

The real value of “e-business models”

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New e-technologies such as mobile Internet phones and interactive television are widely predicted to generate a wealth of opportunities through the creation of new e-business models. At the same time, numerous high-profile Internet ventures have gone belly-up and millions of investors around the world have been caught out. A focus on the successes can give the impression that an ingenious business model is all that is needed to create a thriving e-firm. But do these models really matter? What can we learn by examining the Internet failures, or the problems inherent in each model? What are the real key factors determining the survival or failure of e-firms?

One of the factors most commonly cited when Internet firms succeed is the “business model.” Much of the success of such e-commerce pioneers as Dell, Amazon, and eBay has been attributed to their novel Internet business models. And one of the first questions in assessing any new e-commerce venture during the Internet boom was likely to be, “What’s the business model?” Conversely, when high-profile businesses like Boo.com have failed, this too has often been blamed on the model.

Post-crash, however, the sentiment has changed and the question increasingly being asked now is, “Hasn’t that model been tried and failed?” Many in the e-business investment community commonly assume that none of the following are profitable: e-tail, portals, and marketplace models; advertising-based models; B2C models; and pure Internet, or pure-play, models.

However, despite the frequency of these statements in the business press, little research has been done to examine their validity. In retrospect, it is easy to blame all e-business failures on a flawed model, but identifying what makes a good model is more difficult.

Although the term “e-business model” is widely used, there is little consensus on what it actually means. Many schemes have been suggested for classifying different types of e-businesses; see the previous article in this issue for an example. However, a workable definition is provided by Timmers (1998): “an architecture for the product, service and information flows, including the various business actors and their roles; a description of the potential benefits for the various business actors; and a description of the sources of revenues.” Depending on the classification scheme, as many as 29 Internet business models currently in use have been described by various authors. However, according to Mahadevan (2000) and Weill and Vitale (2001), there are four key distinctions: (1) the supply chain model; (2) the revenue model; (3) whether the model serves the business or consumer market; and (4) whether the firm is pure-play or clicks-and-mortar.

Supply chain model

At its most basic, an Internet supply chain business model can be classified as direct sales, an intermediary, a marketplace, or some mixture of the three. The simplest is direct sales, whereby the firm provides a product or service directly to the customer. Examples are Dell, Cisco, and AOL. In an intermediary, such as Amazon, the firm sells goods from a third party. A special case of the intermediary model is the portal, which does not directly sell a good or service but facilitates the process by introducing or locating a provider. This might include a general purpose portal such as Yahoo! or more of a specialist, such as e-steel for the steel industry. The third type is the electronic marketplace, which facilitates direct communication between buyers and sellers. Examples are the auction site eBay and the used car trading site Autobytel.

Revenue model

In general, two types of revenue model can be distinguished: (1) that in which income is generated directly from the customer transaction, and (2) so-called "free sites," which generate income through advertising or sponsorship. Though initially hailed as examples of how the Net would change the pattern of economic exchange in many industries, the failure of sites offering free services, such as The Globe, DrKoop, and Napster, have led many to question whether any such sites can ever be profitable. A website has even been set up to document the failure of so-called "free" business models that rely on advertising (www.theendoffree.com).

B2C vs. B2B model

Internet businesses can also be distinguished according to the markets they serve. As can be found in most marketing textbooks, consumer markets differ from industrial markets in several ways. For example, there is a greater element of impulse buying in consumer purchases. More important, perhaps, consumer purchases tend to be smaller in size and more frequent than those in industrial markets, so there is a greater need for mass advertising with consumer goods. During the height of the Internet boom, most investment interest was in the rapidly expanding B2C (business-to-consumer) market. However, the failure of many B2C e-firms has led many to suggest that B2B (business-to-business) sites are a safer investment.

Clicks-and-mortar vs. pure-play model

Finally, one of the key differences between e-businesses is whether or not the model is purely Net-based or relies on offline assets as well. The greatest public interest was initially in Internet startups such as Amazon and eBay—leaders in developing new markets using the Net. But, as in the case of B2C vs. B2B, with the failure of so many startups, investors have been turning their attention back to clicks-and-mortar businesses.

A study of failures

At first glance, an analysis of failed businesses by type of model does seem to support the anecdotal reports from many e-commerce analysts and venture capitalists. **Table 1** shows the failure rates in a sample of 453 US Internet firms considered among the "best in their class" in 1999 (see the sidebar on the next page for details on this study), indicating that failures are indeed more likely among B2C firms, e-tailers, portals, marketplace sites, free sites, and pure-plays than among B2B firms, direct sales, pay sites, and clicks-and-mortar firms.

Table 1
Failure rates by model

B2C	13.6%
B2B	6.3%
Direct sales	6.8%
E-tail	16.3%
Portal	20.0%
Marketplace	25.0%
Free site	15.0%
Pay site	8.5%
Pure Internet	22.8%
Clicks-and-mortar	2.6%

Unfortunately, this analysis makes it difficult to distinguish the importance of the different factors and ignores the possible joint effects of two or more factors. For example, the direct sales model is more common in B2B sites than in B2C sites. So how much of the increased survival rate among B2B sites is due to the higher use of the direct sales model and how much to the fact that it operates in a B2B market? A statistical technique that allows the relative contributions of all the factors to be determined is binary logistic regression. When this is used, a slightly different picture emerges.

Comparing the odds of survival of various business models to each other, **Table 2** shows that, after controlling for other factors, e-tail and portal sites are slightly less likely to survive than direct sales sites, while marketplace models are more likely to survive than direct sales sites. (It should be noted that the failure rates

Table 2
Odds of survival of different business models compared

E-tail vs. direct sales	0.93 : 1
Portal vs. direct sales	0.97 : 1
Marketplace vs. direct sales	1.30 : 1
Pay vs. free	0.80 : 1
Clicks/mortar vs. pure Net	11.00 : 1*

*Significant at <0.001 level

shown here may be higher than for current startups, since the sample was drawn in 1999, when e-business models were still in their early experimental stages.)

Likewise, free sites are a little more likely to survive than pay sites. However, these differences were not statistically significant. In contrast, the effect of offline revenues was highly significant. Clicks-and-mortar sites are nearly 11

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