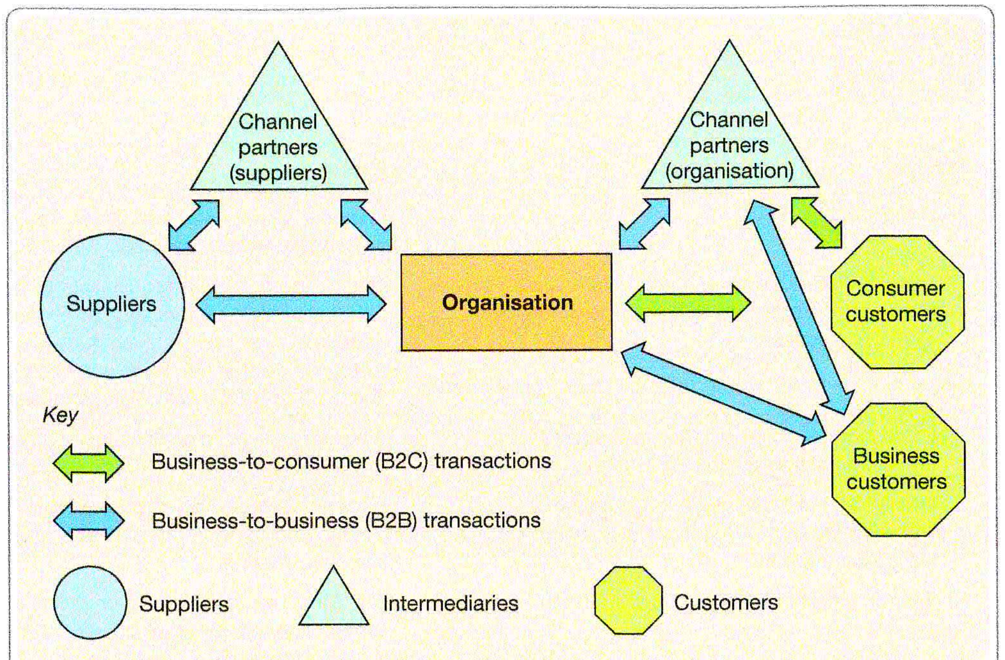

Figure 2.10 B2B and B2C interactions between an organisation, its suppliers and its customers

Disintermediation
The removal of intermediaries such as distributors or brokers that formerly linked a company to its customers.

Unicorns
Tech start-ups valued at over $1 billion; according to Venturebeat (Koestsier, 2016) there were 229 unicorns up to January 2016. This includes companies such as: Uber, Airbnb, Snapchat, Dropbox and Pinterest. Start-ups valued over $10 billion are called decacorns – Facebook, Uber, Palantir and Xiaomi are on this list.

Figure 2.10 can be dramatically altered by the opportunities afforded by the Internet. This occurs because the Internet offers a means of bypassing some of the channel partners. This process is known as **disintermediation** or 'cutting out the middleman'. For example, a music company today can distribute digital tracks straight to sites such as iTunes and Spotify, a major change to their channel strategy that has led to the closure of many music stores.

There are a number of tech companies that are disrupting traditional business models – if you look at some of the recent start-up **unicorns**, they do not have many physical assets. For example, Uber is the world's largest taxi company but it does not own vehicles, Airbnb is the world's largest accommodation provider but it does not own properties and Facebook is the world's most popular media owner but it does not create content.

Figure 2.11 illustrates disintermediation in a graphical form for a simplified retail channel. Further intermediaries such as additional distributors may occur in a business-to-business market. Figure 2.11(a) shows the former position, where a company marketed and sold its products by 'pushing' them through a sales channel. Figure 2.11(b) and Figure 2.11(c) show two different types of disintermediation in which the wholesaler (b) or the wholesaler and retailer (c) are bypassed, allowing the producer to sell and promote direct to the consumer (a direct-to-consumer model– see Case study 2.2). The benefits of disintermediation to the producer are clear – it is able to remove the sales and infrastructure cost of selling through the channel. Benjamin and Weigand (1995) calculated that, using the sale of quality shirts as an example, it is possible to make cost savings of 28% in the case of (b) and 62% for case (c). Some of these cost savings can be passed on to the customer in the form of cost reductions.

Reintermediation
The creation of new intermediaries between customers and suppliers providing services such as supplier search and product evaluation.

Although disintermediation has occurred, **reintermediation** is perhaps a more significant phenomenon resulting from digital communications. Figure 2.12 illustrates this concept. Figure 2.12(a) shows the traditional situation in which many sales were through brokers such as the Automobile Association (**www.theaa.co.uk**). With disintermediation (Figure 2.12(b)) there was the opportunity to sell direct, initially via call centres and then

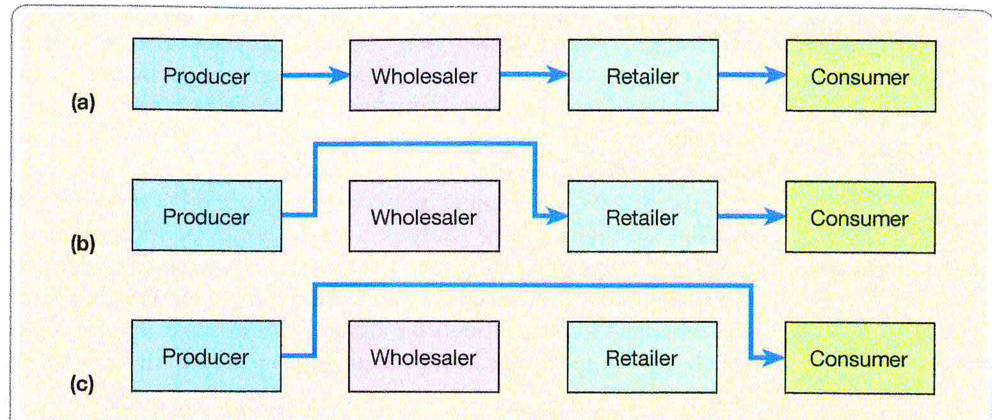

Figure 2.11 Disintermediation of a consumer distribution channel showing (a) the original situation, (b) disintermediation omitting the wholesaler, and (c) disintermediation omitting both wholesaler and retailer

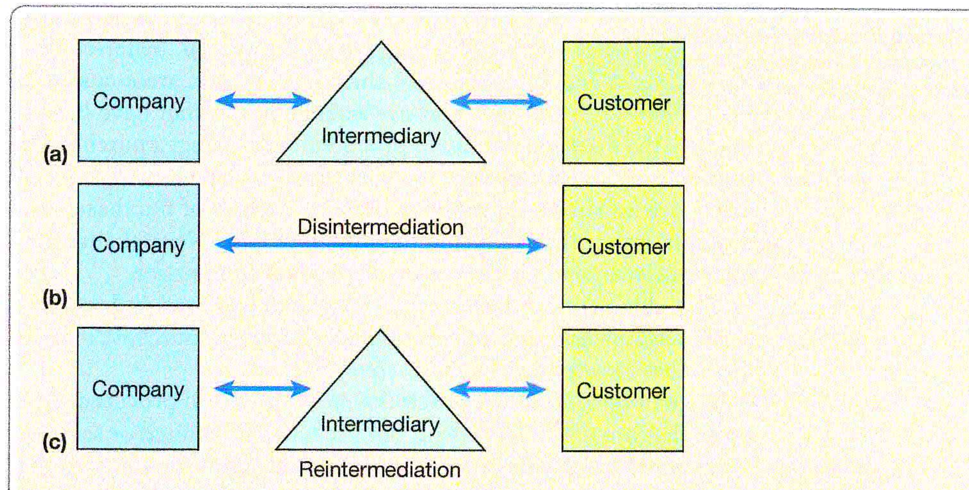

Figure 2.12 From original situation (a) to disintermediation (b) and reintermediation (c)

transactional websites; one example is Direct Line (**www.directline.co.uk**). Purchasers of products still needed assistance in the selection of products and this led to the creation of new intermediaries, the process referred to as reintermediation (Figure 2.12(c)). Examples of this approach are:

- the use of new e-intermediaries such as Adwords for digital marketing;
- the use of new e-markets such as Alibaba.com for e-sourcing (buyers' perspective) or marketing and sales (sellers' perspective);
- the use of new e-intermediaries for payment (PayPal) or identity authentication (Verisign).

