# LOG 206

## L2: Business Models for e-commerce

**Department of Logistics**

**Molde University College**

**Spring 2018**

Høgskolen i Molde
Vitenskapelig høgskole i logistikk

# The iPod!

The original iPod, announced on October 23, 2001.

**Was Apple the first to bring portable MP3 players to the market ?**

# NO!

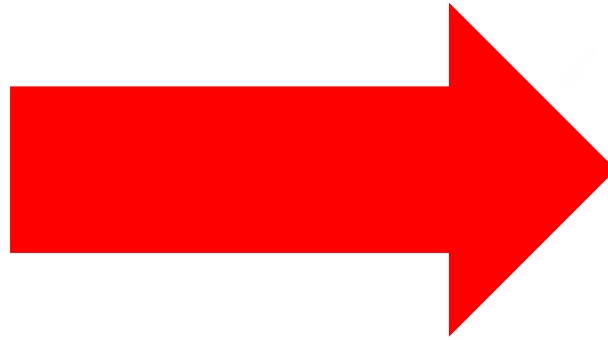**Diamond Multimedia introduced Rio PMP300 in 1998**

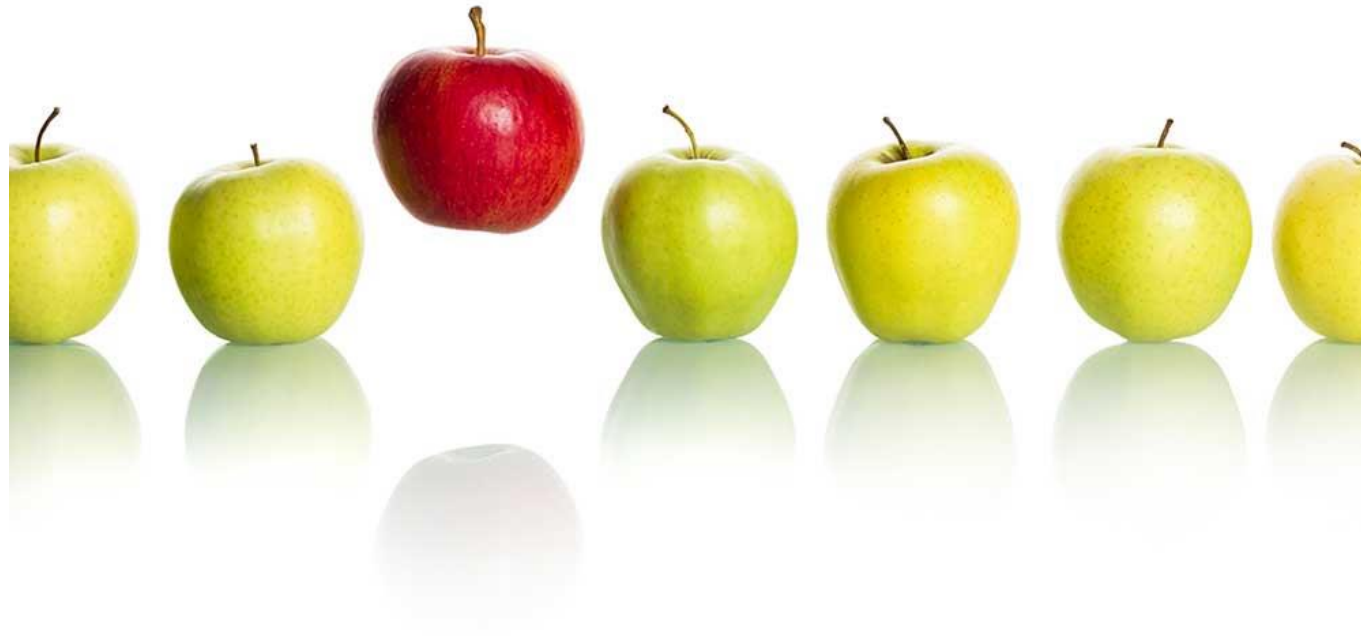**Best Data introduced the Cabo 64 in 2000**

# Not that unique............



The first iPod

Rio PMP300

# So, what distinguished the Ipod?

In addition to storage capacity, battery life and a poor UI, Apple was keenly aware of the headache users experienced when trying to sync songs from their computer to a personal MP3 player.

- In 2003, Apple Inc. introduced the iPod (version 4.0) with the iTunes Store

- In just 3 years, the iPod/iTunes combination became a nearly $10 billion product

- They accounted for almost 50% of Apple's revenue

# iPod + iTunes = MAGIC!

# AND THE MORAL OF THE STORY IS...

**bringing together pieces of the business puzzle can make  huge difference on the marketplace ...........**

Business is a puzzle – Look for new pieces or rearrange the existing pieces to Win…………

# Business model

- The logic of the company—how it creates, delivers and captures value for stakeholders

- It is "**the story that explains how an enterprise works**" – Joan Magretta,

- Set of planned business elements designed to result in a profit in a marketplace

- Different companies have different business models. Some are simple and others are complex
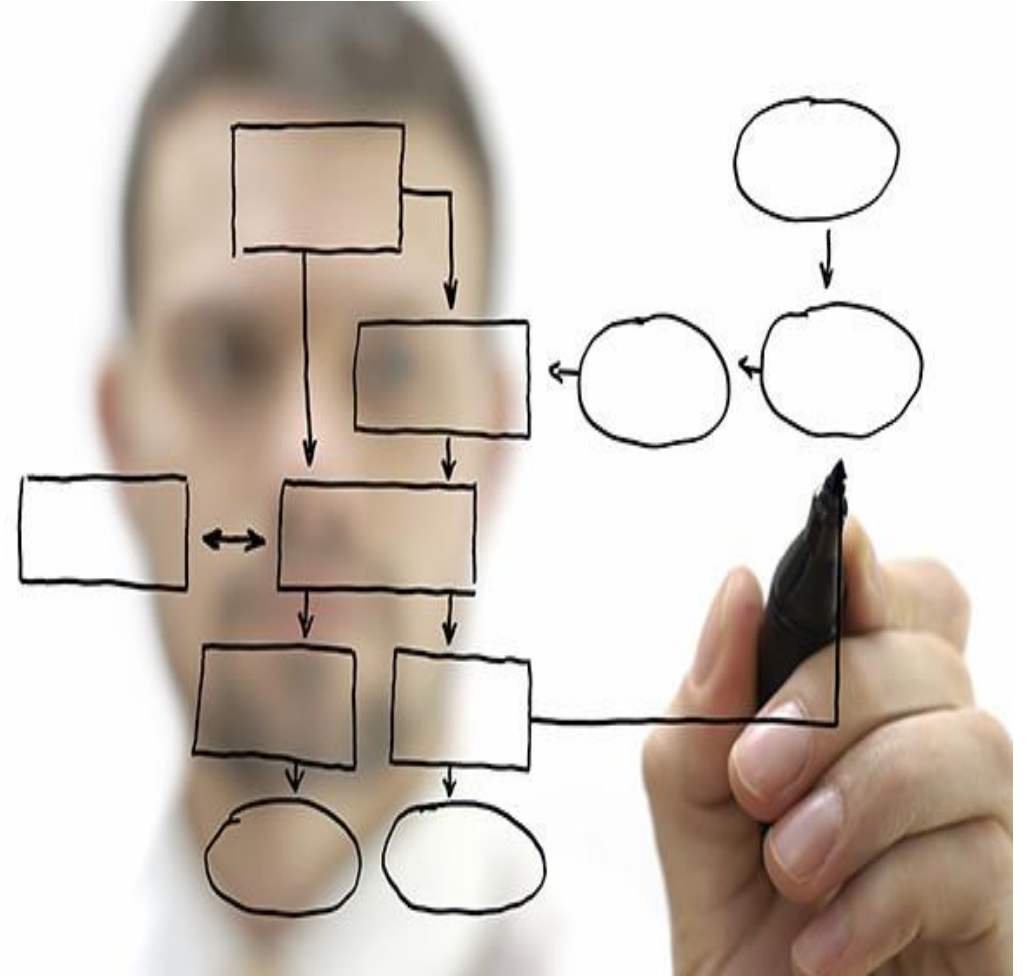
# Business model

**A good business model answers the following questions:**
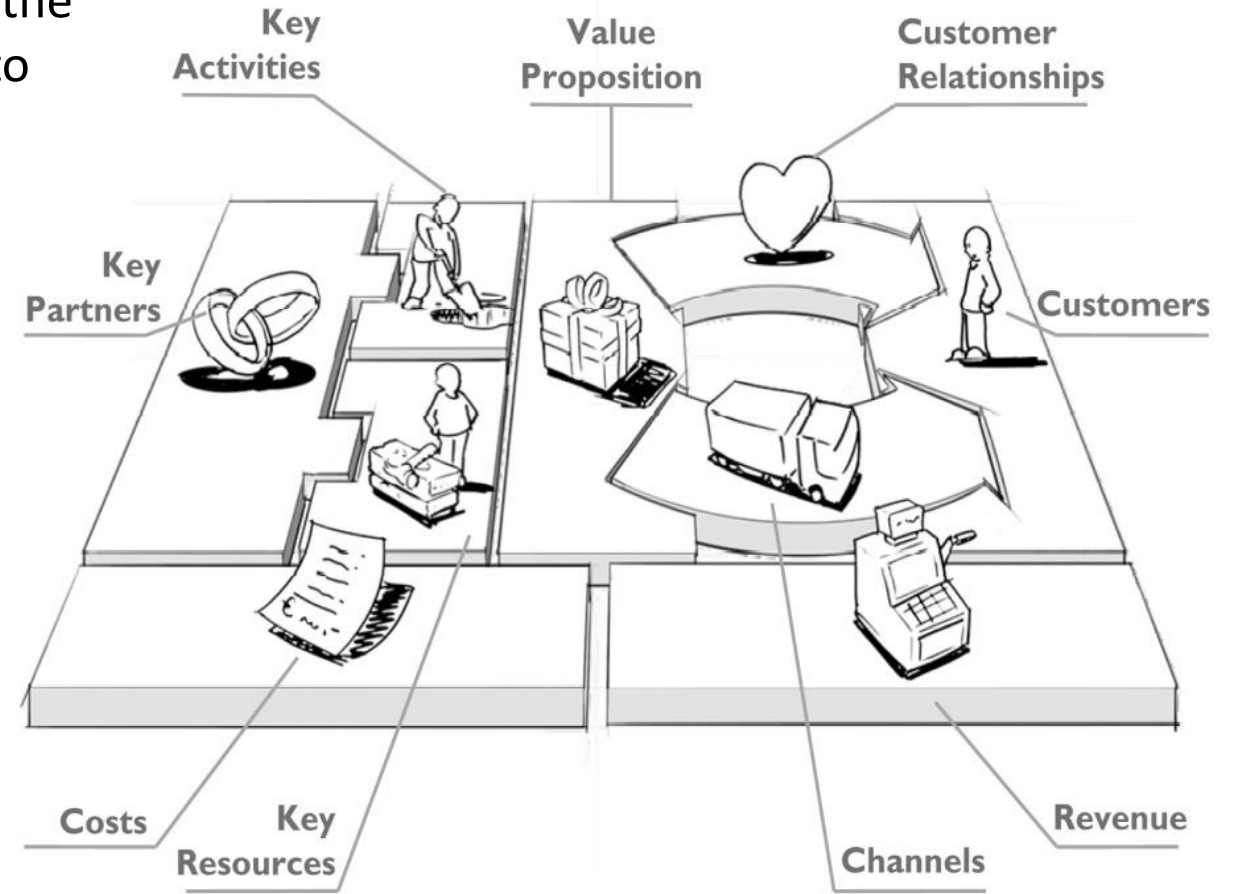
- Who is the customer?

