Instructor's Manual

Digital Business and E-Commerce Management

Strategy, Implementation and Practice

Sixth edition

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Contents

Lecturer Resources

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ON THE WEBSITE

PART 1

Introduction

Introduction to digital business and e-commerce

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Learning outcomes

After completing this chapter the reader should be able to:

- Define the meaning and scope of digital business and e-commerce and their different elements

- Summarise the main reasons for adoption of digital business and barriers that may restrict adoption

- Outline the ongoing business challenges of managing digital business in an organisation, particularly online start-up businesses

Management issues

The issues for managers raised in this chapter include:

- How do we explain the scope and implications of digital business to staff?

- What is the full range of benefits of introducing digital business and what are the risks?

- How do we evaluate our current digital business capabilities?

Chapter at a glance

Main topics

- The impact of electronic communications on traditional businesses

- What is the difference between digital business and e-commerce?

- Digital business opportunities

- Business adoption of digital technologies for e-commerce and digital business

- Digital business risks and barriers to business adoption

Case studies

1.1 The Facebook business model

1.2 eBay – the world's largest online business

Suggested teaching and learning approaches

Notes on use of Figures in slides:

Please refer to the slides prepared for each chapter when reading this section. The headings below are intended to mirror those in the text to assist cross referencing.

Slides within the deck focus on line and block diagrams to help lecturers explain and discuss issues.

We have not included the screen capture slides since it is clearer for lecturers to visit the example sites or others during lecturers.

The opportunities of digital business?

Start by generating interest in the innovation made possible by the web through familiar consumer facing examples of startup brands in Figure 1.1 and Table 1.1. Ask students about other innovative businesses that have been launched online which aren't on the list.

The challenges of digital business management

These can be discussed by asking students to read the Facebook Case study 1.1 and asking them to think of the challenges of an existing brand adjusting to digital business. Since the authoring of the book in 2014 these challenges have collectively been called 'Digital Transformation' by many commentators. See http://www.smartinsights.com/manage-digital-transformation/ for articles discussing this concept.

Typical issues to discuss with students include:

- The rate of innovation – techniques like social media and search engine marketing evolve each month so companies can lose market share

- Reviewing new business and revenue models

- Reaching potential customers given fragmentation of media and new marketing techniques introduced in this chapter

- Losing market share to competitors who are more agile online

- The need for new processes, people and tools to manage digital technology – the McKinsey 7S discussed at the end of the Chapter 1 is a good framework for discussing these

- Reviewing the return on investment of new initiatives.

The impact of electronic communications on traditional business

Lecturers can introduce with the Andy Grove quote to show how impact varies by business type or review changes in communications and behaviour based on the definitions about:

- ZMOT

- Inbound marketing

- Content marketing

- Social media marketing
(See the social media marketing radar for the range of options)

- Mobile communications (all of the techniques above can be delivered via smartphone or tablets)

These concepts can be introduced in the context of the startup businesses covered in Table 1.1 and referencing Facebook, Case study 1.1.

Also review operational risks using a 'blank slide' encouraging students to fill in the gaps:

- Poor site availability or performance

- Products unavailable although advertised

- Poor experience or service – negative reviews

- Managing security and data privacy of customers.

What is the difference between digital business and e-commerce?

Use Figures 1.4 and 1.5 to agree differences between e-commerce and digital business with students. This works well to highlight the misconception that digital business refers only to sell-side e-commerce.

It is also useful to ask different groups to identify the different types of sites defined in Activity 1.3.

In an interactive lecture we recommend visiting examples of each of the sites below and then indicate which of the five categories of online presence are their primary and secondary focus:

1. Transactional e-commerce site

2. Services-oriented relationship-building website

3. Brand building site

4. Portal or media site

5. Social network.

Of course, these aren't mutually exclusive – most sites will have elements of all of these.

Digital marketing

Introduce the different type of Paid-Owned and Earned media (Figure 1.7) and the six key types of digital marketing communications (Figure 1.8) which need prioritisation of investment and management to achieve online visibility for a brand.

To introduce these tools ask students to match against the definition of the terms.

Figure 1.10 is the classic categorisation of sites by audiences with examples. The Tatu case study (Mini case study 1.3) gives an example of applying these digital media to build a new brand.

Digital business opportunities

Box 1.1 introduces the Reach–Richness–Affiliation model for success.

Drivers of digital technology adoption

Consumer adoption (listing drivers and barriers to adoption) can be discussed using the boxes at the end of the slide deck. Ask students to suggest drivers and barriers and how businesses can persuade businesses to overcome these.

Risks and barriers to digital business adoption

Consumer adoption (listing drivers and barriers to adoption) should also be discussed, perhaps through taking an example such as grocery e-retail and relating this to students' adoption and Table 1.3 and Figure 1.13.

Two tables are provided in the slide deck showing how drivers and barriers can be listed and then marketing approaches to overcome these are discussed.

Case studies

Case study 1.1 The Facebook business model

Note – Updates to this case study are provided at: http://www.smartinsights.com/social-media-marketing/facebook-marketing/facebook-case-study/.