These new intermediaries are needed for companies to function properly as online businesses, even as they have disintermediated other traditional intermediaries such as retail stores.

In the UK, MoneySuperMarket.com and Confused.com are examples of an intermediary providing a service for people to find online insurance at a competitive price. Esurance.com and Insurance.com are US examples.

What are the implications of reintermediation for the e-commerce manager? Firstly, it is necessary to make sure that your company, as a supplier, is represented on the sites of relevant new intermediaries operating within your chosen market sector. This implies the need to integrate databases containing price information with those of different intermediaries. Forming partnerships or setting up sponsorship with some intermediaries can give better online visibility compared to competitors.

Countermediation
Creation of a new intermediary, such as a publisher or comparison site by an established company. May be a new site, or acquired through purchase or partnering.

Secondly, it is important to monitor the prices of other suppliers within this sector (possibly by using the intermediary website). Thirdly, it may be appropriate to create your own intermediary; for example, DIY chain B&Q set up its own intermediary to help DIYers, but positioned separately from its owners. Such tactics to counter or take advantage of reintermediation are sometimes known as **countermediation**. A further example is Opodo (**www.opodo.com**), which was set up by nine European airlines, including Air France, BA, KLM and Lufthansa.

Location of trading in the marketplace

> **Debate 2.1**
>
> **Countermediation**
>
> *'The advent of e-commerce means that marketers cannot rely on the online presence of existing intermediaries – instead they must create their own online intermediaries.'*

Another perspective on the configuration of the marketplace relates to the position of trading and relative strength between different players within the marketplace.

Berryman *et al*. (1998) created a useful framework for this, identifying three different types of location. Seller-controlled sites are the main home page of the company and are e-commerce enabled. Buyer-controlled sites are intermediaries that have been set up so that the buyer initiates the market-making. In procurement posting, a purchaser specifies what they wish to purchase, and a message is sent by email to suppliers registered on the system and then offers are awaited. Aggregators involve a group of purchasers combining to purchase a multiple order, thus reducing the purchase cost. Neutral sites are independent evaluator intermediaries that enable price and product comparison.

The framework of Berryman *et al*. (1998) has been updated by McDonald and Wilson (2002), who introduce two additional locations for purchase that are useful, buyer-oriented and seller-oriented.

We will see in Chapter 6 that the most successful procurement intermediaries are often those that are not independent, but are seller-orientated or seller-controlled.

As noted in Chapter 1, Evans and Wurster (1999) have argued that there are three aspects of navigation that are key to achieving competitive advantage online. These are reach, richness and affiliation.

The importance of omnichannel marketplace models

Customer journey
A description of modern omnichannel buyer behaviour as consumers use different media to select suppliers, make purchases and gain customer support.

Online purchasers typically use a combination of channels as they follow their **customer journeys**. As they select products and interact with brands, they do not use digital channels in isolation – they consume other media such as print, TV, direct mail and outdoor ads. It follows that an effective approach to using digital communications is part of an omnichannel marketing strategy. This defines how different marketing channels should integrate and support each other in terms of their proposition development and seamless communications across different channels and devices.

Developing 'channel chains' to help us understand omnichannel behaviour is a powerful technique recommended by McDonald and Wilson (2002) for analysing the changes in a marketplace introduced by the Internet. A channel chain shows alternative customer journeys for customers with different channel preferences. It can be used to assess the current and future performance of these different customer journeys. An example of a channel chain is shown in Figure 2.13. A market map can show the flow of revenue between a manufacturer or service provider and its customers through intermediaries and new types of intermediaries. Thomas and Sullivan (2005) give the example of a US omnichannel retailer that used cross-channel tracking of purchases through assigning each customer a unique

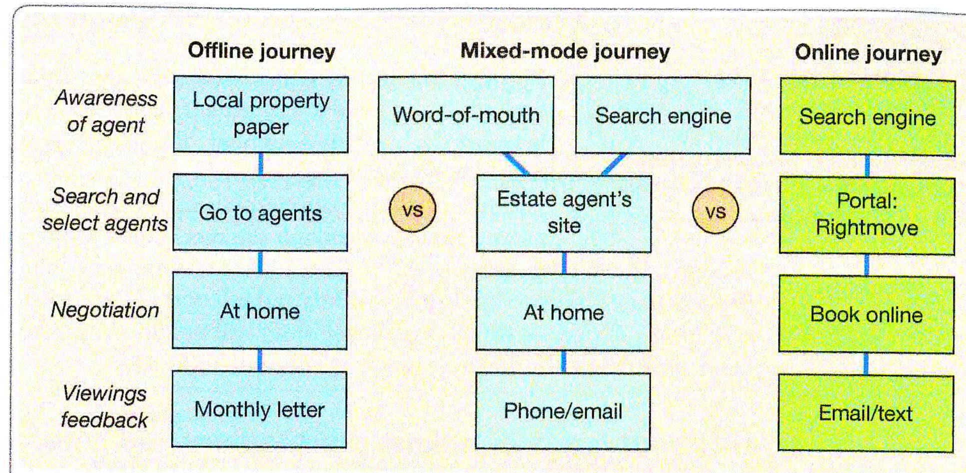

Figure 2.13 Example channel chain map for consumers selecting an estate agent to sell their property

Motivation	Consumer attitudes/behaviour
Hedonic	• Being able to use multiple channels throughout the customer journey is enjoyable/pleasurable/interesting
Performance expectancy	• Being able to use multiple channels throughout the customer journey: • allows the user to purchase quickly • is useful/makes their life easier
Effort expectancy	• Visitors find the brand's different online platforms (e.g. website and mobile app) easy to use
Social influence	• Key influencers think the user should use different channels, choosing whichever is most convenient at any given time • People whose opinions the user values prefer they use different channels (or use different channels themselves)
Habit	• The use of different channels (e.g. physical store, website, mobile app) throughout the customer journey has become habit
Security	• 'Using credit cards to make purchases over the Internet is safe' • Giving personal details to the online business seems safe
Innovativeness	• When users hear about new technology, they search for a way to try it • Before testing a new product/brand, users seek the opinion of people who have already tried it • They like to experiment with new technologies

Source: Adapted from Juaneda-Ayensa *et al.* (2016)

Figure 2.14 Consumer attitudes and behaviour on omnichannel purchase intention

identifier to calculate channel preferences, as follows: 63% bricks-and-mortar store only, 12.4% Internet-only customers, 11.9% catalogue-only customers, 11.9% dual-channel customers and 1% three-channel customers.

Juaneda-Ayensa *et al*. (2016) believe that personal innovativeness, i.e. the degree to which a person prefers to try new and different products/channels and seek out new experiences, can positively affect omnichannel purchase intention. Figure 2.14 summarises buyer motivations and their acceptance of technology. Research on consumer buying behaviour with fashion retailer Zara.com found that effort expectancy and performance expectancy were significant factors in purchase intention.

> **Debate 2.2**
>
> **Innovative business models**
>
> *'The new business models associated with the dot.com era were, in fact, existing models in an online context. Business models and revenue models have not changed.'*

Commercial arrangement for transactions

Markets can also be considered from another perspective – that of the type of commercial arrangement that is used to agree a sale and price between the buyer and supplier. The main types of commercial arrangement are shown in Table 2.3.

