

Defining the Business Model

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1. Business Model definitions

There are many approaches to how and where a business places itself in the revenue stream. Which approach, or approaches, is chosen and what operational features surround the approach is basically the business model. This also can be seen as a statement of the business's value to the customer, who the customer is, and how the business will get itself in the revenue stream to profit from the activity. Defining this term can be a formidable task due to its often nebulous usage. Following are three definitions of the idea of a business model. Although each is different, the first two include revenue generation, while the third focuses on profit.

Definition One

"In the most basic sense, a business model is the method of doing business by which a company can sustain itself - that is, generate revenue. The business model spells-out how a company makes money by specifying where it is positioned in the value chain", explains Michael Rappa, North Carolina State University professor specializes in the study of e-commerce and the assessment of emerging technologies.¹

Definition Two

Paul Timmers, head of sector in the European Commission, Directorate-General III, defines a business model as:

An architecture for the product, service and information flows, including a description of 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.³

Definition Three

Adrian Slywotzky (Value Migration, HB Press, 1996), defines a business design as "the totality of a how a company selects its customers, defines and differentiates its offerings, defines the tasks it will perform itself and those it will outsource, configures its resources, goes to market, creates utility for customers, and captures profit. It is the entire system for delivering utility to customers and earning a profit from that activity."¹⁸

2. How is the term Business Model typically used?

The term, Business Model, can be found in a variety of contexts, often based on the assumption that both the author and the reader have the same fundamental underpinnings in mind. It is common for both business and technical materials that use the term Business Model to avoid qualifying the term. This may be due to either the lack of a true definition available, or due to the desire for readers to utilize their own perception of the term.

Michael Rappa explains how some models are quite simple. "A company produces a good or service and sells it to customers. If all goes well, the revenues from sales exceed the cost of operation and the company realizes a profit. Other models can be more intricately woven. Radio and television broadcasting is a good example. With all the talk about "free" business models on the web, it is easy to forget that radio, and later television, programming has been broadcast over the airwaves free to anyone with a receiver for much of the past century. The broadcaster is part of a complex network of distributors, content creators,

advertisers (and their agencies), and listeners or viewers. Who makes money and how much is not always clear at the outset. The bottom line depends on many competing factors.”¹

In a specific example of a business model renaissance, Michael Rappa refers to auctions. Still, there is no discussion of revenue generation, a common thread of most definitions of business model. “E-commerce will give rise to new kinds of business models. That much is certain. But the web is also likely to reinvent tried-and-true models. Auctions are a perfect example. One of the oldest business models, auctions have been widely used throughout the world to set prices for such items as agricultural commodities, financial instruments, and unique items like fine art and antiques. Companies like eBay have popularized the auction model and broadened its application on the web to a wide array of goods and services.”¹

In the Fortune article, Dot-Coms: What Have We Learned?, Harvard Business School professor Clayton Christensen explains how even he “...has had to refine his thinking. He now considers the Internet not a disruptive technology per se but ‘an infrastructure that can enable disruptive business models.’ He says, ‘I’ve been learning along with everyone else.’...”¹⁹

Alex Gove, author of Red Herring article, New mediator: The music industry needs to offer more than clever business models, states that the “market for new business models shows no sign of slowing. ***The Internet business model du jour seems to be affiliate marketing, in which companies like Mercata and Accompany promise online customers lower prices by aggregating their buying power.***” The underlying message is that the business model is their promise of lower prices by aggregation of customers’ buying power, but never in the article is this actually spelled out.¹⁷

Kellogg Graduate School of Management Professor, Mohanbir Sawhney and Kellogg graduate student, Sumant Mandal, discuss the globalization factors in play with Internet based business models, in their article, Go Global. “The Net’s global reach makes ecommerce models transparent. Anyone with a Web browser can study and hijack your business model — from distribution and pricing models, right down to the pixels on your front page.”⁷

Heather Green explains the correlation between business model and revenue in her article, Throw

Out Your Old Business Model. “...Today there are a bewildering number of signposts, each pointing to a different business model or revenue opportunity: ads, subscriptions, transaction fees, direct sales to consumers or businesses, and commissions for matching buyers to sellers. To make the most of any of these, you must pinpoint your core strength, then turn on the creative juices to come up with new revenue streams.”⁵

In his article, Revamping the Corporation from the Inside Out, Gary Hamel, discusses the need for business models to be “rebuilt to change.” “In the Internet Age it is not technology that creates new wealth, but radical new business concepts. The dilemma, of course, is that most companies cannot innovate at such a fast pace. Most companies were built to do a single thing, exceedingly well, for an exceedingly long period of time—think of AT&T and long distance, Boeing and airplanes, Ford and cars, Intel and microprocessors, or Xerox and copiers. For the most part, the firm and its business model were assumed to be one and the same thing. The assumption was that good business models were virtually immortal—and so they were, in a slow-spinning world. But no more. Today, business models can be rendered in the blink of an eye. So every company that was ‘built to last,’ must now be ‘rebuilt to change.’”⁶

In regard to business models that have failed, R. Labatt explains that “...the online retail business models that succeed in the long term will address consumers’ demand for convenience and service. The failure of WebHouse, and Priceline’s response to it — blaming the capital markets and failing to acknowledge the inherent limitations of its business model — make it clear that Priceline has not yet learned that lesson.”⁸