- What does the customer value?

- How can we deliver value to customers efficiently?

- How do we make money in this business?

# Business model Canvas

- The Business Model Canvas is a chart that maps the key elements that a business needs to get right to be successful.

- The Business Model Canvas has become the preferred tool for modern startups to use when rapidly testing a business idea.



drawings by JAM

# Business model Canvas

| Key Partners | Key Activities | Value Propositions | Customer Relationships | Customer Segments |
|---|---|---|---|---|
| (Key Partners) | (Key Activities) | (Value Propositions) | (Customer Relationships) | (Customer Segments) |
| | **Key Resources**<br>(Key Resources) | | **Channels**<br>(Channels) | |

| Cost Structure | Revenue Streams |
|---|---|
| (Cost Structure) | (Revenue Streams) |

# Business model Canvas



(Customer Segments)

Different target audiences to whom the product will appeal
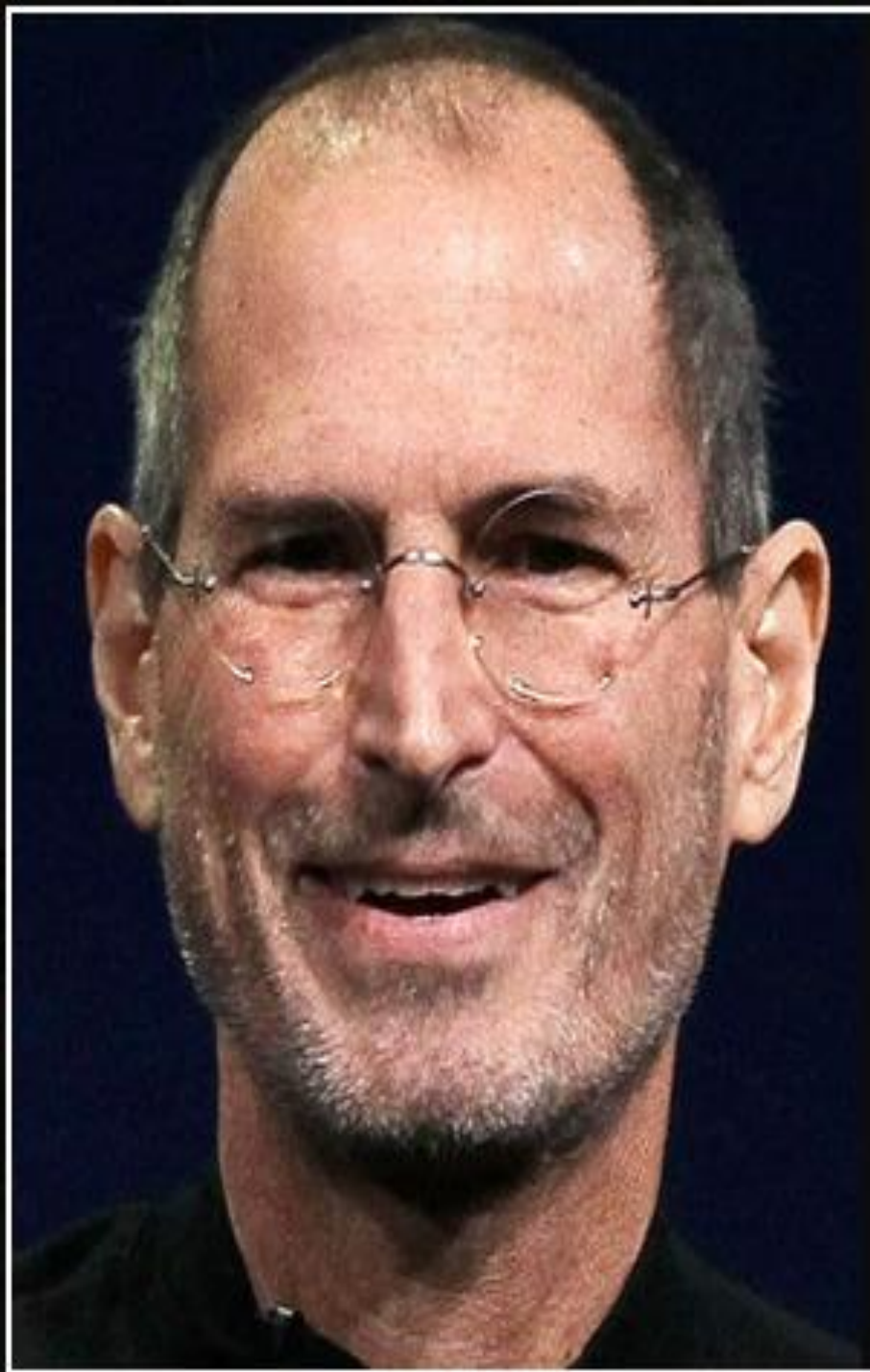
You've got to start with the customer experience and work backwards to the technology. You can't start with the technology and try to figure out where you're going to sell it.

— Steve Jobs —

# Number of apps available in leading app stores as of March 2017



**2.8 mil**

**2.2 mil**

| | |
|---|---|
| 2 800 000 | Google Play |
| 2 200 000 | Apple App Store |
| 669 000 | Windows Store |
| 600 000 | Amazon Appstore |
| 234 500 | BlackBerry World |

Number of apps
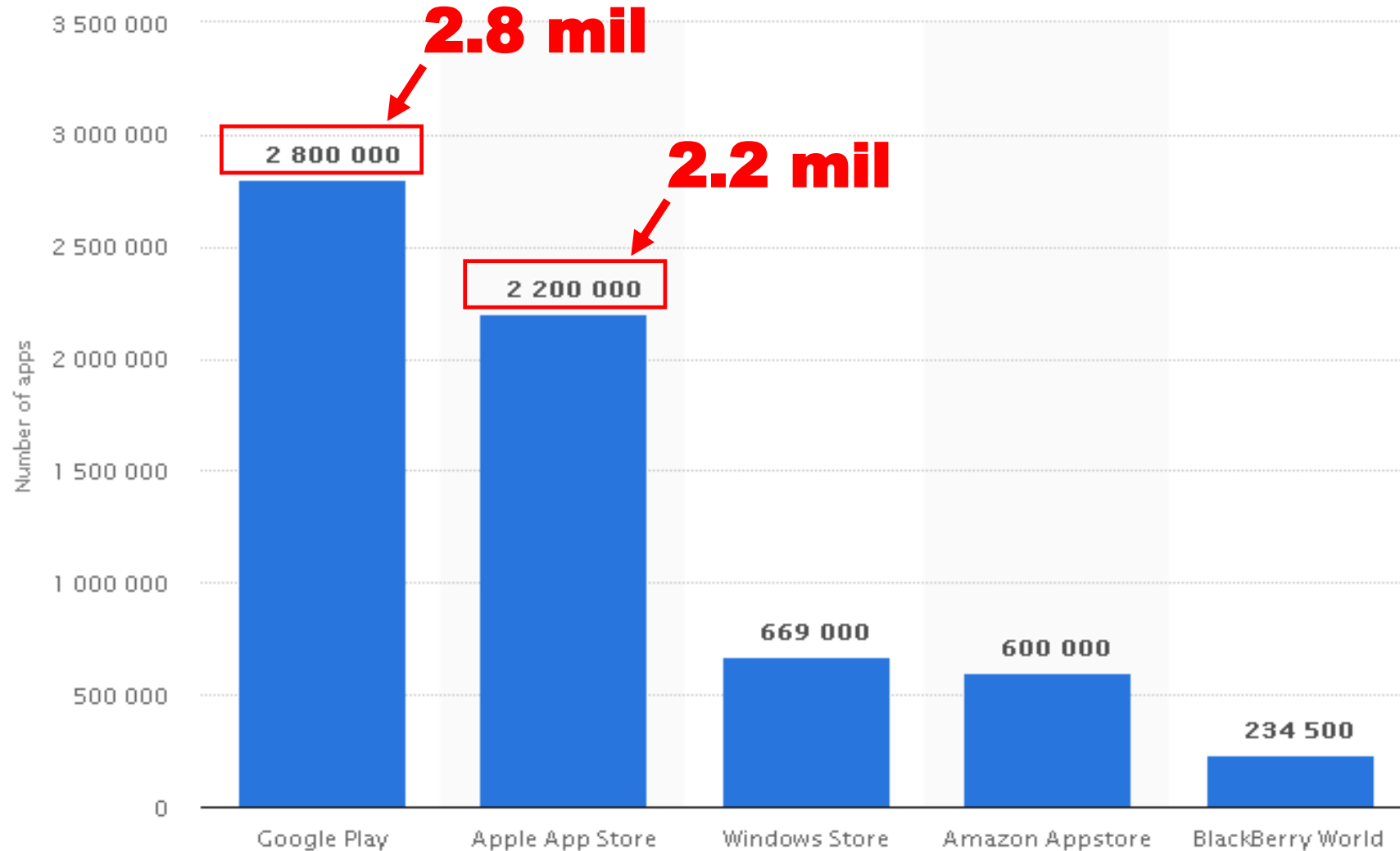
**Source: Statista 2018**

**Market need!**    **Market need!**    **Market need!**

## Top 20 Reasons Startups Fail
Based on an Analysis of 101 Startup Post-Mortems

| Reason | Percent |
|---|---|
| No Market Need | 42% |
| Ran Out of Cash | 29% |
| Not the Right Team | 23% |
| Get Outcompeted | 19% |
| Pricing/Cost Issues | 18% |
| Poor Product | 17% |
| Need/Lack Business Model | 17% |
| Poor Marketing | 14% |
| Ignore Customers | 14% |
| Product Mis-Timed | 13% |
| Lose Focus | 13% |
| Disharmony on Team/Investors | 13% |
| Pivot gone bad | 10% |
| Lack Passion | 9% |
| Bad Location | 9% |
| No Financing/Investor Interest | 8% |
| Legal Challenges | 8% |
| Don't Use Network/Advisors | 8% |
| Burn Out | 8% |
| Failure to Pivot | 7% |

**Source: CB Insights**

There is only one valid definition of a business purpose: to create a customer.

(Peter Drucker)

# Customer segmentation for online business

- This involves identifying and summarizing different target segments for an online business

- The aim is to understand the online media consumption, buyer behavior and type of content and experiences buyers are looking for

- It involves grouping customers based on similarities they share with respect to any dimensions you deem relevant to your business

- Create persona for key audiences

# Customer segments

- Examples of dimensions one may consider may include:
  - ✓ Web savvy vs. Non-web savvy
  - ✓ Demographic attributes
  - ✓ Stages in Lifecycle
  - ✓ Psychographic segmentation etc.

- NB: Segment (or group) your customers in a way that will have the biggest impact on your business

## Some segmentation criteria

**B2B /business to business/:**

- **Area of activity**: industry sector, public or private, size, location etc.
- **Operation**: technology, how they use your products.
- **Buying patterns**: how they place orders, their size and frequency.
- **Behavior**: their loyalty and attitude to risk.