Each of these commercial arrangements is similar to traditional arrangements. Although the mechanism cannot be considered to have changed, the relative importance of these different options has changed with the Internet. Owing to the ability to publish new offers and prices rapidly, auction has become an important means of online selling. A turnover of several billion dollars has been achieved by eBay from consumers offering items such as cars and antiques.

Different types of online intermediary and influencers

As we showed through Figure 2.8, identifying different types of online intermediary as potential partners to promote an online business is a key part of marketplace analysis. In this section, we take a more in-depth look at the different types of intermediaries and the business and revenue models they adopt.

Sarkar *et al.* (1996) identified many different types of intermediaries (mainly from a B2C perspective and slightly adapted), which we can still recognise today:

- directories (such as Yahoo!, Excite);
- search engines (Google, Bing, Yahoo!);
- shopping aggregators (FarFetch.com, Lyst.co.uk);
- virtual resellers (own-inventory and sell-direct, e.g. Amazon);
- financial intermediaries (offering digital cash and cheque payment services, such as payPal);
- forums, fan clubs and user groups (referred to collectively as 'virtual communities');
- evaluators (sites that perform review or comparison of services).

Table 2.3 Commercial mechanisms and online transactions

Commercial (trading) mechanism	Online transaction mechanism of Nunes *et al.* (2000)
1 **Negotiated deal** *Example:* can use similar mechanism to auction	Negotiation – bargaining between single seller and buyer Continuous replenishment – ongoing fulfilment of orders under pre-set terms
2 **Brokered deal** *Example:* intermediaries such as Comparethemarket (**www.comparethemarket.com**)	Achieved through online intermediaries offering auction and pure markets online
3 **Auction** *Examples:* C2C: eBay (**www.ebay.com**); B2B: industry-to-industry (**www.alibaba.com**)	Seller auction – buyers' bids determine final price of sellers' offerings; buyer auction – buyers request prices from multiple sellers; reverse – buyers post desired price for seller acceptance
4 **Fixed-price sale** *Example:* all e-commerce retailers	Static call – online catalogue with fixed prices; dynamic call – online catalogue with continuously updated prices and features
5 **Pure markets** *Example:* electronic share dealing	Spot – buyers' and sellers' bids clear instantly
6 **Barter** *Example:* **www.bartercard.co.uk**	Barter – buyers and sellers exchange goods

Source: Adapted from 'The All-In-One-Market', *Harvard Business Review*, pp. 2–3 (Nunes, P., Kambil, A. and Wilson, D. 2000) © 2000 by the Harvard Business School Publishing Corporation, all rights reserved.

Summary of the types of intermediary

Intermediaries vary in scope and the services they offer, so naturally terms have evolved to describe the different types. The main types of intermediary you will identify as part of an online marketplace analysis are shown in Table 2.4. It is useful, in particular for marketers, to understand these types since they act as a checklist for how companies can be represented within the different types of intermediaries, online publishers and media owners.

Table 2.4 Different types of online intermediary

Type of intermediary	Characteristics	Example
Access portal	Associated with ISP or mobile service provider	• BT (**www.bt.com**) • MSN (**www.msn.com**)
Blog	Content updated through time, typically text-based, but can include audio and video (video bloggers – vloggers/YouTubers)	• Blogger (**www.blogger.com**) hosts many blogs • Many company blogs are created using WordPress (**www.wordpress.com**) • Vlogging channels are usually set up on YouTube
Directory	Listings of sites and businesses' details in categories	• Business.com (**www.business.com**), Yell (**www.yell.com**)
Geographical (region, country, local)	May be: • horizontal • vertical	• Google country versions • Yahoo! country and city versions • Craigslist (**www.craigslist.com**)
Horizontal or functional portal	Range of services: search engines, directories, news, recruitment, personal information management, shopping, etc.	• Yahoo! (**www.yahoo.com**) • Microsoft MSN (**www.msn.com**) • Google (**www.google.com**), which for a long period just focused on search
Marketplace or auction site	May be: • horizontal • vertical • geographical	• EC21(**www.ec21.com**) • eBay (**www.ebay.com**)
Price-comparison site or aggregator	Compares products or services on different criteria, including price	• PriceRunner (**www.pricerunner.com**) • Shopping.com(**www.shopping.com**)
Publisher site	Main focus is on consumer or business news or entertainment	• BBC (**www.bbc.co.uk**) • Guardian (**www.guardian.co.uk**) • Information Week (**www.informationweek.com**)
Search engine	Main focus is on search	• Google (**www.google.com**) • Bing (**www.bing.com**) • Baidu in China (**www.baidu.com**) • Naver in South Korea (**www.naver.com**)
Media type	May be: • voice (audio podcasts) • video (video webcasts) Delivered by streaming media or downloads of files	• Audio podcasts, for example Apple iTunes • Video, for example YouTube (**www.youtube.com**) • Multimedia publisher, e.g. BBC iPlayer (**www.bbc.co.uk/iplayer**)
Vertical intermediary	Covers a particular market or niche audience, such as construction, with news and other services	• Build UK (**www.builduk.org**) • Phaidon Atlas of Architecture (**www.phaidonatlas.com**)

The importance of search engines

Search engines, spiders and robots
Automatic tools known as 'spiders' or 'robots' index registered sites. Users search this by typing keywords and are presented with a list of pages.

Search engines are a key type of intermediary for organisations marketing their services online, since today they are the primary method of finding information about a company and its products. Research compiled by Search Engine Watch (**www.searchenginewatch.com**) shows that over 90% of web users state that they use search engines to find information online. Their importance can also be seen from their audience sizes by applying the tools in Table 2.2. We will show how search engines can be used for marketing in more detail in Chapter 7. As part of marketplace analysis, they are useful for companies to assess demand for products and brand preferences in different countries using tools such as Google Trends (Figure 2.9).

Business models for e-commerce

Online business model
A summary of how a company will generate a profit, identifying its core product or service value proposition, target customers in different markets, position in the competitive online marketplace or value chain and its projections for revenue and costs.

Defining a clear **online business model** is essential for a new start-up online business to be successful. But it's also important for existing businesses thinking about options to refine their business model or add new services to their offerings in the light of new opportunities made possible by the Internet. The Business Model Canvas developed by Osterwald and Pigneur (2010) is a valuable framework for summarising strategy for online businesses. It was published as part of a co-creation project involving 470 practitioners from 45 countries. It's also available as an app and downloadable templates on the Strategyzer site (**www.strategyzer.com**).

The main sections of the canvas, in a logical order to consider them, are:

1 **Value proposition.** This is at the heart of what the business offers to its audiences and is arguably most important to success.
2 **Customer segments.** Different target audiences to whom the value propositions will appeal. In the Business Model Canvas the alternatives recommended are mass market, niche market, segmented (broken down further) or a range of diverse segments.
3 **Customer relationships.** The types of relationships that will be formed – for example, self-service, automated services, communities or more personal assistance. Co-creation of content may be part of this.
4 **Channels.** The methods by which the organisation's services will be delivered and the audiences reached.
5 **Key partners.** To exploit online and offline value networks, forming partnerships gives an opportunity of expanding reach and taking advantage of existing organisations and online influencers that have built an audience.
6 **Activities.** The main activities that need to be performed to deliver the value proposition to develop revenue.
7 **Resources.** Different types of process and people to complete the activities to create and deliver the value proposition.
8 **Cost structure.** Different cost elements; these should be checked against activities and resources. Costs are classically broken down into fixed and variable costs and economies of scale.
9 **Revenue stream.** This is the method by which a business derives income. Common online options are: ad revenue, subscription fees, sales of physical or virtual goods or affiliate-based commission arrangements. Licensing and leasing are other alternatives.

An example of how these nine different elements of a business model can be applied is shown in Figure 2.15.