Questions

1. **As an investor in a social network such as Facebook, which financial and customer-related metrics would you use to assess and benchmark the current business success and future growth potential of the company?**

From comments in the case study, the main revenue model is ad-based advertising (CPC and CPM). Facebook has said it will not sell customer data and there is no indication of affiliate-related models.

Customer-related metrics are related to engagement which indicates capability to sell ad space – not simply users, but active returning users and the number of pages viewed per day. The proportion of ad inventory sold is also important.

A basic answer will provide:

- Understanding of financial metrics. Revenue, costs, growth.

- Clear framework of different metrics types – efficiency vs. effectiveness.

- Audience engagement and satisfaction metrics such as those mentioned in the case.

A more competent answer will reference elements of profitability (e.g. ad revenue, alternative models), e.g. subscription (although clear data not sold), costs (e.g. R&D, Development), operational costs of managing business (on a per active user basis).

2. **Complete a situation analysis for Facebook focusing on an assessment of the main business risks which could damage the future growth potential of the social network.**

Typical risks are:

- Ad revenue limited because of difficulty of engaging audience in ads.

- Major privacy problem as with Beacon.

- Intellectual Property Rights.

- Technical problems with scalability leading to performance problems and increased technical costs.

- New entrant or alternative company offers superior experience – what is the likelihood of this?

Students could be encouraged to create a SWOT analysis. The likely probability and impact of each risk should also be reviewed.

3. For the main business risks to Facebook identified in Question 2, suggest approaches the company could use to minimise these risks.

- Ad Revenue – review different forms of advertising. Test with users and advertisers.

- Privacy. Explain clearly at signup. Test changes to use of data with user-group of trusted users. Explain reason for future changes clearly.

- Technical problems. Testing programme focusing on load testing.

- New entrants – developing proposition to lock-in existing users, forming partnerships to approach new audiences.

Case study 1.2 eBay – the world's largest online business?

Updates to the eBay case study are available at: http://www.davechaffey.com/E-commerce-Internet-marketing-case-studies/eBay-case-study-e-commerce.

Questions

Assess how the characteristics of the digital media and the Internet together with strategic decisions taken by its management team have supported eBay's continued growth.

Students should be guided as to whether they review the whole eBay business or the core business (The Marketplace).

It is best to divide this question into two parts.

1. How the characteristics of digital media have supported eBay's growth.

The particular characteristics of digital media compared to traditional media that are important to eBay are straightforward:

- Change from a one-to-many communication model to one-to-one or many-to-many communication model.

- The ability to create user-generated content listing products is also related to the one-to-one aspect. This is important as well.

- From Push to Pull – eBay offerings are often visible within search engines.

- From monologue to dialogue (a two-way information exchange for enquiries about products facilitated by email).

- Ratings for sellers are important to generate trust (although there are methods of falsifying these).

- Community – the sense that users are part of a community and additionally are bypassing traditional retail channels will be important from some users.

See section starting on p. 43 for more details on these characteristics.

2. How strategic decisions have supported growth.

As with other cases based on SEC filings that is, United States Securities and Exchange Commission submission, this case is useful for showing how growth is dependent not only on exploiting the right opportunities but also is about managing risks successfully.

Students may structure strategic decisions in different ways according to the level of course they are following, but since the case is early on in the book, they could be advised to simply look for success factors. Alternatively, if they have completed Chapter 5 on Strategy and Chapter 8 on the Marketing mix (p. 382), then these provide alternative frameworks.

Strategic success factors that students may mention include the following:

- Branding – a distinctive brand – the earlier brand name was perhaps less appropriate although more direct.

- First mover advantage – gaining a critical mass through the foresight of the owner.

- Security and fraud – realising that this is important to its reputation eBay has developed 'Trust and Safety Programs' to manage this, thereby investing in managing this and controlling PR related to this.

- Partnerships and acquisitions, which fit relate well to the service, that is, PayPal and Skype.

- Communication of customer value proposition – the case describes how eBay explains this.

- Revenue model – the market has judged that this gives a good balance for sellers, purchasers and eBay. Setting fees at the right level has enabled eBay to scale for some time.

- Process efficiency – the case describes how eBay measures and then seeks to improve the key areas of acquisition, activation and activity.

- Growth strategies – these are covered in Chapter 4 and include market development (geographic) and product development (new categories for consumers and businesses).

- Technology scalability – not referred to in the article, but eBay has been successful in deploying technology that has supported the company's rapid growth.

Introduction to how to use Questions for Debate in classes

The text below shows how the debate can be introduced for students. This example is taken from an approach we developed at the University of Derby. Students were assessed on their presentations and contribution.

Two debates each week will take place during normal tutorial sessions. Each debate will be argued between two groups of two or three students.

For each debate, the format will be as follows:

- An initial vote will be taken amongst the non-presenting members of the tutorial group for an initial benchmark.

- The team presenting the case FOR the statement will make a 10-minute presentation supporting the topic statement.

- Each team in the opening part of their presentation should take care to define terms used in the topic in question.

- The team presenting the case AGAINST the statement will then make an appropriate 10-minute presentation.

- The teams presenting each side of the case question the other in turn for 5 minutes each.