**B2C /business to consumer/:**

- **Location**: town, region, country.
- **Demographics**: age, gender, income, occupation, education, social class.
- **Attitude and lifestyle**
- **Buying behavior**: product usage, brand loyalty, purchasing frequency, benefits they seek for in your product or service etc.
- **Promotion frequency**: how often they have been offered by you and how they respond.

# Customer segments: create persona



**Persona Profile for: "BUSY MOM"**

Age Range: _____

Key Responsibilities: _____

Major Concerns: _____
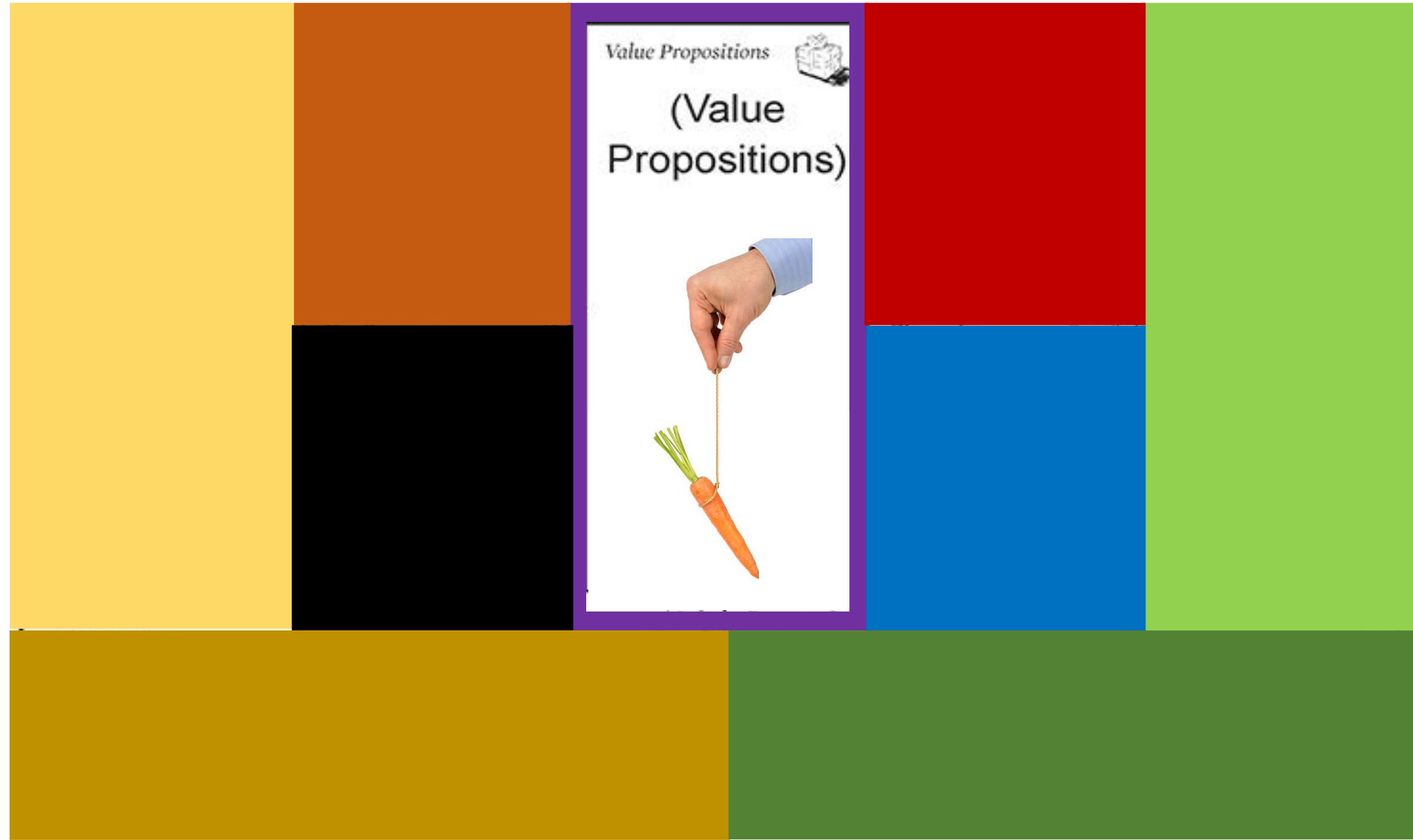
Key Stressors/Pain Points: _____

Key Purchase Drivers: _____

Place(s) Most Likely to Find
Information_____

Preferred Content Medium: _____

Days/Times Most Likely to Consume
Content:_____

Role in Purchase Process for Family: _____
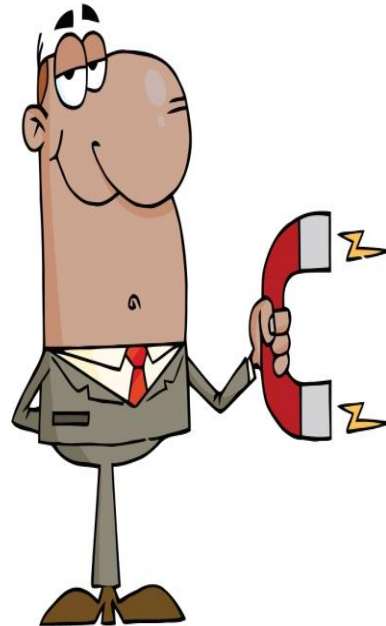
# Business model Canvas



Value Propositions

(Value Propositions)

This is the at the heart of what the business offers to its audiences and arguably the most important

# Value proposition

- A business or marketing statement that summarizes why a consumer should buy a product or use a service

- It is the point of intersection between your offering and your customer's desires

- The ideal value proposition is concise and appeals to the customer's strongest decision-making drivers.

# Example of value proposition

Secure | https://frankwalton.no/omoss/hvordan-gjor-vi-det.html

Apps | Hvem har retten til de | Top 331 Reviews and | ACSI (American Cust | Inconvenient - defini | Watch TV Links Onlin | Høgskolen i Molde | What Is a Business M | Full pupp fremover - | Maryam (62) kjøpte l | Social Network Analy | Democracy and econ | Other bookmark

**FRANK WALTON** — HAN + — HENNE + — BUTIKKER — HOME TRY-ON — OM OSS + — SYNSTEST

RING OSS 957 91 877 — HANDLEVOGN — http://frankwalton.no



## HVA GJØR VI ANNERLEDES?

**①**

### KUTTER UNØDVENDIGE MELLOMLEDD

FRANK WALTON SELGER BRILLER MED SAMME KVALITET SOM DE DYRE MERKEVAREBRILLENE MEN TIL EN RIMELIGERE PRIS. DETTE FÅR VI TIL VED Å KUTTE UNØDVENDIGE MELLOMLEDD. VI DESIGNER VÅRE EGNE BRILLER OG FÅR DE PRODUSERT I VÅRE FABRIKKER. ENESTE MELLOMLEDD MELLOM FABRIKK OG KUNDE ER OSS

FRANK WALTON

FABRIKK — IMPORTØR — GROSSIST — BUTIKK — DEG

$ — $ — $ — $

TRADISJONELL SALGSMODELL
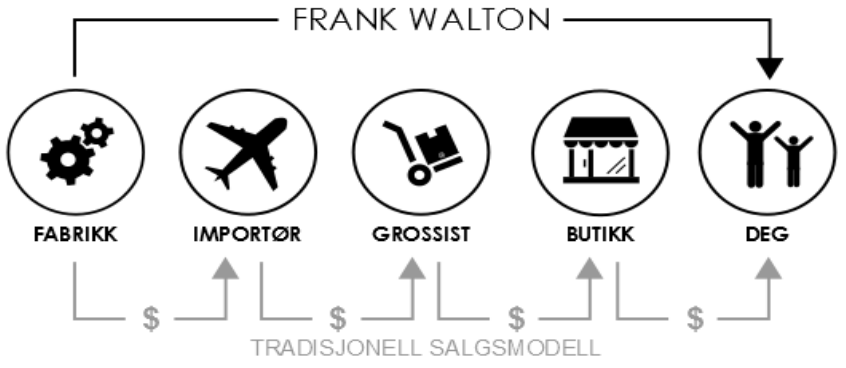
## WHAT DO WE DO DIFFERENTLY?

**①**

### CUT UNNECESSARY INTERMEDIARIES

FRANK WALTON SALES GLASSES OF THE SAME QUALITY AS GLASSES OFFERED BY THE EXPENSIVE BRANDS, BUT OUR PRICES ARE MORE REASONABLE. WE ABLE TO OFFER LOWER PRICE BY GETTING REED OF THE UNNECESSARY INTERMEDIARIES. WE DESIGN AND PRODUCE THE GLASSES IN OUR OWN FACTORIES. THE ONLY INTERMEDIARY BETWEEN IS US.

FRANK WALTON

FABRIKK — IMPORTØR — GROSSIST — BUTIKK — DEG

$ — $ — $ — $

TRADISJONELL SALGSMODELL
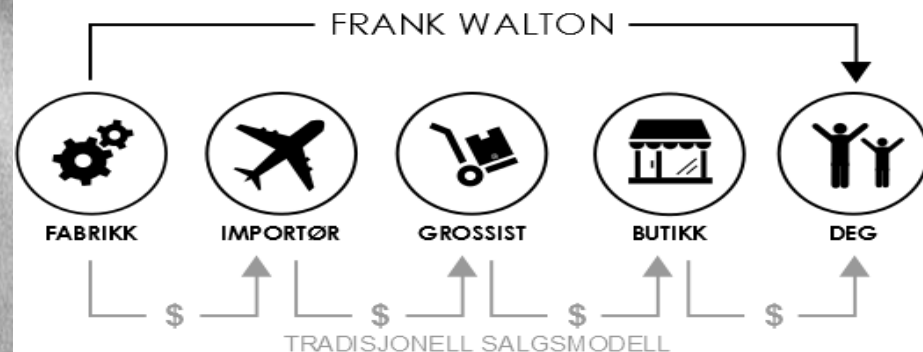
**Value proposition-Example**