It's a great framework, but it's always worth considering what the missing elements of frameworks are. It's arguably missing a method of specifying key performance indicators (KPIs) for evaluating performance of the business model. We recommend adding these to

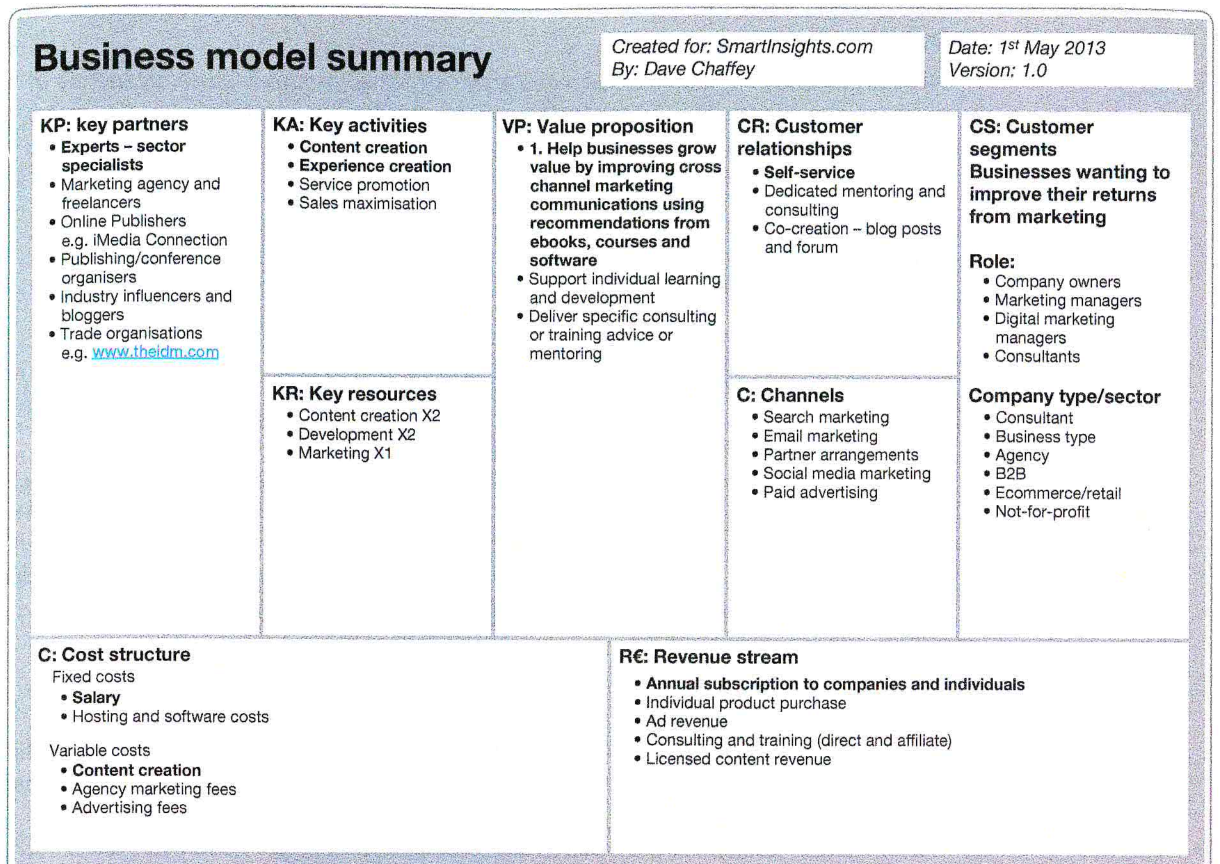

Figure 2.15 Business Model Canvas example
Source: Smart Insights. With permission

the relevant sections, in particular for revenue stream, cost structure and key activities. It also doesn't directly consider the impact of different forms of competitors. To help here, it's also useful to think through how the canvas would look for successful companies already active in this market. (We will look further at how to define elements of the business model, such as value proposition and targeting, in Chapters 5 and 7.)

Michael Rappa, a professor at North Carolina State University, has a useful compilation of examples of online business models in the link shown at the end of the chapter. At a lower level, Rappa identifies utilities providers that provide digital services (such as the Internet service providers and hosting companies we discuss in Chapter 3). Now complete Activity 2.2 to evaluate some successful digital business models and read Case study 2.2 to see examples of new revenue models that can be used by a forward-looking corporate organisation.

Activity 2.2 Exploring business models

Purpose

To explore different types of business that have been disrupted by digital technology and evaluate the structure of their business model(s).

Question

Review the following digital businesses against Michael Rappa's basic categories of business models (see **http://digitalenterprise.org/models/models.html**). Can you group the companies into different business models? Are any models missing or can they be simplified? Do you think these business models operate in isolation?

- **www.zopa.com**
- **www.zeek.me**
- **https://deliveroo.co.uk**
- **www.lyst.co.uk**
- **www.blablacar.co.uk**
- **http://trussle.com**

Figure 2.16 suggests alternative perspectives for reviewing different business models. There are three different perspectives from which a business model can be viewed. Any individual organisation can operate in different categories, as the examples show, but most will focus on a single category for each perspective. Such a categorisation of business models can be used as a tool for *formulating digital business strategy*. The three perspectives, with examples, are:

1. **Marketplace position perspective.** The book publisher here is the manufacturer, Amazon is a retailer and Yahoo! is both a retailer and a marketplace intermediary.
2. **Revenue model perspective.** The book publisher can use the web to sell direct while Yahoo! and Amazon can take commission-based sales. Yahoo! also has advertising as a revenue model.
3. **Commercial arrangement perspective.** All three companies offer fixed-price sales, but, in its place as a marketplace intermediary, Yahoo! also offers alternatives.

Revenue models

Revenue models
Describe methods of generating income for an organisation.

Revenue models specifically describe different techniques for generation of income. For existing companies, revenue models have mainly been based upon the income from sales of products or services. This may be either for selling direct from the manufacturer or supplier of the service or through an intermediary that will take a cut of the selling price. Both of these revenue models are, of course, still crucial in online trading. There may, however, be options for other methods of generating revenue; a manufacturer may be able to sell advertising space or sell digital services that were not previously possible.

Online publisher and intermediary revenue models

For a publisher, there are many options for generating revenue online based around advertising and fees for usage of online services. These options, particularly the first four in the list below, can also be reviewed by other types of business such as price comparison sites, aggregators, social networks and destination sites, which can also carry advertising to supplement revenue. The main types of online revenue model are:

CPM (cost-per-thousand)
The cost to the advertiser (or the revenue received by the publisher) when an ad is served 1,000 times.

1. **CPM display advertising on-site. CPM** stands for 'cost-per-thousand', where M denotes 'mille'. This is the traditional method by which site owners charge a fee for advertising. The site owner charges advertisers a rate card price (for example, £50 CPM) according to the number of times ads are served to site visitors. Ads may be served by the site owner's own ad server or, more commonly, through a third-party ad network service such as DoubleClick (which is owned by Google).