- Questions and discussions involving the whole tutorial group will follow for 10 minutes.

- FOR followed by AGAINST, each to make a short summary of their key points and observations.

- Final vote to take place FOR and AGAINST the statement – this will reflect the success of the various arguments presented.

- Remember tutors do not play a role here and students must take ownership of classroom management, etc.

Assessment

Assessment will be made by the tutor of each presenter's performance. Criteria will include the following:

- Strength of argument

- Use of current Information System (IS) industry examples

- Use of academic references

- Quality of presentation (visual and verbal)

- Response to questions and counter arguments

- Accuracy of observations and conclusions

- Discretionary mark for involvement in other debates.

The voting will not influence the marks awarded unless it is clearly the result of a poorly presented case. A 'difficult' case well presented and defended will not be penalised even if no-one agrees with it!

Questions for debate

Debate 1.1 How new is the digital business concept?

'Digital business is just a new label – there is no distinction between the role of digital business and traditional information systems management'.

Summary of arguments for are as follows:

- The tools are the same – hardware, software and communications technology are not new – witness use of EDI (Chapter 3)

- IS strategies have always looked at portfolio of applications across the business and links with third parties and how they can be utilised for competitive advantage (Chapter 4)

- Control of digital business usually resides with the IT department

- Only the largest companies tend to have specific responsibilities and departments for digital business – typically part of IS function.

Summary of arguments against are as follows:

- The emphasis is different – away from technology to how information can support business

- The expenditure on digital business has exceeded traditional IS expenditure

- New organisational structures and new processes have been introduced (see Chapter 4)

- Digital business is seen as a board-level issue with board-level responsibility.

Debate 1.2 Limited SME adoption of digital business

'Adoption of digital business by established SMEs is generally less than that in larger businesses. This is principally a consequence of the negative attitude of managing directors and CEOs to the business benefits of information and communication technology (ICT)'.

Summary of arguments for are as follows:

- Refer to the International Benchmarking study data in Chapters 4 and 6 which show that SME adoption is lower than larger businesses.

- Look at the arguments presented in benchmarking data in Chapter 1 – many of these arguments show that the benefits on investment are not clear.

Summary of arguments against are as follows:

- More a matter of resources – would like to invest, but there are other priorities; not enough time.

- Depends on the type and age of business and market – technology start-ups and innovators are active adopters.

- Many customers of SMEs are themselves SMEs and adoption rates for these groups are lower (Chapter 3).

Exercises

Self-assessment questions

1. Distinguish between e-commerce and digital business.

This can best be explained by referring to different elements shown in Figure 1.2 that:

- sell-side e-commerce;

- buy-side e-commerce;

- internal use of electronic communications to support business processes.

Digital business is generally understood to include all three elements. E-commerce is commonly used to refer to either the first one or first two of these elements, but less commonly the third. Digital business is broader in scope than e-commerce.

2. Explain what is meant by buy-side and sell-side e-commerce.

Again refer to Figure 1.2. Buy-side e-commerce is using communications technology to support the upstream supply chain from procurement to inbound logistics. Sell-side refers to selling and distributing products and services from an organisation to its customers.

3. Explain the scope and benefits of social media and social commerce to an organisation of your choice.

The scope of social media can be explored using this classification described in the chapter when social media is first introduced:

1. Social networking

2. Social knowledge

3. Social sharing

4. Social news

5. Social streaming

6. Company user-generated content and community.

The benefits can be explained with regard to the customer life cycle and RACE mnemonic described later in the book, i.e.

- Reach audience – social media sharing gives 'amplification' of a message through sharing

- Encourage interaction lead to lead or sale – includes interactions with share buttons, or completion of forms.

- Convert to sale – online or through traditional channels – social proof of seeing other recommendations can help here

- Engage – develop long-term social media engagement to encourage repeat purchase. Also includes social customer-service.

4. Summarise the consumer and business adoption levels in your country. What seem to be the main barriers to adoption?

This page has 10 key sources for the latest digital marketing adoption levels:

http://www.smartinsights.com/marketplace-analysis/customer-analysis/digital-marketing-statistics-sources/

- Lack of imperative

- Security risks.

For consumers, the 'Which' report highlights fears about security and privacy as well as the lack of a perceived need.

5. Outline the reasons why a business may wish to adopt e-commerce.

The 6Cs are a good framework here:

- Cost reduction – less use of physical resources and staff.

- New capability – for example, to sell into an overseas market.

- Improved communication – internal and external.

- Control – better visibility/information for managers of trading relationships.

- Customer service – more detailed information, faster response can be provided 24 hours, and 7 days a week.

- Competitive advantage – any of the above.

- Factors may provide this, but it is likely to be short-lived.

6. What are the main differences between business-to-business and business-to-consumer e-commerce?

Please refer to the table below for a summary of the differences. Note that this table was originally included in earlier editions of the book.