## HVA GJØR VI ANNERLEDES?

② 

### BRUKER DE BESTE MATERIALENE TILGJENGELIG

VI BRUKER DE BESTE MATERIALENE TILGJENGELIG TIL Å LAGE BRILLENE VÄRE. ACETATEN VI BRUKER KJØPER VI INN FRA DEN ITALIENSKE PLASTIKKFABRIKKEN MAZZUCCHELLI SOM HAR PRODUSERT ACETAT SIDEN 1849. HENGSLENE TIL BRILLENE KJØPES INN FRA NORD I ITALIA - OG ER PÅ FLERE AV BRILLENE LAGET SLIK AT DE KAN BØYES UTOVER UTEN AT DET GIR SLITASJE PÅ BRILLENE
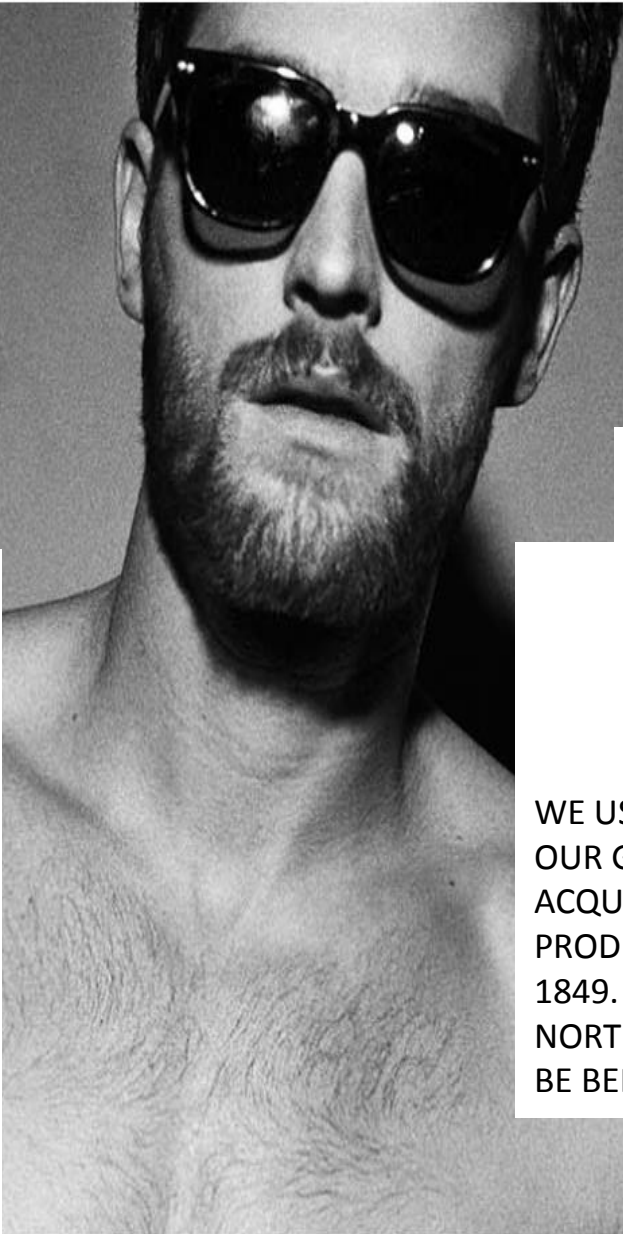
## WHAT DO WE DO DIFFERENTLY?

② 

### WE USE THE BEST MATERIALS AVAILABLE

WE USE THE BEST MATERIALS AVAILABLE FOR MAKING OUR GLASSES. THE ACETATE USED IN OUR GLASSES IS ACQUIRED FROM MAZZUCCHELLI, THE ITALIAN PLASTIC PRODUCER THAT HAS BEEN PRODUCING ACETATE SINCE 1849. THE HINGES OF THE GLASSES ARE ACQUIRED FROM NORTHEN ITALY AND ARE MADE IN A WAY THAT THEY CAN BE BENT WITHOUT WEAKENING THE GLASSES.

**Value proposition-Example**

FRANK WALTON   HAN +   HENNE +   BUTIKKER   HOME TRY-ON   OM OSS +   SYNSTEST

RING OSS 957 91 877   HANDLEVOGN

## HVA GJØR VI ANNERLEDES?

**3**

### UV - OG RIPEBESKYTTELSE FÅR DU INKLUDERT HOS OSS - ALLTID!

VI ØNSKER IKKE AT NOEN SKAL GÅ RUNDT MED FRANK WALTON BRILLER MED DÅRLIGE GLASS. DERFOR ER ALLTID UV-BESKYTTELSE OG RIPEBESKYTTELSE INKLUDERT I PRISEN. OG OM DU ØNSKER Å TILPASSE BRILLENE ER DET SELVFØLGELIG GRATIS I VÅRE BUTIKKER!

## WHAT DO WE DO DIFFERENTLY?

**3**

### UV AND SCRATCH PROTECTIONS ALWAYS ON US

WE WOULDN'T LIKE SEEING ANYONE GOING AROUND WITH DAMAGED FRANK WALTON GLASSES. THUS, UV AND SCRATCH PROTECTION IS INCLUDED IN PRICE. AND IF YOU WISH TO CUSTOMIZE YOUR GLASSES YOU CAN DO SO IN OUR STORES FREE OF CHARGE.
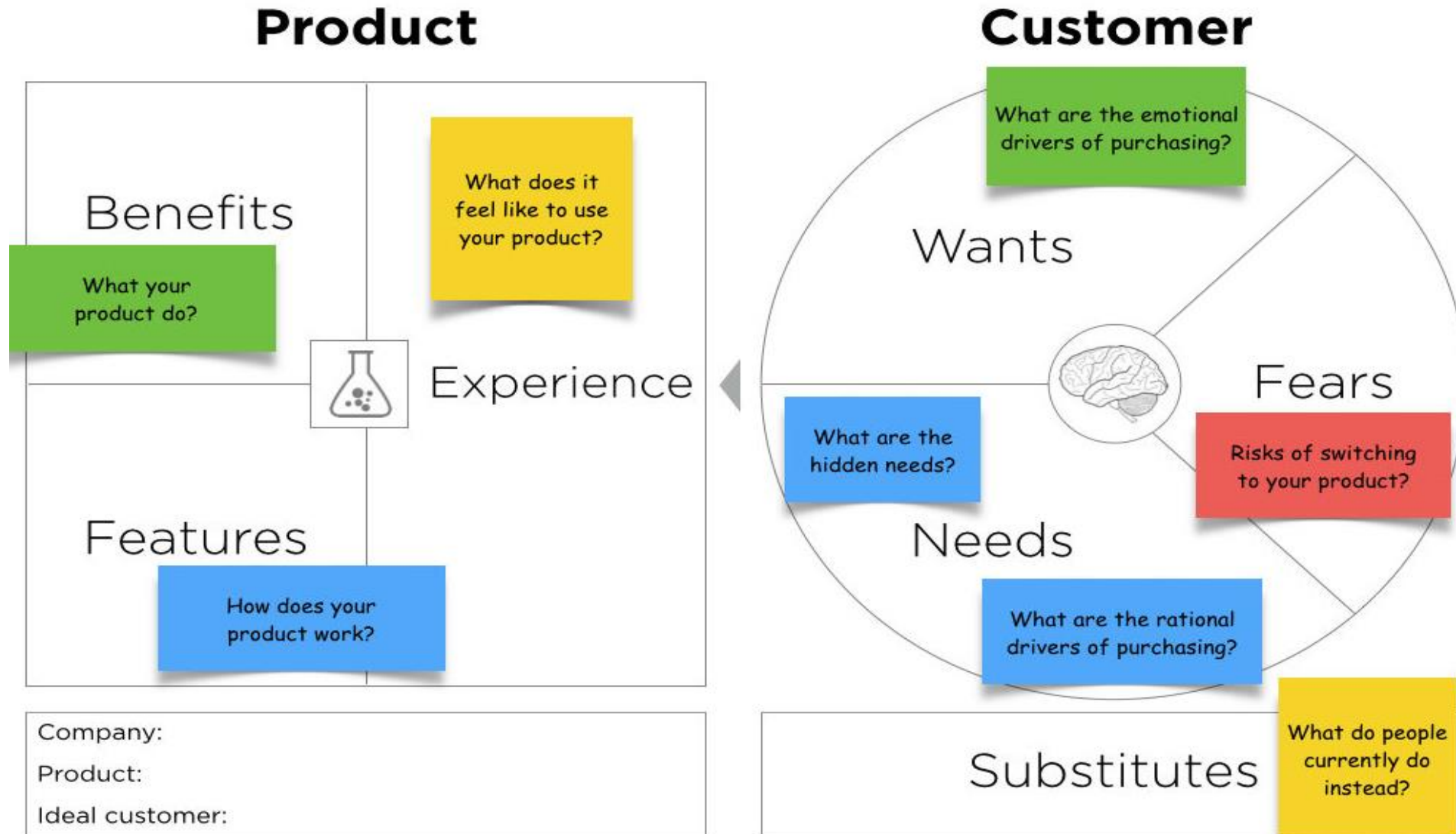
# Value proposition canvas

- A "value proposition canvas" is a chart that maps the key elements that constitute your product and why people buy it.

- It is a simple way to understand your customers needs, and design products and services they want.

- It helps show the magic fit between what you make and why people buy it.
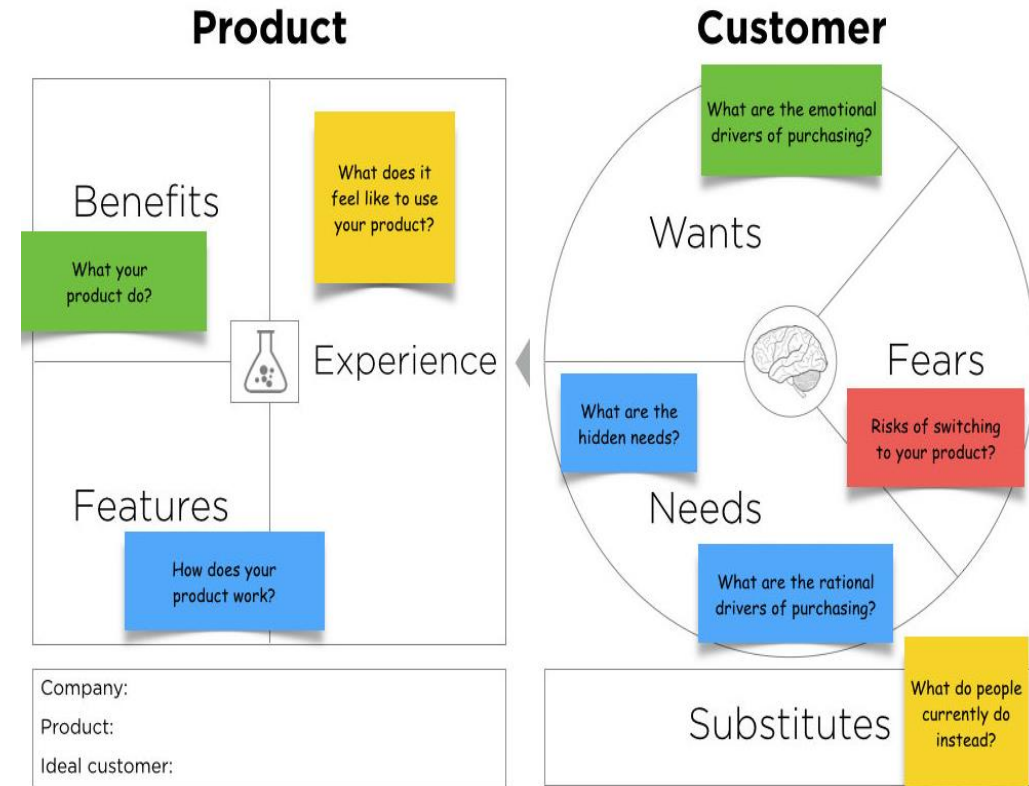
# Value proposition canvas

# Value proposition canvas – create the fit

- Those want cost-efficient cab at their doorstep
- Those who like to travel in style and want to be treated as VIP

- Fear of being stuck somewhere with no way to get home
- Fear of missing important appointments
  - Fear of being exposed to vulnerable situations

**Customer**

What are the emotional drivers of purchasing?

Wants

Fears

What are the hidden needs?

Risks of switching to your product?

**1**

Needs

What are the rational drivers of purchasing?

Moving from point A to point B safely

## Benefits

- Fast, efficient, comfortable way to get where you're going.

## Experience

- no phone calls to disinterested dispatchers
- no painful conversations trying to explain to a stressed-out cabbie about where you need to be
- no fumbling for change or worrying you've got enough bills in your wallet.