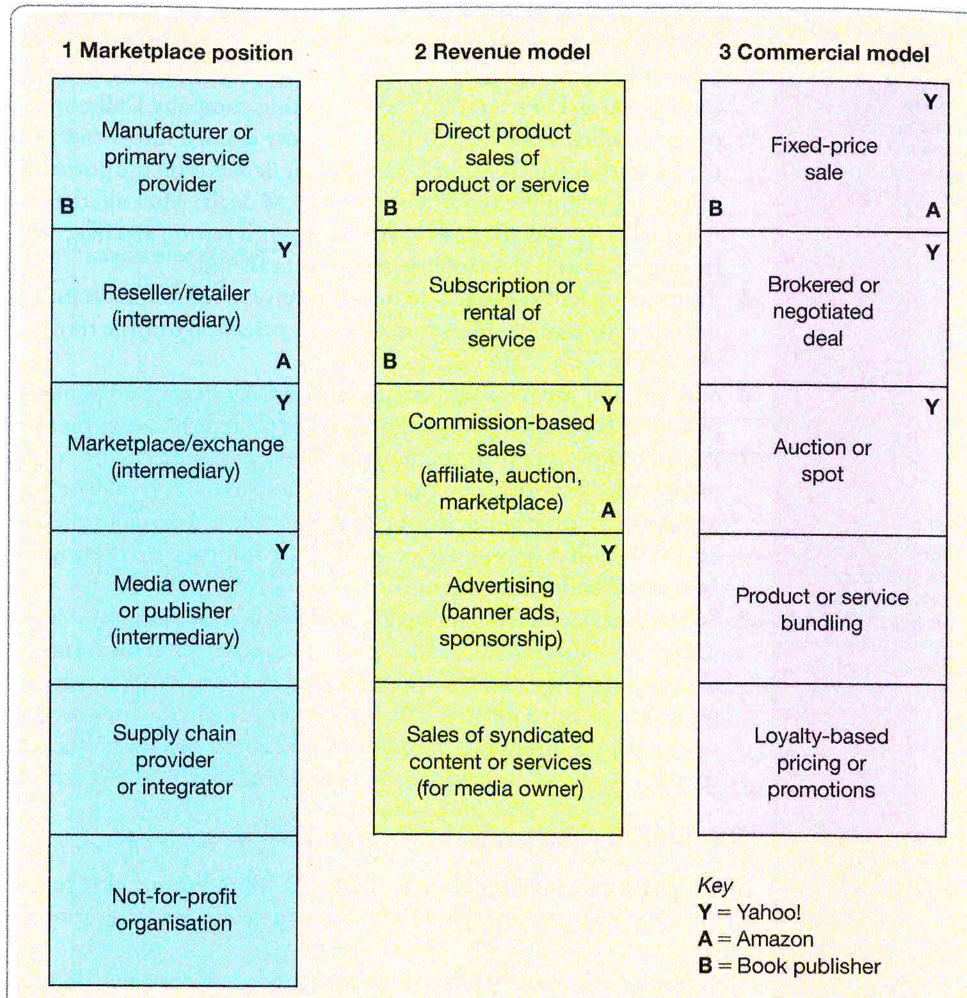

Figure 2.16 Alternative perspectives on business models

CPC (cost-per-click)
The cost to the advertiser (or the revenue received by the publisher) of each click of a link to a third-party site.

2. **CPC advertising on-site (pay-per-click text ads). CPC** stands for 'cost-per-click'. Advertisers are charged not simply for the number of times their ads are displayed, but according to the number of times they are clicked upon. These are typically text ads served by a search engine such as Google (**www.google.com**) on what is known as its content network. Google has its AdSense (**http://adsense.google.com**) program for publishers, which enables it to offer text- or image-based ads typically on a CPC basis, but optionally on a CPM basis. Typical costs per click can be surprisingly high, i.e. they are in the range £0.10 to £5, but sometimes up to £40 for some categories such as 'life insurance'. The revenue for search engines and publishers from these sources can also be significant: Google (which is owned by Alphabet Inc) produces annual reports (**http://investor.google.com**) showing that this accounts for between a quarter and a third of Google's revenue.
3. **Sponsorship of site sections or content types (typically fixed fee for a period).** A company can pay to advertise a site channel or section. For example, the bank HSBC used to sponsor the Money section on the Orange broadband provider portal now known as ee, (**www.ee.co.uk**). This type of deal is often struck for a fixed amount per year. It may also be part of a reciprocal arrangement, sometimes known as a 'contra-deal', where neither party pays.
4. **Affiliate revenue (CPA, but could be CPC).** Affiliate revenue is commission-based, for example Amazon books are displayed on Dave Chaffey's site Smart Insights

CPA (cost-per-acquisition)
The cost to the advertiser (or the revenue received by the publisher) for each outcome such as a lead or sale generated after a click to a third-party site.

(smartinsights.com) and he receives around 5% of the cover price as a fee from Amazon. Such an arrangement is sometimes known as **cost-per-acquisition (CPA)**. Increasingly, this approach is replacing CPM or CPC approaches, where the advertiser has more negotiating power. For example, manufacturing company Unilever negotiates CPA deals with online publishers where it is paid for every email address captured by a campaign, rather than a traditional CPM deal. However, it depends on the power of the publisher, who will often receive more revenue overall for CPM deals. After all, the publisher cannot influence the quality of the ad creative or the incentivisation to click, which will affect the clickthrough rate and therefore earnings from the ad.

5 **Transaction fee revenue.** A company receives a fee for facilitating a transaction. Examples include eBay and PayPal, which charge a percentage of the transaction cost between buyer and seller.
6 **Subscription access to content or services.** A range of documents can be accessed from a publisher for a fixed period. These are often referred to as premium services on websites.
7 **Pay-per-view access to documents.** Here payment occurs for single access to a document, video or music clip that can be downloaded. It may or may not be protected with a password or **digital rights management**. For example, Smart Insights pays to access detailed best-practice guides on Internet marketing from Marketing Sherpa (www.marketingsherpa.com).
8 **Subscriber data access for email marketing.** The data a site has about its customers are also potentially valuable, since it can then send different forms of email to its customers if they have given their permission that they are happy to receive email from either the publisher or third parties. The site owner can charge for adverts placed in its newsletter or can deliver a separate message on behalf of the advertiser (sometimes known as 'list rental'). A related approach is to conduct market research with the site customers.

Digital rights management (DRM)
The use of different technologies to protect the distribution of digital services or content such as software, music, movies or other digital data.

Calculating revenue for an online business

Site owners can develop models (Figure 2.16) of potential revenue depending on the mix of revenue-generating techniques from the four main revenue options they use on the site.

Consider the capacity of a site owner to maximise revenue or 'monetise' their site – which factors will be important? The model will be based on assumptions about the level of traffic and number of pages viewed, plus the interaction with different types of ad unit. Their ability to maximise revenue will be based on these factors, which can be modelled in the spreadsheet shown in Figure 2.17:

- *Number and size of ad units.* This is a delicate balance between the number of ad units in each site section or page – too many obtrusive ad units may present a bad experience for site users, too few will reduce revenue. Figure 2.17 has a parameter for the number of ad units or containers in each ad revenue category. There is a tension with advertisers who know that the awareness and response they generate from their ads is maximised when they are as large as practical and in prominent placements. A more accurate revenue model would develop revenue for different page types such as the home page and different page categories, e.g. the money or travel sections.
- *Capacity to sell advertising.* Figure 2.17 also has a parameter for the percentage of ad inventory sold in each category – for example, for the CPM ad display revenue, only 40% of inventory may be sold. This is why you may see publisher sites with their own 'house ads' – it is a sign they have been unable to sell all their ad space. A benefit of using the Google AdSense publisher program is that inventory is commonly all used.
- *Fee levels negotiated for different advertising models.* These will depend on the market competition or demand for advertising space. For 'pay-per-performance' advertising options, such as the CPC and CPA models, it also depends on the response. In the first case, the site owner only receives revenue when the ad is clicked upon and, in the second case, the site owner only receives revenue when the ad is clicked upon and a product is purchased on the destination merchant site.