Table: Differences in characteristics of B2C and B2B trading

Characteristic	B2C	B2B
Proportion of adopters with access	Low to medium	High to very high
Complexity of buying decisions	Relatively simple – individual and influencers	More complex – buying process involves users, specifiers, buyers, etc.
Channel	Relatively simple – direct or from retailer	More complex, direct or via wholesaler, agent or distributor
Purchasing characteristics	Low value, high volume or high value, low volume. May be high involvement	Similar volume/value. May be high involvement. Repeat orders (rebuys) more common
Product characteristic	Often standardised items	Standardised items or bespoke for sale

7. Summarise the impact of the introduction of digital business on different aspects of an organisation.

The McKinsey 7S model is a useful framework for looking at the different aspects of a business that may be affected by the move to digital business.

- Strategy – new strategic responses are required.

- Structure – new structures and responsibilities may be required.

- Systems – new information systems and new processes will be required.

- Style – less likely to change, but some organisational styles are more responsive to change.

- Staff – new responsibilities.

- Skills – new skills.

- Superordinate goals – higher level aims may be updated depending on the business.

8. What is the relevance of intermediary or influencer sites to a B2C company?

Companies must think about whether they are represented on such intermediaries. If they are not, they may lose potential business. They also need to consider the positioning of their products relative to competitors who also use the intermediary.

Note that Mondus wound down operations in 2002. Another example is Clearly Business, a joint venture between Barclays and Freeserve.

Essay and discussion questions

1. Suggest how an organisation can evaluate the impact of digital technology on its business. Is it a passing fad or does it have a significant impact?

Suggested approach:

This is covered by the situation analysis in Chapters 5 (p. 250) and 8 (p. 391).

Situation analysis should concentrate on the micro-environment (Figure 2.1) including demand for online services from customers. Services should be considered across the buying cycle from pre-purchase (supplier and product selection), purchase and post-purchase support. Demand levels can be assessed by reviewing figures of percentage of customers with access and those who are prepared to use it for information gathering and purchase. Competitor activity can also be benchmarked. Macro-environment SLEPT factors should also be reviewed, but they are not the main thrust of the question.

Assessment of whether the impact is transitory or permanent can be done through developing projections of the online revenue and promotion contribution (Chapter 8, p. 401).

2. Explain the concepts of social media and social commerce and how they can assist organisations in reaching their objectives.

The scope of social media can be explored using this classification described in the chapter when social media is first introduced:

1. Social networking

2. Social knowledge

3. Social sharing

4. Social news

5. Social streaming

6. Company user-generated content and community.

The benefits can be explained with regard to the customer life cycle objectives of business using the RACE mnemonic described later in the book, i.e.

- Reach audience – social media sharing gives 'amplification' of a message through sharing.

- Encourage interaction lead to lead or sale – includes interactions with share buttons, or completion of forms.

- Convert to sale – online or through traditional channels – social proof of seeing other recommendations can help here.

- Engage – Develop long-term social media engagement to encourage repeat purchase. Also includes social customer-service.

3. Similar benefits and barriers exist for the adoption of sell-side e-commerce for both B2B and B2C organisations. Discuss.

It is recommended that students review the common benefits initially from the point of view of the business using e-commerce to sell services. Then look at exception by business type.

Common benefits?

- Wider, potentially global reach

- Opportunities to improve brand preference through content and services

- Lower cost of reach (e.g. through search engine optimisation)

- Lower cost of service (web self-service).

Barriers:

- Organisational changes needed

- Cost of set up

With B2B organisation there are more potential channel conflicts if someone is already selling a product.

4. Evaluate how social media marketing techniques can be applied within an organisation and with its stakeholders.

This question is similar to Question 2 in this section since it asks how social media can applied across a business. The customer life cycle of RACE is a suitable technique can be used to review how social media can be applied. This question also looks at the organisational issues of managing social media, so the Mckinsey 7S framework introduced at the end of the chapter is suitable to structure the answer around.

5. The web presence of a company has similar aims regardless of the sector in which the company operates.

This question can be tackled in different ways, e.g. functions by position in customer-life cycle/conversion funnel, e.g. RACE.

Alternatively, but similarly, the answer can review the opportunities by methods of enhancing the brand:

- Brand awareness, e.g. better online visibility in search engines and social media

- Brand familiarity – by explaining about the companies, products and services

- Brand favourability – by providing free value-added services

- Brand purchase intent – using the website to prompt sale through online or offline channels, e.g. through promotions or communications (social or email marketing).

The answer can be tackled for different platforms such, e.g. desktop site, mobile site.

Examination questions

1. Explain the relationship between the concepts of e-commerce and digital business.

E-commerce is generally understood to be a sub-set of digital business. E-commerce refers to financial and non-financial transactions between organisations. These transactions are often considered in the context of a supplier organisation distributing and selling its product to consumers. Digital business includes transactions from a buy-side and sell-side e-commerce perspective and also the use of communications technology to improve internal process efficiencies.

2. Distinguish between buy-side and sell-side e-commerce and give an example of the application of each.

Buy-side e-commerce refers to electronic transactions concerned with the purchase and inbound logistics of goods such as a supermarket coordinating purchases from its suppliers. Sell-side e-commerce concerns transactions related to the sale and distribution of goods such as a supermarket selling direct to its customers.