## Features

- One tap and a car comes directly to you
- Your driver knows exactly where to go
- Payment is completely cashless

- Those want cost-efficient cab at their doorstep
- Those who like to travel in style and want to be treated as VIP

- Fear of being stuck somewhere with no way to get home
- Fear of missing important appointments
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## Customer

**What are the emotional drivers of purchasing?**

### Wants

### Fears

**Risks of switching to your product?**

**What are the hidden needs?**

### Needs

**What are the rational drivers of purchasing?**

1

UBER

Moving from point A to point B safely

# Business model Canvas

Channels

(Channels)

The methods by which the organization´s products will be delivered and the audiences reached.

**Key question for this block is "how do you reach your customers?" That is:**

- What are the most effective methods to reach your customers?
- What are the channels you use to communicate, sell and service your customers?
- How do you manage the customer journey from awareness raising to completing a sale?

channels



App for
passengers

App for drivers

Phone

# Business model Canvas



**Customer Relationships**

(Customer Relationships)

The type of relationships that will be formed, e.g. self-service, automated services, communities or more personal assistance

# CUSTOMER RELATIONSHIP



**Key question for this block is "how do you interact with your customers?"
That is:**

- How will communicate with your customers (face-to-face or remotely)?
- How will you manage customer acquisition, convincing your customers to select your products or services over that of others available?
- Can you retain customers and how will you do this?
- Can you offer added value and upsell to your customers?

customer
relationships

Self service

Rated

# Customer touchpoints

- Customer touchpoints are all the different aspects that form consumers´ experience of a product from when they first become aware of it, until they dispose it.

- Every touchpoint plays a role in reinforcing the brand's positioning and overall perception.

- Important touchpoints that are majorly mishandled can send customers fleeing and result in damaging, unfavorable word of mouth
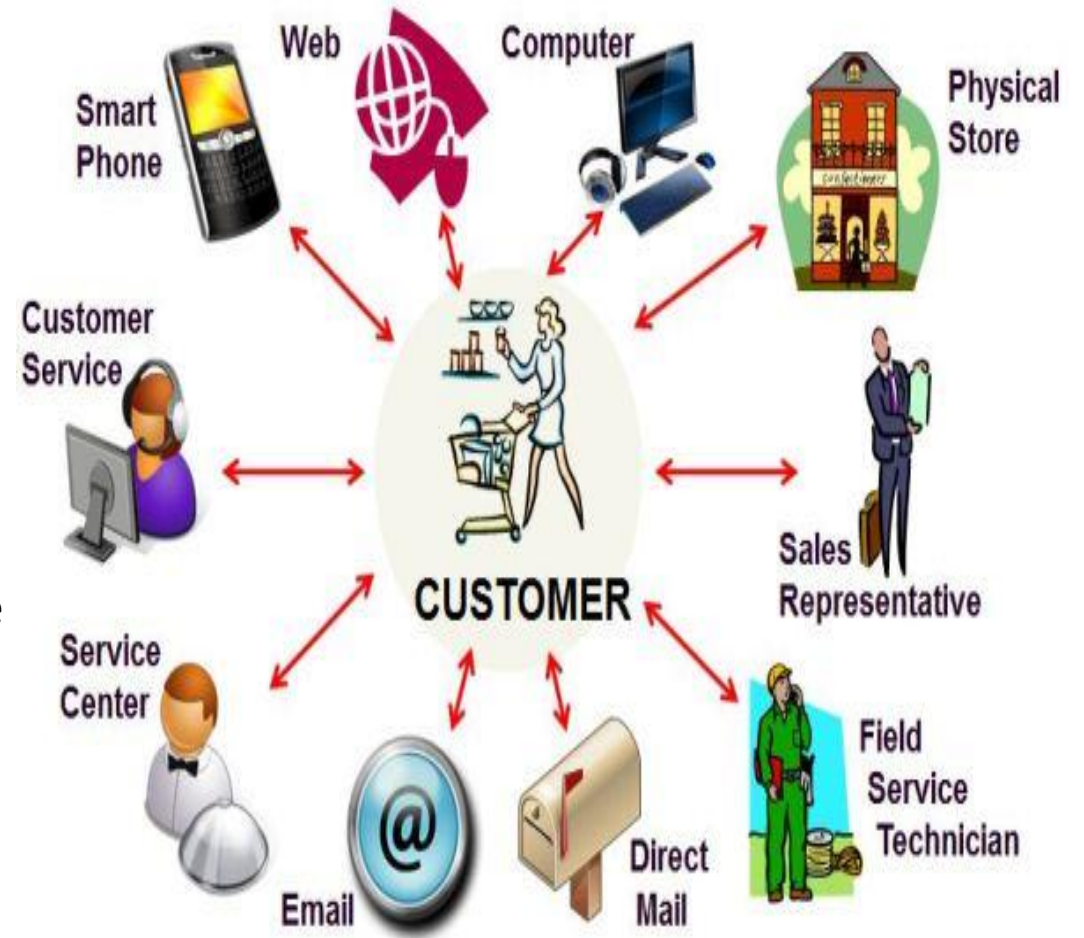
# Maintain consistence in your customer touchpoints......

**Example: Apple**

*"Simplicity is the Ultimate Sophistication"*
Apple- Late 1970s/1980s

A Clean, Easy to Navigate Website

Packaging

Demo Units in Store

Convinient Store Locations

Attitudes of employees in stores

In-Store Classes

Questionnaires on satisfaction

Etc.

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# Customer journey……

- A customer journey refers to all the steps your customer(s) go through in engaging with your business, whether its a product, an online experience, retail experience, or a service, or any combination.

- The more touchpoints you have, the more complicated — but necessary — such a journey becomes.

# Customer journey Analysis.....Example

## Website Customer Journey Analysis For SaaS Business

| Search | Evaluate | Experiment | Purchase | Retain |
|---|---|---|---|---|
| How are prospects finding you? Where are they originating outside of your site | What are the details of your solution? How do they compare with other solutions? | How can prospects engage with solution before spending money? | What are the steps to payment? Do customers start with a free trial period? | How do customers get ongoing support? |
| **Customer goals** | | | | |
| Locate a solution | Asses if this solution is the best option/fit for needs | Decide if this solution is worth paying for | Get access to all features and benefits according to chosen plan | Get ongoing support and customer service when needed |
| **Touchpoints** | | | | |
| Google | Case studies | Trial registration | Cart page | Help pages |
| Twitter | FAQ page | Account creation | Checkout | Customer support contact |
| LinkedIn | Pricing page | Product tour | | |
| | Blog posts | | | |

Cite specific URLs once you're ready to make recommendations for testing.

**Source**: ConversionXL.com

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# Online Path to purchase

- The different sites, channels, devices and information sources that consumers use to inform their purchase decision for a product.

- It is also known as conversion pathways on a site. Nowadays the path to purchase has become much more complex due to increased touch points.

# Multichannel marketing strategy

- This defines how different channels should integrate and support each other in terms of their proposition development and communications based on their relative merits for the customer and the company

- It is important to develop "channel chains" in order to understand consumers multichannel behavior

- A channel chain is useful for assessing the current and future performance of customer journeys.

# Multichannel marketing strategy

Assess different customer journeys……………………….