Ad revenue option	Measure	Site
	Pages served	100,000
Display advertising (CPM)	CPM (Cost Per Thousand)	£2
	% Inventory served	40%
	Avg. Clickthrough (CTR %)	0.10%
	Ad units served per page	2
	Clicks – CPM ads	80
	Revenue – display ads	**£160**
	Earnings per 100 clicks (EPC)	£200.0
	eCPM – display ads	£1.60
Fixed run-of-site sponsorship	% Inventory served	100%
	Avg. Clickthrough (CTR %)	0.30%
	Ad units served 1	1
	Clicks – fixed	300
	Revenue – fixed sponsorship	**£3,000**
	Earnings per 100 clicks (EPC)	£1,000.0
	eCPM – fixed	£30.00
Text ad advertising (CPC)	% Inventory served	100%
	Avg. Clickthrough (CTR %)	1.00%
	Avg. Cost Per Click	£0.30
	Ad units served per page	1
	Clicks – CPC ads	1,000
	Revenue – CPC ads	**£300**
	Earnings per 100 clicks (EPC)	£30.0
	eCPM – CPC ads	£3
Affiliate commission	% Inventory served	100%
	Avg. Clickthrough (CTR %)	0.50%
	Ad units served per page	1
	Clicks – Affiliates	500
	Desination conversion rate (%)	3%
	Average order value	£100
	Commission %	10%
	Revenue – affiliates	**£150**
	Earnings per 100 clicks (EPC)	£30.0
	eCPM – affiliates	£1.50
Overall metrics for site	**Clicks – total**	**1,880**
	Revenue – total	**£3,610**
	Earnings per 100 clicks (EPC) – total	**£192.02**
	eCPM – total	**£36.10**

Blue cells = Input variables – vary these for 'what-if' analysis

Orange cells = Output variables (calculated – **do not overtype**)

Figure 2.17 Example spreadsheet for calculating a site revenue model
Note: Available for download at **www.smartinsights.com/conversion-model-spreadsheets**

- *Traffic volumes.* More visitors equate to more opportunities to generate revenue through serving more pages (which helps with CPM-based advertising) or more clicks to third-party sites (which helps generate revenue from CPC and CPA deals).

- *Visitor engagement.* The longer visitors stay on a site (its 'stickiness'), the more page views that will accumulate, which again gives more opportunities for ad revenue. For a destination site, a typical number of page views per visit would be in the range 5 to 10, but for a social network, media site or community the figure could be greater than 30.

Considering all of these approaches to revenue generation together, the site owner will seek to use the best combination of these techniques to maximise the revenue. An illustration of this approach is shown in Figure 2.17.

To assess how effective different pages or sites in their portfolio are at generating revenue using these techniques, site owners will use two approaches. The first is eCPM, or effective cost per thousand. This looks at the total the advertiser can charge (or cost to advertisers) for each page or site. Through increasing the number of ad units on each page, this value will increase. The other alternative to assess page or site revenue-generating effectiveness is revenue per click (RPC), also known as 'earnings per click' (EPC). Alternatively, revenue can be calculated as ad revenue per 1,000 site visitors. This is particularly important for affiliate marketers who make money through commission when their visitors click through to third-party retail sites, and then purchase there.

Activity 2.3 explores some of the revenue models that are possible.

Activity 2.3 Revenue models at online media sites

Purpose

To illustrate the range of revenue-generating opportunities for an online publisher we look at alternative approaches for publishing, referencing three different types of digital publishing platforms.

Question

Visit each of the following websites:

- Marketing Profs (**www.marketingprofs.com**)
- Smart Insights (**www.smartinsights.com**)
- MarketingSherpa (**www.marketingsherpa.com**).

Then do the following activities:

1. Summarise the revenue models that are used for each site by looking at the information for advertisers and affiliates.
2. What are the advantages and disadvantages of the different revenue models for the site audience and the site owner?
3. Given an equivalent audience, which of these sites do you think would generate the most revenue? You could develop a simple spreadsheet model based on the following figures:
   - Monthly site visitors: 100,000; 0.5% of these visitors click through to affiliate sites where 2% go on to buy business reports or services at an average order value of 100 CPM.
   - Monthly page views: 1,000,000; average of three ads displayed for different advertisers at 20 CPM (we are assuming all ad inventory is sold, which is rarely true in reality).
   - Subscribers to weekly newsletter: 50,000; each newsletter broadcast four times per month has four advertisers each paying at a rate of 10 CPM.

Note: These are not actual figures for any of these sites.

Focus on Digital start-up companies

To conclude the chapter, we review how to evaluate the potential of digital start-ups. According to research commissioned by Google and carried out by the National Institute of Economic and Social Research (Nathan, 2013), there are at least 270,000 companies that form the UK's digital economy. The revenue reported by these digital businesses is growing 25% faster than non-digital companies and they employ 15% more people.

Digital industries often have lower barriers to entry – for example, reduced transaction and labour costs, compared to more traditional companies (which have more physical assets). Technological change is exponential and people are using it to disrupt most industries with alternative business models that were not possible before. Snow (2014) claims it took the oil tycoon John D. Rockefeller 46 years to make a billion dollars, compared to the 14 years it took Michael Dell, 12 years it took Bill Gates, 4 years for the founders of Yahoo, 3 years for the founder of eBay and just 2 years for the founder of Groupon. We look at some of the ways these businesses gain traction via growth hacking in Chapter 10.

Assessing digital businesses

As with all new companies, it is difficult for investors to assess the long-term sustainability of start-ups. There are a number of approaches that can be used to assess the success and sustainability of these companies. There have been many examples where it has been suggested that dot-com companies have been overvalued by investors who are keen to make a fast return from their investments. There were some clear anomalies if traditional companies are compared to digital start-ups.

Valuing tech start-ups

Angels
An angel investor or business angel is a private, high net-worth individual or seed investor who provides capital for a business start-up, usually in exchange for an equity stake in the company (part ownership). They can invest individually or as part of a syndicate (a group of angels). Generally, angels invest between £10,000–£50,000 and seek a return on their investment over a period of three to eight years.

Hudson (2015) points out that valuation of a pre-revenue company is usually one of the first points of contention between **angels** and entrepreneurs – entrepreneurs want the value to be as high as possible and angels want a lower value to enable them to buy a reasonable portion of the company for their financial investment. Following interviews with various experts, four valuation models work well for start-ups:

1. **Venture capital method,** which calculates valuation based on expected rates of return on exit.
2. **Berkus method,** which attributes a range of monetary values to the progress start-up entrepreneurs have made in the commercialisation of their activities.
3. **Scorecard valuation method,** which adjusts the median pre-money valuation for seed/start-up deals in a particular geographical area and in the business vertical of the target, based on seven characteristics of the company. The seven elements are: strength of entrepreneur and team, size of the opportunity, product/technology, competitive environment, marketing/sales/partnerships, need for additional investment and other factors (i.e. great early customer feedback).
4. **Risk factor summation method,** which compares 12 characteristics of the target company to what might be expected in a fundable start-up enterprise. The 12 characteristics are: management, stage of the business, legislation/political risk, manufacturing risk, sales and marketing risk, funding/capital risk, competition risk, technology risk, litigation risk, international risk, reputation risk and potential lucrative exit.

Companies such as Uber initially raised funding from angel investors. According to the UK Business Angels Association (UKBAA), if a start-up can 'tick the box' for five or more of the considerations below, they are more likely to attract angel investment:

1. **Solving a problem** – Does the product, technology or service address a real challenge in the market or society – what is the pain you are solving?
2. **Disruptive** – Is it likely to be disruptive and make a real impact in the marketplace or establish a new niche?
3. **Protected** – Does the product or technology have identifiable intellectual property? This may be patentable or may be in the form of copyright or branding or other intangibles – and can you confirm ownership?
4. **Competitive** – Do you have a defensible market position? What other businesses are in competition with this project? How does it compare and what is the unique selling point or advantage – or does it have first-mover advantage?
5. **Revenue** – How does your business make money? Are there clear identifiable revenue streams? Are there likely to be good gross/net margins?
6. **Scalability** – Do you have a scaleable business model? Are you able to achieve explosive growth?
7. **Proven model** – What kind of validation have you had in the marketplace? Are you already selling or has this been tested out with potential customers? Can you show results of market testing/surveys?
8. **Market** – What is the market size? Can you achieve a realistic potential market share?
9. **Tax relief opportunity** – is the deal EIS/SEIS eligible and do you have advanced clearance (see below)?
10. **Exit** – Do you have a desire and strategy for exit?
11. And finally, are you prepared to **give up shares** in return for investment and to have an investor on your board?