3. Summarise three reasons why a company may wish to introduce e-commerce.

- Cost reduction in purchasing or selling through less human involvement and lower resource costs.

- Increased efficiency enabling faster cycle times for purchasing or sale of goods.

- Capability to sell to overseas markets or previously untargeted markets.

4. Describe three of the main barriers to adoption of e-commerce by consumers and suggest how a company could counter these.

- Security fears – fraudulent use of credit cards.

- Privacy fears – personal data held by companies or criminals.

- Cost of access devices and online costs.

- Lack of perceived need.

Education and reassurance via the website and offline communications can counter these.

5. Outline the internal changes a company may need to make when introducing digital business.

No suggested answer.

6. **Name three risks to a company that introduces buy-side e-commerce.**

- Payback period may be long due to cost of implementation.

- Maverick purchasing (Chapter 7).

- Some purchasing staff may need to be redeployed or made redundant.

- Security risks of outside organisations accessing company data.

7. **Name three risks to a company that introduces sell-side e-commerce.**

- Payback period may be long due to cost of implementation.

- High cost of sales due to fraudulent use of credit cards.

- Security risks of outside organisations accessing company data.

Activity answers

Activity 1.1 Innovative digital businesses

1. **Think about the innovation that you have witnessed during the time you have used the Internet and World Wide Web. What would you say are the main sites used in your country which have changed the way we spend our time or buy online?**

Not applicable – depends on student opinion and country.

2. **We talk about these businesses being 'successful', but what is success for a start-up digital business?**

For established businesses, success is stable or growing profitability, but start-ups will rarely be able to achieve this. What becomes important are:

- Unique visitors – number of individuals per month.

- Engagement or stickiness – page views per visitor (useful for advertising) and percentage of active or returning visitors (essential for a social network such as Facebook).

- Monetisation – is it possible gain revenue, for example, ad revenue from visitors.

- Growth.

- Publicity – this will help fuel the other success measures given above.

3. **What do these sites have in common that you think has made them successful?**

- All these sites are American, so the funding and publicity they can achieve is significant.

- You will notice that many of these sites (other than Joost, Last.fm and Skype which were founded in Europe) were originally developed in the United States, with the majority now used around the world. But in each country, similar types of businesses have evolved, for example, the search engines Baidu in China and Yandex in Russia.

- Meet a fundamental consumer need.

- Clear revenue model.

- Memorable branding and experience.

- Initially they had a straightforward proposition – offering one service.

- Generally they were first-movers.

- Notable that many have taken several years before becoming widely known and used.

Activity 1.2 The most popular apps today

1. **Identify the most popular categories of apps from the top 10 or 20 most popular apps, including browser apps such as Google's Chrome or Apple's Safari.**

No suggested answer.

2. **Discuss the opportunities for companies to promote their brands or services using apps in comparison with mobile sites delivered through web browsers.**

No suggested answer.

Activity 1.3 Understanding different types of online presence

Review the popularity of the different site types in your country or globally.

Visit each of the sites below and then indicate which of the five categories of online presence are their primary and secondary focus:

1. Transactional e-commerce site

2. Services-oriented relationship-building website

3. Brand-building site

4. Portal or media site

5. Social network.

You should also indicate their secondary focus in terms of these four site types.

1. *Transactional e-commerce site*

Bank, for example, HSBC (www.hsbc.com), secondary purpose is relationship-building or brand-building.

Travel company, Thomas Cook (www.thomascook.com), secondary purpose as for HSBC online retailer such as Amazon (www.amazon.com). Secondary objectives are to be a portal?

2. *Services-oriented relationship-building website*

Management consultants such as PricewaterhouseCooper (www.pwcglobal.com) and Accenture (www.accenture.com). Secondary aim – brand-building.

A end-product manufacturer such as Vauxhall (www.vauxhall.co.uk). Secondary objectives are building brand and referring leads or transactions to offline sources.

3. *Brand-building site*

Lingerie manufacturer, for example, Gossard (www.gossard.com). Secondary objectives are linking to transactional sites.

Beverage manufacturers, for example, Tango (www.tango.com), Guinness (www.guinness.com). Secondary objectives are supporting relationship building.

4. *Portal or media site*

- Business site: Silicon (www.silicon.com) (secondary transactional site for subscriptions).

- Consumer site Yahoo! (www.yahoo.com). Yahoo! is more than a search engine – it is an online portal. Secondary objectives are encouraging transactions.

Marketplace analysis for e-commerce

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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 electronic communications and trading

- Evaluate the effectiveness of business and revenue models for online businesses, paticularly online 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?

Chapter at a glance

Main topics

- Online marketplace analysis

- Location of trading in the marketplace

- Business models for e-commerce

Focus on

- Auction business models

- Online start-up companies

Case studies

2.1 i-to-i – a global marketplace for a start-up company

Suggested teaching and learning approaches

The headings below are intended to mirror those in the text to assist cross referencing.

- **Introduction**. What type of influences are there and why are environment influences important? Activity 2.1 (based on Figure 2.2) gives a structured approach to highlighting changes in the macro- and micro-environment.