# Business model Canvas
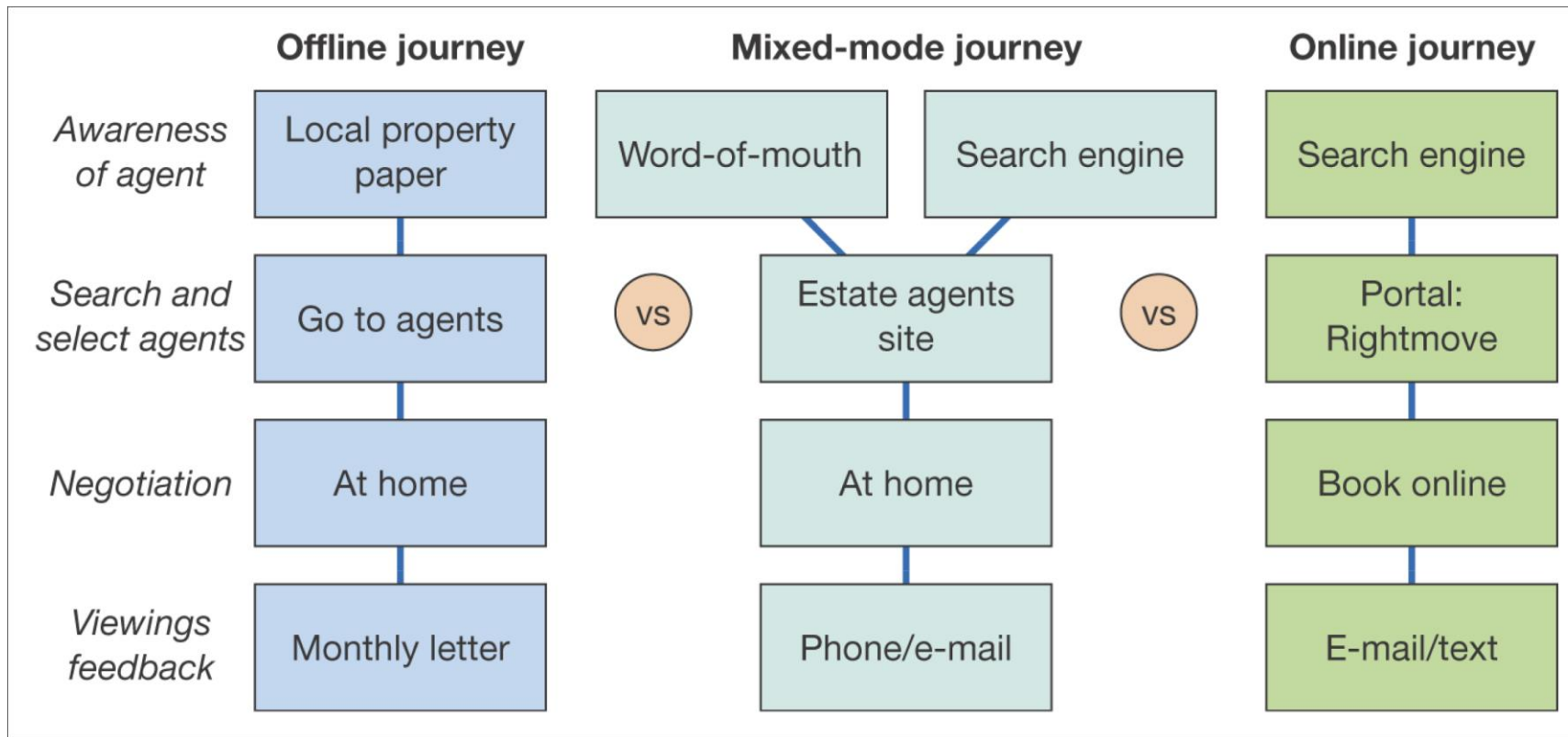


**Key Partners**
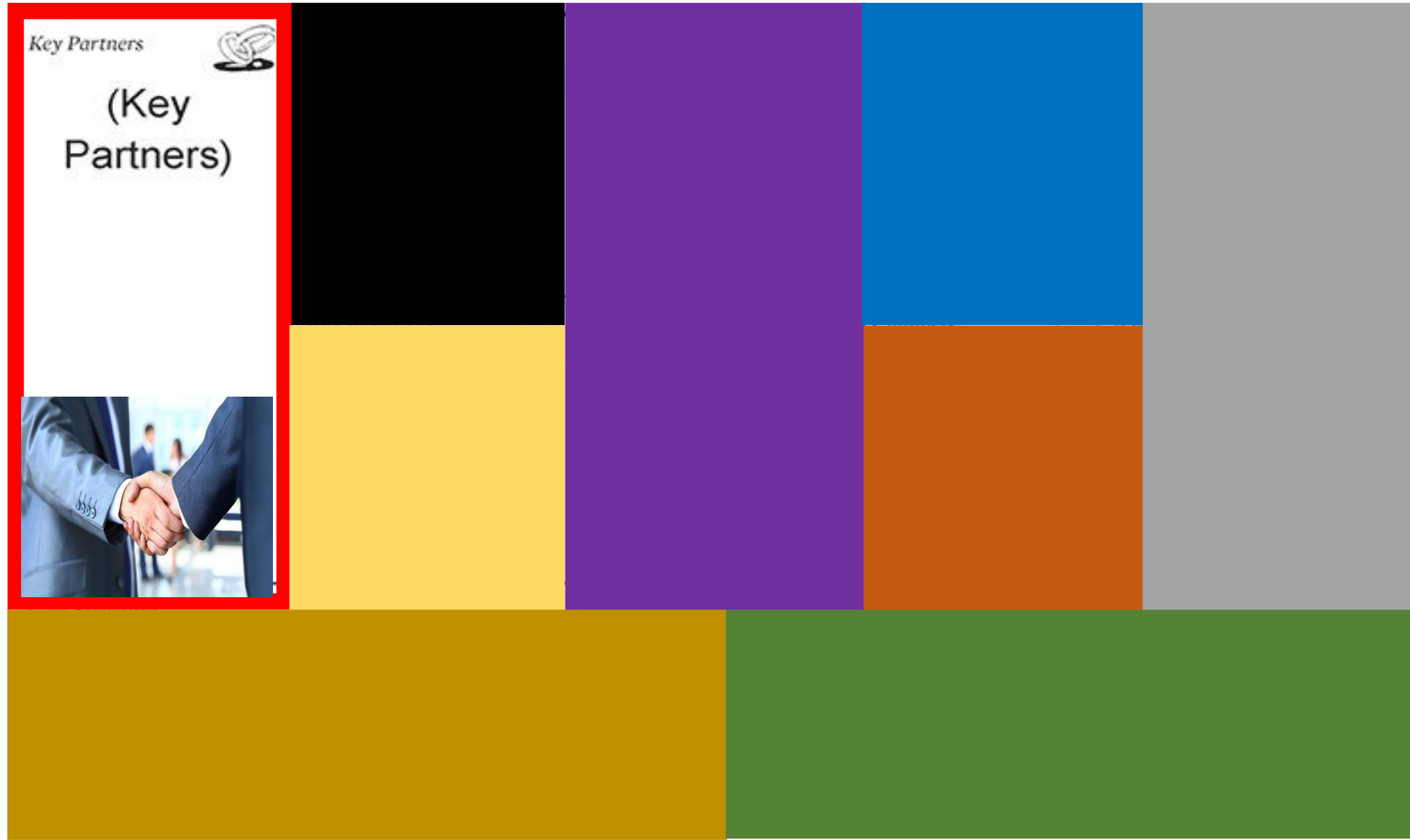
(Key Partners)

Partnerships give opportunity of expanding reach by taking advantage of existing organizations and online influencers that have built an audience

**Key question for this block is "what partnership are critical to your business?"**
**That is:**

- Who are your key partners, suppliers or collaborators?
- What key activities do they perform?
- What key resources do they provide/deliver?
- How will you manage these relationships?

# Business model Canvas

Key Activities

(Key Activities)

The main activities that need to be performed in order to deliver the value proposition

# Cause and effect in business value creation

**Key question for this block is "what tasks are key to the success of your business?"**
**That is**:

- What are the key actions and activities that will enable you to deliver your value proposition?
- What processes will ensure your business runs efficiently?
- How will you manage research and development, production, marketing, sales, customer service, finance and administration?

**Owners**
Performance expectations

**Customers**
- Who
- Why?

**Activities**
- Which
- How

**Resources**
**E.g.,**
Capital, information, Entrepreneurship etc

# Business model Canvas

Key Resources
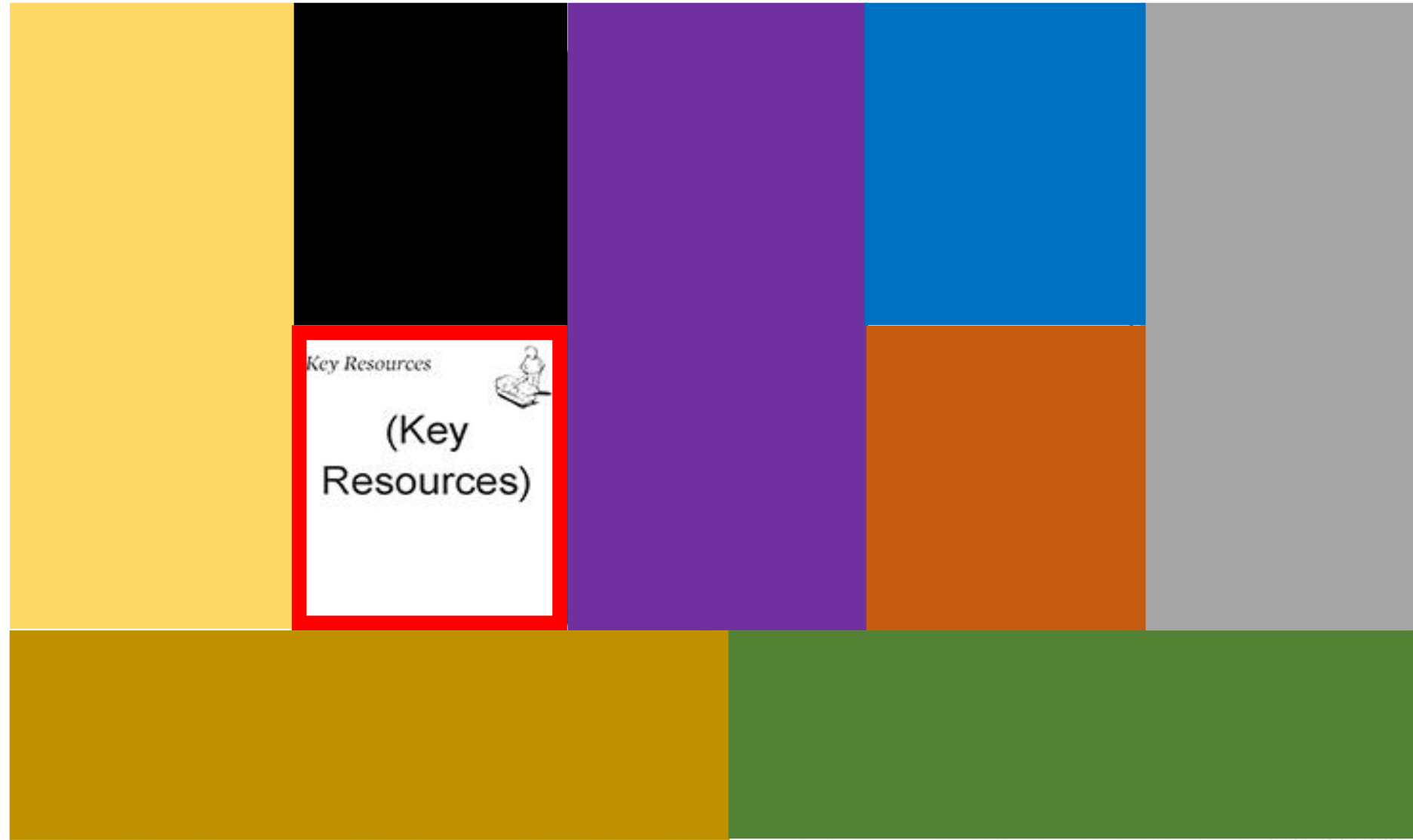
(Key Resources)

Different types of inputs needed to complete the activities to create and deliver value proposition

# Cause and effect in business value creation

**Key question for this block is "what resources do you need to create and deliver your value proposition?"**
**That is:**

- What physical resources will you need now and in the future?
- Which digital assets do you need?
- What human resources do you need now and in the future?
- What financial resources will you need? This might include lines of credit, working capital, and access to finance?