Churn rate
The proportion of customers (typically subscribers) that no longer purchase a company's products or services within a certain time period.

As would be expected intuitively, modelling using these variables indicates that for companies with a similar revenue per customer, contribution margin and advertising costs, it is the **churn rate** that will govern their long-term success. To look at this another way, given the high costs of customer acquisition for a new company, it is the ability to retain customers for repeat purchases that governs the long-term success of companies. This then forces online retailers to compete on low prices with low margins to retain customers.

A structured evaluation of the success and sustainability of UK digital start-ups has been undertaken by management consultancy Bain and Company in conjunction with *Management Today* and was described in Gwyther (1999). The six criteria used to assess companies are still relevant today:

1 Concept

This describes the strength of the business model. It includes:

- potential to generate revenue including the size of the market targeted;
- superior 'customer value'– in other words, how well the value proposition of the service is differentiated from that of its competitors;
- first-mover advantage (less easy to achieve today).

2 Innovation

Digital disruption
The change that occurs when new technologies and business models affect the value proposition of existing goods and services.

This criterion looks at another aspect of the business concept, which is the extent to which the business model merely imitates existing real-world or online models. Note that imitation is not necessarily a problem if it is applied to a different market or audience, or if the experience is superior and positive word-of-mouth/PR is generated. Ultimately, very successful digital start-ups disrupt the marketplace they operate in – i.e. they offer a better/faster solution to customers' needs/problems. This is also known as **digital disruption**.

According to Pierre Nanterme (2016), CEO of Accenture: 'Digital is the main reason just over half of the companies on the Fortune 500 have disappeared since the year 2000'.

Caudron and Peteghem (2016) have identified ten business models behind digital disruption:

1. **The subscription model** (Netflix, Dollar Shave Club, Apple Music): Disrupts through 'lock-in' by taking a product or service that is traditionally purchased on an ad hoc basis, and locking-in repeat custom by charging a subscription fee for continued access to the product/service.
2. **The freemium model** (Spotify, LinkedIn, Dropbox): Disrupts through digital sampling – users pay for a basic service or product with their data or time usage (rather than money), and then get charged to upgrade to the full offer. This works where marginal cost for extra units and distribution are lower than advertising revenue or the sale of personal data.
3. **The free model** (Google, Facebook): Disrupts with an 'if-you're-not-paying-for-the-product-you-are-the-product' model that involves selling personal data or 'advertising eyeballs' harvested by offering consumers a 'free' product or service that captures their data/attention.
4. **The marketplace model** (eBay, iTunes, App Store, Uber, Airbnb): Disrupts with the provision of a digital marketplace that brings together buyers and sellers directly, in return for a transaction or placement fee or commission.
5. **The access-over-ownership model** (Zipcar, Peerbuy, Airbnb): Disrupts by providing temporary access to goods and services traditionally only available through purchase. Includes 'sharing economy' disruptors, which take a commission from people monetising their assets (home, car, capital) by lending them to 'borrowers'.
6. **The hypermarket model** (Amazon, Apple): Disrupts by 'brand bombing' using sheer market power and scale to crush competition, often by selling below cost price.
7. **The experience model** (Tesla, Apple): Disrupts by providing a superior experience, for which people are prepared to pay.
8. **The pyramid model** (Amazon, Microsoft, Dropbox): Disrupts by recruiting an army of resellers and affiliates who are often paid on a commission-only model.
9. **The on-demand model** (Uber, Operator, TaskRabbit): Disrupts by monetising time and selling instant access at a premium. This includes taking a commission from people who are time-poor but have money that are happy to pay for goods/services delivered or fulfilled by people with time but little money.
10. **The ecosystem model** (Apple, Google): Disrupts by selling an interlocking and interdependent suite of products and services that increase in value as more are purchased, which creates consumer dependency.

3 Execution

A good business model does not, of course, guarantee success. If there are problems with aspects of the implementation of the idea, then the start-up will fail. Aspects of execution that can be seen to have failed for some companies are:

Market traction
Evidence that there is market demand for your product/service. Higher traction means that investors are more likely to be attracted to the start-up.

- Gaining **market traction** – online or offline marketing techniques are insufficient to attract sufficient visitors to the site.
- Performance, availability and security – some sites have been victims of their own success and have not been able to deliver fast access to the sites, or technical problems have meant that the service is unavailable or insecure. Some sites have been unavailable despite large-scale marketing campaigns due to delays in creating the website and its supporting infrastructure.
- Fulfilment – the site itself may be effective, but customer service and consequently brand image will be adversely affected if products are not dispatched correctly or promptly.

4 Traffic

This criterion is measured in terms of the number of visitors, the number of pages they visit and the number of transactions they make that control the online ad revenues. Page impressions or visits are not necessarily an indication of success but are dependent on the business model. After the viability of the business model, how it will be promoted is arguably the most important aspect for a start-up. For most companies, a critical volume of loyal, returning and revenue-generating users of a service is required to repay the investment in these companies.

Acquiring new customers for a new start-up that is not known in the marketplace is difficult and costly. An important decision is the investment in promotion and how it is split between online and offline techniques. Start-ups are usually under extreme resource constraints and need to gain traction quick and cheaply, which is why growth hacking has become increasingly important in the tech start-up eco system (see Chapter 10). Companies such as insurance price comparison site GoCompare spend a lot of money on TV advertising to make the brand stand out from the crowd. Their use of opera singer Gio has helped generate a 60% increase in sales and a 450% uplift in brand awareness. However, many start-ups (such as Moonpig, Mumsnet and Zopa) did not initially have the amount of capital needed for TV advertising and have grown organically by other marketing methods such as PR (favourable word-of-mouth and mentions in the media), partnerships and search engine marketing, etc.

5 Financing

This describes the ability of the company to attract seed investment/venture capital or other funding to help execute the idea. It is particularly important given the cost of promoting these new concepts.

6 Profile

This is the ability of the company to generate favourable publicity/PR and to create awareness within its target market.

These six criteria can be compared with the other elements of business and revenue models that we discussed earlier in this chapter.

Case study 2.4 describes how a specialist travel and education company scaled to become a global business.

Case Study 2.4 i-to-i – a global marketplace for a start-up

This case is about a specialist travel and education company, focusing on its online TEFL (Teaching English as a Foreign Language) courses. The case illustrates the importance of marketplace analysis.

i-to-i background

i-to-i (**www.i-to-i.com**) is an international organisation with offices in the UK, USA, Ireland and Australia. Twenty thousand people have selected i-to-i as they travel on ventures to support 500 worthwhile projects on five continents and it has also trained a further 80,000 people as TEFL teachers.

The history of i-to-i

The founder of i-to-i, Deirdre Bounds, was inspired to create the company following a career break that took her to teach English in Japan, China and Greece and drive a backpackers' bus in Sydney. The company initially started through creating TEFL courses, eventually leading to organising volunteer projects.

Since 2003 the company has supported the i-to-i Foundation, a registered charity committed to providing funds to the most needy community and ecological projects in the i-to-i family. In 2007, i-to-i became part of the TUI travel group.

Proposition

The main features of the i-to-i TEFL proposition are:

- *International accreditation*: i-to-i is externally accredited by the ODLQC in order to ensure that its courses are rigorously monitored and always meet the highest industry standards.
- *World-class reputation*: i-to-i has four offices worldwide and over 12 years' experience teaching TEFL.
- *Partnership*: i-to-i is the preferred TEFL course provider for STA Travel, Opodo and Lonely Planet.
- *Complete student support*: Students receive advice on how to get work abroad, how best to prepare for their time away and up-to-the-minute advice on current job opportunities.
- *Highly experienced tutors*: All i-to-i tutors have at least three years' overseas teaching experience.