- **Marketplace analysis for analysis**. This section starts by reviewing the importance of strategic agility with the interview showing the importance of reviewing the marketplace. The section 'A process for online marketplace analysis' is most important section since it provides students with a technique/tools they can use to evaluate a company within its online marketplace for assignments or in the workplace. Work through an example of creating a marketplace map, for example, for a retailer or a bank for Figure 2.4. This is good example of a marketplace map.[1]

  Show students examples of research sources shown in Table 2.2 to illustrate data available on customer demand for products through search engines (Google Keyword Planner) and comparing site popularity (Google Trends).

- **Review of marketplace channel structure**. Use diagrams such as Figures 2.6–2.8 for a particular industry such as the car industry to explain these terms. Talk about these as strategic responses. What are the penalties for ignoring these?

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[1] Marketplace map example

Understanding customer journeys across online and offline channels through using channel chains (Figure 2.9) should also be covered.

- **Different types of online intermediary**. The different types of intermediary shown in Table 2.5 and their relative importance through the buying process should be discussed with students. As a group activity, intermediaries important in different sectors such as retail, banking, financial services and travel can be identified.

- **Business and revenue models**. This will be the most interesting sections for many students interested in their own online venture. Ask students to consider different models in the context of Figure 2.10 and 2.11 or by reviewing different revenue models of different companies such as those introduced in Table 1.1. Different advertising revenue models such as CPM, CPC and CPA should be reviewed and the example in Figure 2.12 can be reviewed or used as an activity. A spreadsheet version of this model is available from:
  http://www.smartinsights.com/conversion-model-spreadsheets/.

  The Business Model canvas is new in the 6th edition. This is an excellent tool which has been applied to many of the companies in Table 1.1. A Google search will reveal examples of these. We recommend students review http://www.businessmodelgeneration.com/ and check the newer Value Proposition canvas.

  Lecturers often ask for examples of failure amongst online startups. We have included Mini case study 2.3 Ecomum as a recent example of failure in this edition and there is the infamous Boo.com example in Chapter 5.

Case studies

Case study 2.1 i-to-i – a global marketplace for a start-up company

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.

Questions

1. **Select one country that i-to-i operate in and summarise the main types of sites and businesses involved using a marketplace map (Figure 2.4).**

Marketplace map not supplied. Since this will differ by market. See http://www.smart insights.com/digital-marketing-strategy/online-marketplace-analysis/ for examples.

2. **Review the different factors that i-to-i will need to review to gauge the commercial effectiveness of its online presence in different geographic markets.**

i-to-i will need to review the different drivers or leads and sales in different markets as referenced in the chapter with search visibility being most important.

- Search visibility – how well does i-to-i rank for different terms in paid and natural search results (many people will search for the type of the services they offer, e.g. 'TEFL courses'

- Conversion rates – are there issues with the content assets or product, pricing which limits conversion

- Social sharing – how active are social media advocates.

Source: Smart Insights (2010) i-to-i case study. Written by Dave Chaffey and Dan Bosomworth with agreement from the company.

Questions for debate

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'.

Examples from particular industries should be used to demonstrate this. Summary of arguments for are as follows:

- Intermediaries are important online because of service and product comparison online – missed opportunity to communicate.

- Cost of paying referrals to third party.

- Company can use intermediary to explore new concepts and markets while minimising damage to core brand.

Summary of arguments against are as follows:

- Cost of setting up independent intermediaries.

- Risk that intermediaries will not appear as independent and may not be used.

- Risk of failure in already crowded marketplace.

- Can form partnerships instead at lower risk.

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'.

Summary of arguments for are as follows:

- Look at online business model proposed by Timmers in the section on business models – few have changed.

- Look at online revenue mechanisms – similar to previous, for example, sale, commission, subscription.

- Look at payment mechanisms – again similar to before.

Summary of arguments against are as follows:

- New business models such as C2B.

- Change in emphasis – for example, more reverse auctions.

- Look at examples of companies that have changed sectors, for example, eBay auctions, Lastminute travel.

Exercises

Self-assessment questions

1. Outline the main options for trading between businesses and consumers.

These are:

- B2C – retail to consumers

- B2B – interorganisational

- C2C – consumer interactions for example, auctions

- C2B – customer make offers to businesses, for example, Priceline.

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?

Example, air travel. A carrier has the option of:

- Distintermediation – selling direct from its website

- Reintermediation – selling via new online intermediaries with new pricing models such as Priceline, Lastminute or Expedia.

3. Describe the three main alternative locations for trading within the electronic marketplace.

- From company's own website

- From an intermediary website or marketplace

- By making bids after reviewing customers' websites.

4. What are the main types of commercial transactions that can occur through the Internet or in traditional commerce?

See Table 2.4.

Commercial (trading) mechanism

1. Negotiated deal

2. Brokered deal

3. Auction

4. Fixed-price sale

5. Pure markets

6. Barter

5. Digital business involves re-evaluating value chain activities. What types of changes can be introduced to the value chain through digital business?

- Improve speed of information flow between primary activities of value chain

- Increase depth of information shared between activities

- Reduce costs of information processing.