**Owners**
Performance expectations

**Customers**
- Who
- Why?

**Activities**
- Which
- How

**Resources**
E.g.,
Capital, information,
Entrepreneurship etc

# Business model Canvas

Cost Structure

(Cost Structure)
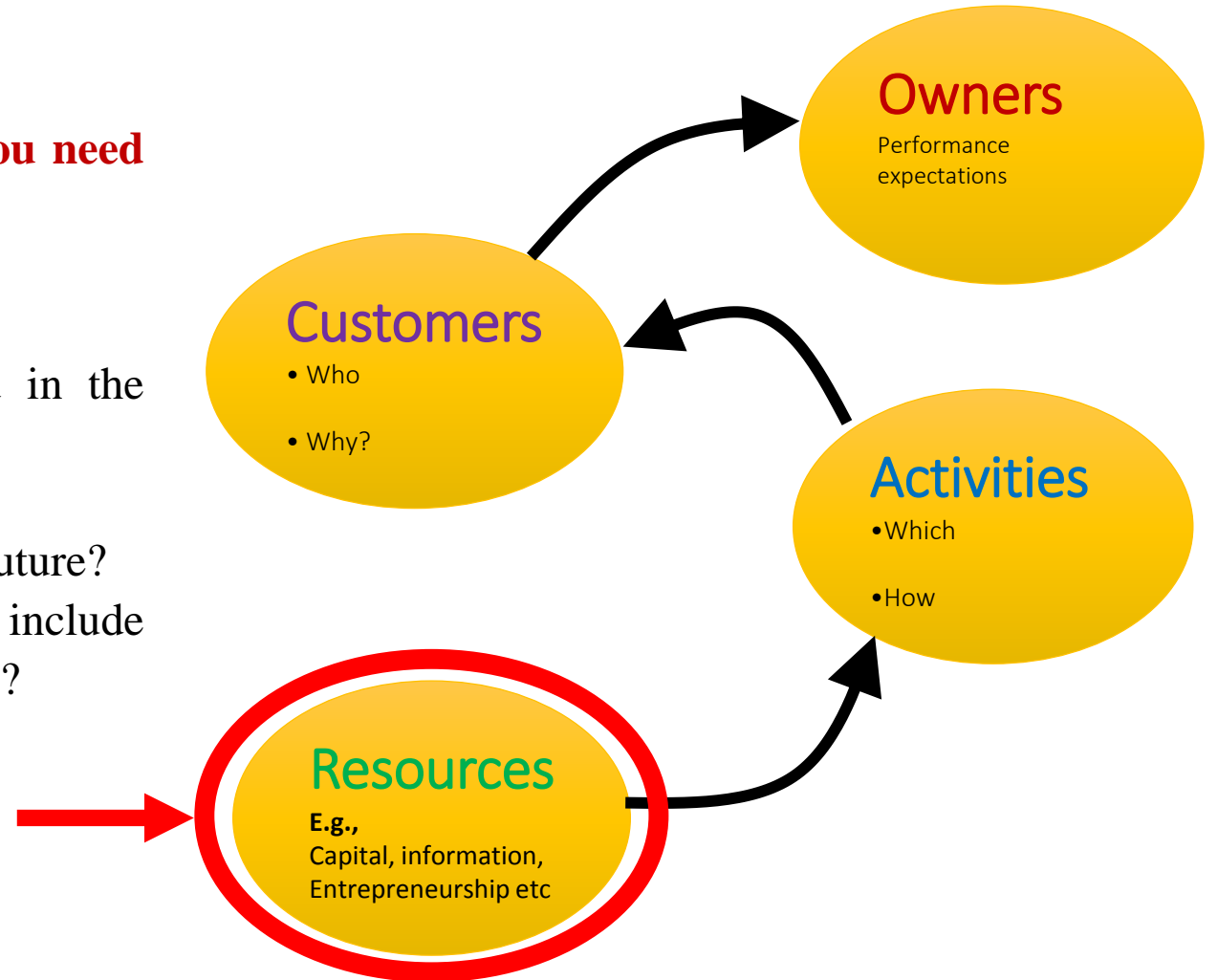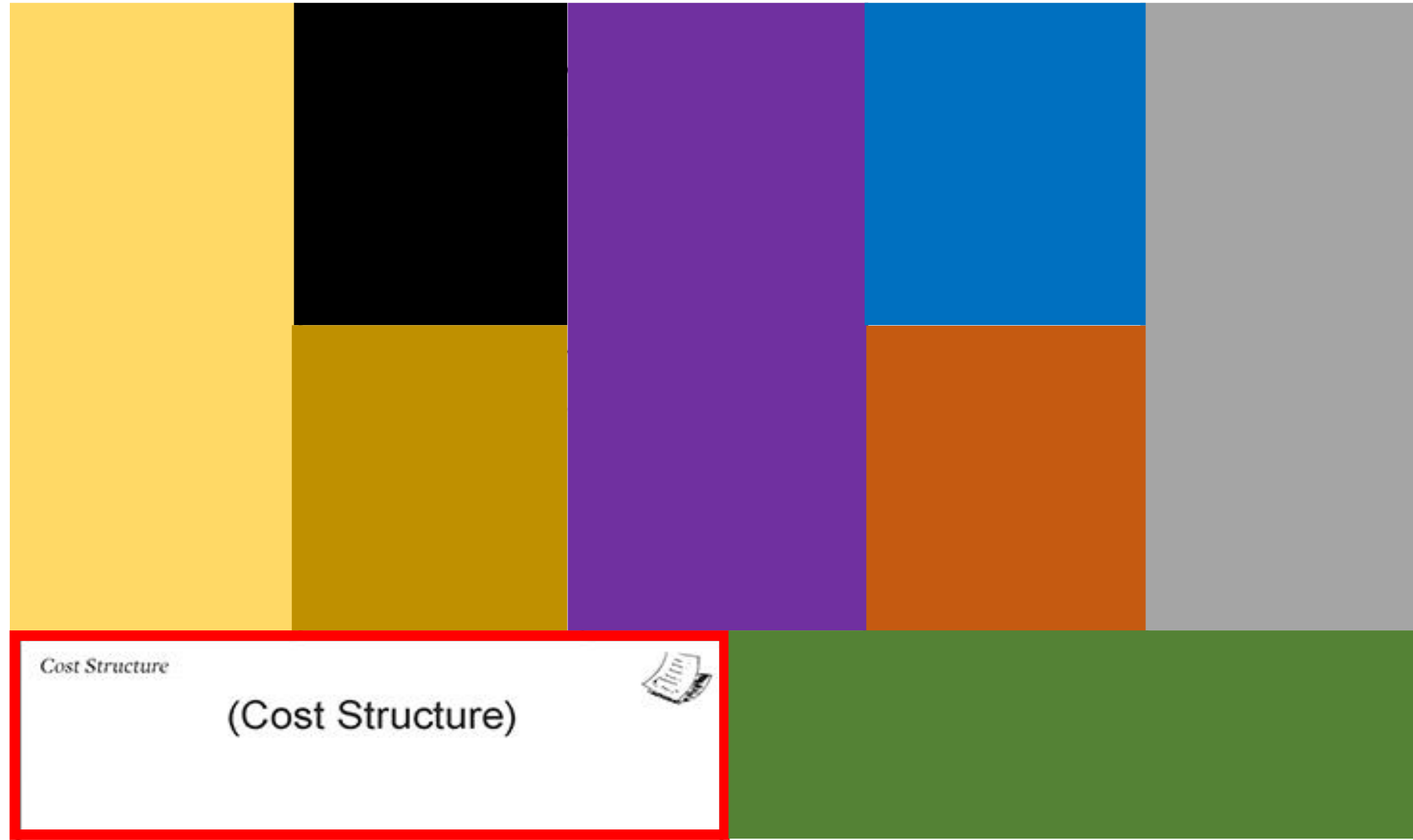
# Business model Canvas

**Key question for this block is "what will it cost to launch and maintain your business?"**
**That is:**

- What costs will you incur at each stage of the business; for example creating marketing collateral, acquiring users/customers, building a team, managing partnerships, fulfilling distribution?
- Which key activities represent the biggest cost to your business?
- Are these costs fixed or variable?
- What economies of scale can you hope to achieve?

Different cost elements. Check these against your activities and resources

## Cost Structure over 5 Years

| Fixed Costs | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|---|---|---|---|---|---|---|
| R & D expenses | -0.2 | -11.5 | 62.3 | -30.2 | -19.1 | -64.7 |
| Royalties, technical know-how fees, etc | | 70.4 | 9.1 | 28.2 | 39.7 | 40 |
| Rent & lease rent | 18.3 | -1.5 | -4.1 | 8.2 | -4.7 | 6.8 |
| Insurance premium paid | 9.2 | 8.4 | 20.9 | 16.2 | -12.3 | -9.6 |
| Outsourced professional jobs | 23.1 | 0.2 | 2.8 | 1.4 | -19.3 | -13.7 |
| Non-executive directors' fees | | | | | 139.6 | 8.7 |
| Advertising expenses | 40.3 | 15.6 | -4.7 | 22.7 | 11.8 | 7.2 |
| Depreciation | 17.8 | 20 | -1.2 | 7.8 | 10.3 | 10.2 |

# Business model Canvas



Revenue Streams

(Revenue Streams)

# Revenue stream



This is the method by which a business derives income. E.g. ad revenue subscription fee, sales of physical or virtual goods or affiliate based commission arrangements.

# How will you earn money from your business?

# Major types of e-commerce revenue models:

## Sales revenue model

- This is probably the most widely understood revenue model

- Under this model a customer purchases a product from a company for an agreed price



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**Advertising revenue model**

1.  **CPM= Cost per thousand Impressions
    ("M" = "mille" - thousand)**

The cost to the advertiser (or revenue received by the publisher) when an ad is served 1000 times. This is the traditional method by which site owners charge a fee for advertising.

**Advertising revenue model**

**2. CPC = cost-per-click  (pay-per-click)**

The cost to the advertiser (or revenue received by the publisher) of each click of a link to a third party site. E.g. text ads by Google



PAY PER CLICK
GENERATING INCREASED TRAFFIC TO YOUR WEBSITE

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# Major types of e-commerce revenue models:

**Advertising revenue model**

### 3. Sponsorship of site sections or content types

- A company pays to advertise on a site, typically a fixed fee for a period

- An advertiser can also choose to sponsor specific and distinct section on a Web site

- The sponsored content will often match the subject matter, as well as the targeted audience

- Sponsorship model is common among publishers such as bloggers

# Major types of e-commerce revenue models:

**Affiliate revenue model**

- This is commission-based. Such arrangement is known as cost-per-acquisition (CPA)

- For example a site such as Smartinsights.com can receive say 5% of cover price as fee from Amazon



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# Major types of e-commerce revenue models:

**Transactional revenue**

- A company receives fee for facilitating a transaction

- Usually the fee is a percentage of the transaction value

- Example: eBay, Paypal

# Major types of e-commerce revenue models:

## Subscription access to content or services

- This is a revenue model where customers pay subscription price to have access to the product

- Rather than selling products individually, a subscription sells periodic (monthly or yearly or seasonal) use or access to a product

- Examples: Netflix, TV2.no ……….

# Major types of e-commerce revenue models:

**Freemium**

- Freemium is a pricing strategy by which a product or service (typically a digital offering or application such as software, media, games or web services) is provided free of charge, but money (premium) is charged for proprietary features, functionality, or virtual goods

- Examples: Skype, Dropbox, Linkedin, Evernote …….
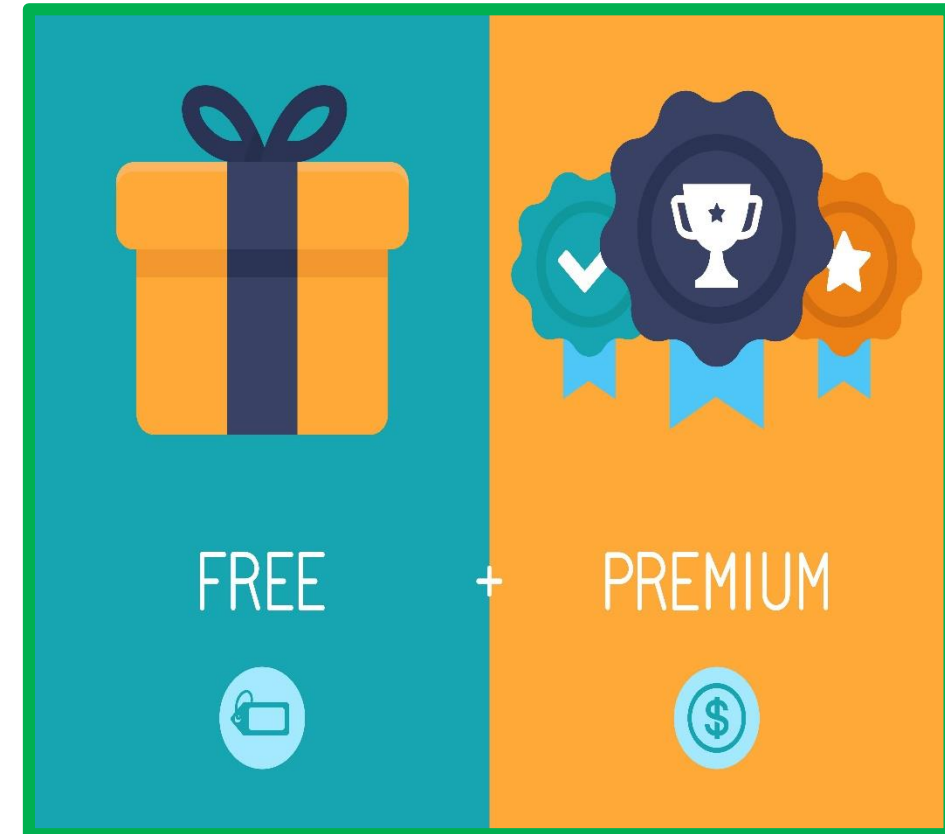
# Major types of e-commerce revenue models:

**Pay-per-view access to documents**
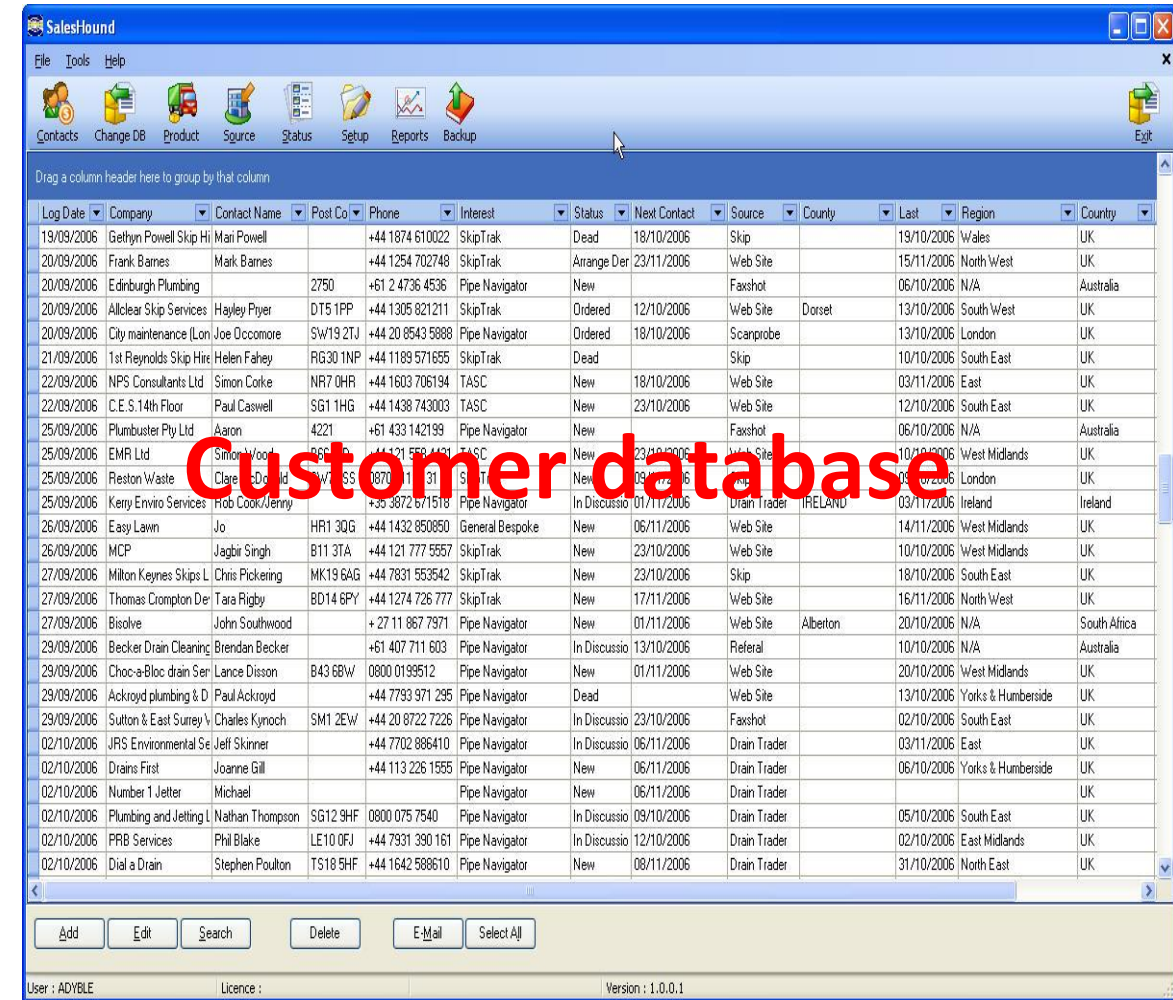
- Here payments occurs for single access to a document, video or music clip which can be downloaded

- Example: Harvard Business Review
  www.hbr.org/store/articles
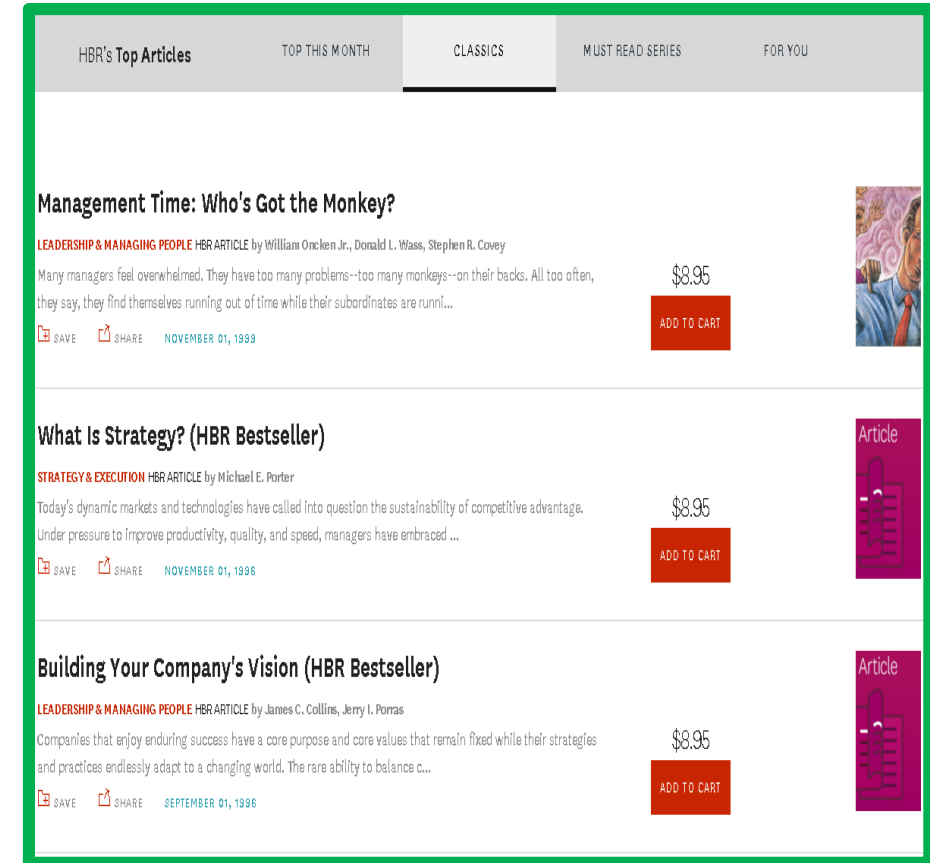
# Major types of e-commerce revenue models:

**Sale of customers' data**

- The data a site owner has about its customers are also potentially valuable

- The data can be sold to third parties-- plenty of companies do and profit from it

- **NOTE:** If you decide to sell customer data to third parties, clearly say so in your privacy policy



Customer database

# Business model tests

1. The narrative test
2. The numbers test

# Name Your Own Price® For Hotels

We **guarantee** you'll book a big deal or we'll give you $25.

city

[                                        ]

check-in

[mm/dd/yyyy        ]

check-out

[mm/dd/yyyy        ]

rooms

[1 Room        ▼]

**bid now!**
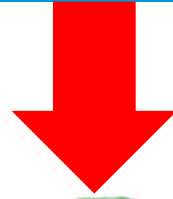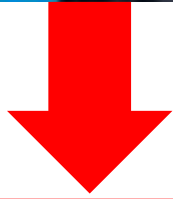
X

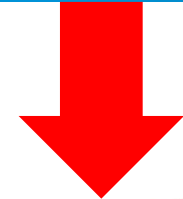"DON'T BE A NAMBY-PAMBY! NAMING YOUR OWN PRICE IS EASY!"

**Beggining of 2000**

Priceline extended model
(Groceries, Gasoline, Used goods)

- Unable to deal with major brands
- Inconvinient to pick
- Shutdown! (October 2000)

# Business model tests



1. **The narrative test**

- a business model must constitute a logical story that ties all key elements together

- Priceline Webhouse Club failed the narrative test:

# Business model tests

Torsdag 24. august

Foto: Kolonial.no og Marked.no

## Kvart milliard i tap på nettmat

Nye nettmatselskaper popper opp som paddehatter i Norge, men dauer også som fluer. Til sammen tapte disse selskapene over en kvart milliard kroner i fjor. Rasmussengruppen og Stein Erik Hagen konkurrerer nå "head to head" i et race der de begge har satset et tresifret antall millioner kroner på hver sin nettmat-aktør.

Se flere overskrifter fra siste utgave

Forrige | Neste

Siste magasin

**Quick translation
Quarter billion (NOK) lost
in online grocery business**

Kapital
BOLIGPRISER · OFFSHORE · SHIPPING
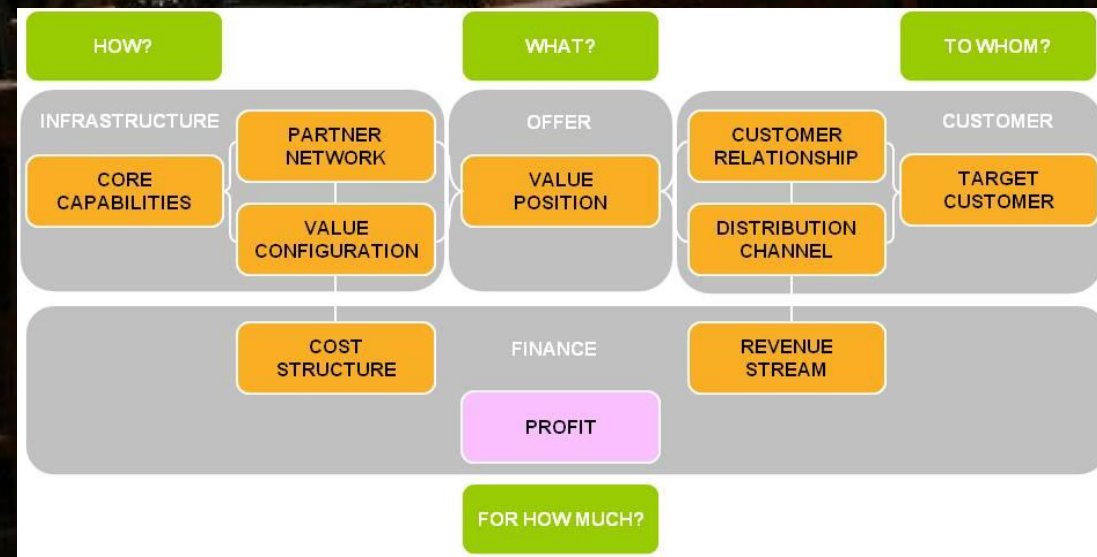
# Business model tests



1. **The numbers test**

- The business model's story must tie assumptions about customers to sound economics – the revenues obtained must justify the costs involved

- Norwegian online grocery companies are struggling with the numbers test

- the revenues obtained by e-grocers do not cover the marketing, technology and delivery costs

SHARK TANK

| HOW? | | WHAT? | | | TO WHOM? |
|------|------|------|------|------|------|
| INFRASTRUCTURE | | OFFER | | CUSTOMER RELATIONSHIP | CUSTOMER |
| CORE CAPABILITIES | PARTNER NETWORK | VALUE POSITION | | | TARGET CUSTOMER |
| | VALUE CONFIGURATION | | | DISTRIBUTION CHANNEL | |
| | COST STRUCTURE | FINANCE | | REVENUE STREAM | |
| | | PROFIT | | | |
| | | FOR HOW MUCH? | | | |

# Further reading!

1. Platform Business Model: https://www.applicoinc.com/blog/what-is-a-platform-business-model/

2. 4 Business Models for the Data Age: https://hbr.org/2015/05/4-business-models-for-the-data-age