This proposition is backed up by 'the i-to-i TEFL Promise':

1. We will beat any equivalent and cheaper course by 150%.
2. If you're not entirely satisfied after the first seven days, we'll give you a full refund.
3. Our experience, our high academic standards and the quality of our courses mean that i-to-i TEFL certificates are recognised by thousands of language schools worldwide.

Additionally, i-to-i can help students to find TEFL jobs abroad.

Audience segmentation

The main segmentation used by i-to-i is geographic:

- UK
- North America
- Europe
- Australia and New Zealand
- Rest of world

Different brochures are also available for each geographical area.

Information is also collected on an optional basis about prospects' age and status, although this is not used for targeting emails. Status categories are:

- Student
- Employed
- Self-employed
- Career break
- Unemployed
- Retired

Since optional information is restricted to certain lead tools, it is not used to target emails. For weekend TEFL courses, postcode/city is used to target courses to prospects.

Competitors

Some of the main competitors for online TEFL courses based in the UK and Australia include:

- **www.cactustefl.com**
- **www.teflonline.com**
- **www.eslbase.com**

In the US, competitors who also operate in the UK and other countries include:

- **www.teflcorp.com**
- ITTP (International TEFL and Tesol Training) **https://teflonline.net/about-ittt**

Media mix

i-to-i uses a combination of these digital media channels to drive visits, leads and sales:

- pay-per-click (PPC) (mainly Google AdWords);
- social media marketing using Facebook, Twitter and i-to-i's own traveller community;
- natural search (SEO);
- affiliate marketing;
- display advertising;
- email marketing.

Conversion process

Detailed content to help visitors decide on purchasing a course is available on the site. This includes module outlines and FAQs. Specific landing pages have not been used to convert visitors from paid search or affiliates, for example. Instead, the destination page for visitors from referring sites is the main category page for the product preference indicated by the search performed (for example, online TEFL).

A number of engagement devices are used to generate leads, including brochures, 'TEFL tasters', an email guide and campaign promotions such as winning a course.

Such leads are followed up through a series of welcome emails. Results are monitored, but emails are not proactively followed up on. There is no phone follow-up of leads due to the relative low value of the products, but site visitors are encouraged to ring or set up a call-back, which often leads to higher conversion rates.

Marketplace challenges

The main marketplace challenges faced by i-to-i are:

1 Increasing its presence and conversion effectiveness in a competitive market in different geographies:
  (a) i-to-i has good exposure in the UK, its primary market, but operates in a cluttered marketplace, with price being the main differentiator (products are similar and some competitors are just as established, etc.).
  (b) Research suggests that there is good opportunity within the US, but exposure is more limited because of the cost of pay-per-click advertising and because presence in natural search favours the US.
  (c) Rest-of-world sales (outside of UK, USA, Canada, Ireland/Europe, Australia, New Zealand) are increasing and this is believed to be a growing market. i-to-i seeks to penetrate these markets, but in a cost-effective way that will not distract attention from main markets.

2 Increasing demand through reaching and educating those considering travel who are not aware of TEFL courses and the opportunities they unlock. For example, many will look for casual work in other countries, e.g. in bars or in agriculture, but will be unaware of TEFL.

Questions

1 Select one country that i-to-i operates in and summarise the main types of sites and businesses involved using a marketplace map (see Figure 2.8).
2 Outline the different factors that i-to-i will need to review to gauge the commercial effectiveness of its online presence in different geographic markets.

Source: Smart Insights (2012) i-to-i case study. Written by Dave Chaffey and Dan Bosomworth with agreement from the company

Summary

1 The constantly changing digital business environment should be monitored by all organisations in order to be able to respond to changes in social, legal, economic, political and technological factors together with changes in the immediate marketplace that occur through developments in customer requirements and competitors' and intermediaries' offerings.
2 The online marketplace involves transactions between organisations and consumers (B2C) and other businesses (B2B). Consumer-to-consumer (C2C) and consumer-to-business categories (C2B) can also be identified.
3 The Internet can cause disintermediation within the marketplace as an organisation's channel partners, such as wholesalers or retailers, are bypassed. Alternatively, the Internet can cause reintermediation as new intermediaries with a different purpose are formed to help bring buyers and sellers together in a virtual marketplace or marketspace. Evaluation of the implications of these changes and implementation of alternative countermediation strategies are important to strategy.
4 Trading in the marketplace can be sell-side (seller-controlled), buy-side (buyer-controlled) or at a neutral marketplace.
5 A business model is a summary of how a company will generate revenue, identifying its product offering, value-added services, revenue sources and target customers. Exploiting the range of business models made available through the Internet is important to both existing companies and start-ups.
6 The Internet may also offer opportunities for new revenue models such as commission on affiliate referrals to other sites or banner advertising.
7 The opportunities for new commercial arrangements for transactions include negotiated deals, brokered deals, auctions, fixed-price sales and pure spot markets, and barters should also be considered.
8 The success of Internet start-up companies is critically dependent on their business and revenue models and traditional management practice.

Exercises

Self-assessment questions

1 Outline the main options for trading between businesses and consumers.
2 Explain the concepts of disintermediation and reintermediation with reference to a particular industry; what are the implications for a company operating in this industry?
3 Describe the three main alternative locations for trading within the electronic marketplace.
4 What are the main types of commercial transaction that can occur through the Internet or in traditional commerce?
5 Digital business involves re-evaluating value chain activities. What types of change can be introduced to the value chain through digital business?
6 List the different business models identified by Timmers (1999).
7 Describe some alternative revenue models for the website of a magazine publisher.
8 Draw a diagram summarising the different types of online marketplace.

Essay and discussion questions

1 'Disintermediation and reintermediation occur simultaneously within any given market.' Discuss.
2 For an organisation you are familiar with, examine the alternative business and revenue models afforded by the Internet and assess the options for the type and location of e-commerce transitions.
3 For a manufacturer or retailer of your choice, analyse the balance between partnering with portals and providing equivalent services from your website.
4 Contrast the market potential for B2B and B2C auctions.
5 Select an intermediary site and assess how well it makes use of the range of business models and revenue models available to it through the Internet.

Examination questions

1 Explain disintermediation and reintermediation using examples.
2 Describe three different revenue models for a portal such as Yahoo!
3 What is meant by buy-side, sell-side and marketplace-based e-commerce?
4 What are the different mechanisms for online auctions?
5 Describe two alternative approaches for using digital business to change a company's value chain.
6 Explain what a business model is and relate it to an Internet pureplay of your choice.
7 Outline the elements of the digital business environment for an organisation and explain its relevance to the organisation.
8 Give three different transaction types that an industry marketplace could offer to facilitate trade between buyers and suppliers.

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Web links

Adoption of Internet and online services

These sources are listed at the end of Chapter 4 and examples given in that chapter.

Business model development

FastCompany (**www.fastcompany.com**) Covers the development of business models with a US focus.
The Next Web (**http://thenextweb.com**) Covers media and technology news (with a focus on social media).
Gigaom (**www.gigaom.com**) Covers emerging technology research.

Commentators on online business models

Mohansawhney.com (**www.mohansawhney.com**) Papers from e-business specialist, Mohanbir Sawhney of Kellogg School of Management, Northwestern University, Evanston, IL, USA.
Michael Rappa's Business Models page (**http://digitalenterprise.org/models/models.html**) Michael Rappa is a professor at North Carolina State University.
Dave Chaffey's Smart Insights (**www.smartinsights.com**) Discussion on business models and spreadsheets for modelling publishing and e-commerce revenue.