6. List the different business models identified by Timmers (1999).

Timmers (1999) identifies no less than 11 different types of business models that can be facilitated by the web as follows:

1. E-shop – marketing of a company or shop via web.

2. E-procurement – electronic tendering and procurement of goods and services.

3. E-malls – a collection of e-shops such as Barclays Square (www.barclays-square.com).

4. E-auctions – these can be both for B2C and B2B as is the case with eBay.

5. Virtual communities – these can be B2C communities such as Xoom (www.xoom.com) or B2B communities such as Vertical Net (www.vertical.net); these are important for their potential in e-marketing and are described in the Focus on Online Communities section in Chapter 9.

6. Collaboration platforms – these enable collaboration between businesses or individuals for example, E-groups (www.egroups.com), now part of Yahoo! (www.yahoo.com) services.

7. Third-party marketplaces – Marketplaces are described in the Focus On section of Chapter 7.

8. Value-chain integrators – offer a range of services across the value chain.

9. Value-chain service providers – specialise in providing functions for a specific part of the value chain such as the logistics company UPS (www.ups.com).

10. Information brokerage – providing information for consumers and businesses, often to assist in making the buying decision or for business operations or leisure.

11. Trust and other services – examples of trust services include Which Web Trader (www.which.net/webtrader) or TRUSTE (www.truste.org) that authenticate the quality of service provided by companies trading on the web.

Timmers, P. (1999) *Electronic Commerce Strategies and Models for Business-to-Business Trading,* John Wiley series in information systems. Chichester, England.

See Figure 2.11 (alternative perspectives on business models) and Table 2.5.

7. Describe some alternative revenue models for a website from a magazine publisher.

See Figure 2.11 (alternative perspectives on business models). Subscription: per-month payment.

Pay-per-view: pay for each article, or articles up to a value. Advertising revenue – for advertising space on site. Affiliate revenue – for referral to other sites leading to sale.

8. Draw a diagram summarising the different types of online marketplace.

Refer to Figure 2.9.

Essay and discussion questions

1. 'Disintermediation and reintermediation occur simultaneously within any given market.' Discuss.

Suggested approach:

- Research intermediaries in market by using a directory such as Yahoo!

- Research disintermediation by online services offered by existing players.

- Evaluate whether existing players are making use of the new intermediaries to promote their services through advertising or listing on a trade directory.

- Define the terms with reference to this market.

- Demonstrate that both do occur simultaneously.

- Explain that this is a consequence of companies simultaneously following a disintermediation and reintermediation strategy.

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.

Suggested approach:

Research this question by referring to Figures 2.9 and 2.11.

3. For a manufacturer or retailer of your choice, analyse the balance between partnering with portals and providing equivalent services from your website.

An example of this approach is Boots The Chemist that have produced their own portal Handbag.com (www.handbag.com).

Suggested approach:

Review the benefits of creating a separate independent portal (new market, new positioning, perceived independence) against the negatives (cost of building traffic, maintaining content – becoming a publisher, establishing brand, lack of credibility).

4. Contrast the market potential for B2B and B2C auctions.

Suggested approach:

- Research current and sales history of major B2C players such as eBay.

- Research current and future trading of commodities in different B2B marketplaces that could be possible though auctions, e.g. steel at eSteel.

- Review buyer behaviour – what are the barriers to purchasing in this way, for example, trust, authenticating purchase?

- Explain difference in magnitude: B2B much greater than B2C.

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.

Suggested approach:

- Make sure these types of revenue models are included

- Subscription: per-month payment

- Pay-per-view: pay for each article, or articles up to a value

- Advertising revenue – for advertising space on site or listing in directory

- Affiliate revenue – for referral to other sites leading to sale

- Transaction revenue – proportion of all transactions completed.

Examination questions

1. Explain disintermediation and reintermediation using examples.

Disintermediation

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

Reintermediation

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

2. **Describe three different revenue models for a portal such as Yahoo!**

   - Advertising revenue

   - Affiliate revenue

   - Content subscription revenue.

3. **What is meant by buy-side, sell-side and marketplace-based e-commerce?**

   - Buy-side – suppliers visit customer's website to bid and win business

   - Sell-side – customers visit supplier's website to make purchase

   - Marketplace-based – suppliers meet customers in neutral marketplace to agree sales.

4. **What are the different mechanisms for online auctions?**

   - Forward, upward or English auction (initiated by seller). These are the types of auctions available on consumer sites such as eBay. Increasing bids are placed within a certain time limit and the highest bid will succeed provided the reserve (minimum) price is exceeded. According to Commerce One, companies may use online forward auctions to sell slow moving, excess or obsolete inventory items. The forward auction could also potentially be used to perform price discovery in a market.

   - Reverse or downward auction (initiated by buyer). These are more common on business-to-business sites such as Commerce One. Here, the buyer places a request for tender or quotation (RFQ) and many suppliers compete, decreasing the price, with the supplier with the lowest price getting the contract. According to Commerce One, companies may use reverse auctions to:

     - Rationalise suppliers in a particular spending category

     - Source new components in an area they are unfamiliar with.

5. **Describe two alternative approaches for using digital business to change a company's value chain.**

Disintermediation

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

Reintermediation

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

6. Explain what a business model is and relate it to an Internet pureplay of your choice.

A summary of how a company will generate revenue identifying its product offering, value-added services, revenue sources and target customers.

Revenue sources for the pure-play, for example, lastminute.com include:

- Subscription: per-month payment

- Pay-per-view: pay for each article, or articles up to a value

- Advertising revenue – for advertising space on site or listing in directory

- Affiliate revenue – for referral to other sites leading to sale

- Transaction revenue – proportion of all transactions completed.

7. Outline the elements of the digital business environment for an organisation and explain its relevance to the organisation.

Micro-environment – customers, competitors and intermediaries

Macro-environment – social, legal, economical, political and technological constraints. Organisations need to audit these influences when developing strategies and monitor them continuously to respond to changes.

8. Give three different transaction types that an industry marketplace could offer to facilitate trade between buyers and suppliers.

- Straight fixed-price transaction

- Auction to lowest bidder – reverse auction

- Barter.

Activity answers

Activity 2.1 Online ecosystems

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

These are typical types of sites and the combination of software and hardware platforms.

1. Search engines

2. Social networks

3. Publishers (broad and niche)

Apps – e.g. iOS iTunes store vs. Andriod Play Marketplace.

Activity 2.2 Exploring business models

Identify overlap between the different business models identified by Timmers (1999). Can you group the different business models into different types of services? Do you think these business models operate in isolation?

An immediate distinction can be made between the operation of individual companies (*e-shop*) using the web to sell direct to the customer and deal with suppliers (*e-procurement*) and intermediary services such as e-auctions and *third-party marketplaces* that make up most of the remaining services. For some business models such as *virtual communities* and *e-auctions* it could be argued that these services could be provided by intermediaries or businesses, but they are often best provided by neutral intermediaries.

Overlap can be identified between e-auctions, e-malls, third-party marketplaces and business communities since they all facilitate the exchange of products between sellers and buyers. It can be argued that the business model is similar, but the mechanism for exchange is different. It can also be argued that some of the business models referred to are simply instances of the mechanism of exchange, for example, e-auctions as distinct from fixed-price sales (e-shop). Auctions could potentially occur for the e-shop and third-party marketplace as well as e-auction.

Activity 2.3 Revenue models at online media sites

1. **Summarise the revenue models which are used for each site by looking at the information for advertisers and affiliates.**

E-consultancy (www.econsultancy.com)

- Online revenue models include annual subscription and pay-per-view access to articles. The site has limited advertising on a fixed monthly term basis.

- Traditional revenue models include training courses and conferences related to digital business.

Marketing Sherpa (www.marketingsherpa.com)

- This mainly offers a pay-per-view model for articles and reports. Surprisingly, it has limited advertising, so as not to annoy site visitors. Some of its reports are syndicated from other online sources, so this is a commission-based model.

2. What are the advantages and disadvantages of the different revenue models for the site audience and the site owner?

This answer can be broken down by the different revenue models as shown in the table given below. Given the advantages and disadvantages of each, it makes sense to have several models to maximise monetisation of site visitors.

Revenue model	Advantage	Disadvantage
Online subscription	Continuous revenue stream	Difficult to get visitors to commit to an ongoing agreement
Pay-per-view	Instant fulfilment likely to appeal if article or reports meets someone's immediate need. Reports are often more specialised and more immediate	Difficult to provide sufficiently compelling unique content that is not already freely available on the web
Advertising	Relatively easy to setup, particularly if an established programme like Google AdSense where no advertisers have to be recruited	Advertisers have to be recruited and payments managed. If this fails, then online ad inventory may be unsold and so wasted
Affiliate	Individual transactions can be significant value	Difficult to recruit affiliates and work best with high volume consumer markets rather than business markets Revenue only generated if sale is made. A cost per click arrangement is better for publisher

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 per cent of these visitors clickthrough to affiliate sites where 2 per cent go on to buy business reports or services at an average order value of €100.

- *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.

A commission percentage is required to calculate this. Assume 25 per cent of average order value.

You can also download the spreadsheet of Figure 2.16 from www.davechaffey.com/Spreadsheets.

Calculation:

Visitors	Clickthrough rate	Affiliate site visits	Conversion rate	Sales	Average order value (Euros)	Revenue at 25% commission
100,000	0.50%	500	2%	10	100	250

- *Monthly page views*: 1,000,000, average of three ads for displayed for different advertisers at €20 CPM (we are assuming all ad inventory is sold, this is rarely true in reality).

Calculation:

Monthly page views	Ad units per page	Inventory sold	Total ads served	Cost per 1000 (Euros)	Total revenue
1,000,000	3	100%	3,000,000	20	60,000

You can see that this model is more appealing for the publisher in terms of revenue earned.

- *Subscribers to weekly newsletter*: 50,000. Each newsletter broadcast four times per month has four advertisers each paying at a rate of €10 CPM.

Newsletter subscribers	Newsletters per month	Advertisers	Inventory sold	Total ads served	Cost per 1000 (Euros)	Total revenue
50,000	3	4	100%	600,000	10	6000