In their Gartner Group article, V. Frick and A. Lill state that “...Introducing e-business often means significantly increasing the complexity of the business model. It may also mean establishing a market presence on the Internet (B2C or B2B) where none previously existed. Implementing the new business model and establishing a new market presence may take a significant amount of time.”⁹

Harvard professor, Jeffrey F. Raport, discusses why there is so much uncertainty about Internet business models, in his article, The Truth about Business Models, “...As with businesses that have come before it, there are countless “right” answers, endless combinations of business models and infinite permutations of key themes and approaches. There will be no magic bullet. No

matter how often consultants and academics pretend that business is more science than art, every practitioner knows that business is almost all art, just as the genius of nearly every corporate strategy lies in its implementation..."¹¹

In her article, Disintermediation/Reintermediation, Julia King explains that "...Disintermediation is already taking a hit on the business-to-consumer front, where new business models, such as cobranding and digital channel management — as opposed to channel cannibalization — are beginning to take hold."¹⁴

3. How does the Business Model link to Profitability?

According to the Harvard Business Review article, Go Downstream: The New Profit Imperative in Manufacturing, one example of how a business model can creatively create profitability is Hewlett-Packard's printer business, in an industry with slender margins. "Each printer that HP sells provides the company with the opportunity to supply a stream of ink cartridges at the very healthy margins. HP could probably give its printers away to build its installed base and still come out ahead in profitability. Giving printers away may sound far fetched, but it's the logical extension of a business model based on an installed-base annuity stream. It's how the cellular-phone and cable-television markets are already structured in the United States, and it's how the home personal-computer market may soon operate."¹²

E. B. Katz, stated in his article, Will Your Business Model Float?, "the only established business model that can credibly claim to be new and largely Net-specific was pioneered by the software industry. The obvious reasons: Engineering and programming types swarm over the Net like algae in red tide, and the product itself can be distributed, as well as marketed, over wires."⁴

According to W. Brian Arthur, Professor at Stanford University and the Santa Fe Institute, software is also unusual because it operates under a principle of "increasing returns" in which market leaders win big and losers are crushed. Using this model, "...the more software a manufacturer gives away, the more likely it is that the product will become a standard. That leads to higher returns, which can then be used to kill the competition. Today, selling software at cost or even at a loss in order to move higher margin upgrades, support services and, as in the case of Intuit Inc., even checks, is the norm in the packaged software industry. Netscape, of

course, stands as a shining example. Computer games... have also prospered using this model," explains Katz.⁴

4. How does the Business Model link to Strategy?

In his article, Five Steps to a Dot-Com Strategy: How To Find Your Footing on the Web, N. Venkatraman addresses key issues confronting companies with brick-and-mortar operations, branded products and services, and traditional supplier and customer relationships. Focusing on the issue of Strategic Vision, Venkatraman states that "because e-business is evolving so rapidly, companies must continuously augment current business models (e.g., improve supply chains) while experimenting to create new ones. New business models change the rules for competitors and deliver markedly improved customer value. Companies must be willing to cannibalize existing products and services and engage in strategic alliances."¹⁶

Michael Rappa explains the purpose of combining business models as a means to profit, as well as the development of the company's strategy. "Any given firm may combine different models as part of its web business strategy. Thus, an advertising model may be blended with a subscription model to yield an overall strategy that is profitable."¹

Peter Keen, in his article, Business re-model, explains how business model is displacing strategy as the method for viewing today's new world of commerce. "Strategy largely works within the givens of business -- industry, channels, price structures -- but there aren't any givens now. Is our basic business model sound, or will we have to change, adapt or even abandon it? Strategy rests on answering this, not the other way around. That's what IT is now about: business models -- the basic frameworks into which visions, strategies, plans and programs fit. E-commerce has shown how fragile successful business models can suddenly turn out to be."¹³

From the white paper, Internet Business Strategist: Builders of the Internet Economy, "...We believe that there are between 2.5 million and 3 million Internet business strategists in the United States today, and that their population will swell to nearly 10 million by mid-decade. The strategies they are implementing are transforming business models in their companies, and these new business models are, in turn, transforming entire industries..."²

According to this white paper, one of the Internet business strategist's biggest worries includes keeping up with "changing technology, with competitors, with information overload, with changing business models" while a key role of these strategists is to "drive change within their organizations in order to adapt to the new business models spawned by the Internet Economy."²

Frick and Lill in their Gartner Group article explain the reason to deliberately execute alternatives to buy, spin off or transform the business model. "...When preparing to establish an e-business presence, enterprises should explicitly consider alternative ways to attain the strategic objectives. In some cases, it may be desirable (for independence or financial reasons) to create an internal e-business unit and then spin off the unit as a separate legal entity. In other cases, there may be a high degree of interaction between e-business processes and traditional legacy business processes. For example, the Internet may provide an opportunity to create complementary distribution channels. In such instances, the best approach may be to build new capabilities and transform existing business processes to implement a new business model. Another approach to achieving the new capabilities might be to buy software applications or entire dot-com enterprises as building blocks to implement the new business model. It is important to explicitly consider these alternative ways of achieving the business strategy, and to make conscious choices regarding the best approach."⁹

In his article, E-business: What's The Model? While the Internet clock ticks, many companies still struggle to find the best strategy, Clinton Wilder explains that many "...companies are struggling with the most basic problem: What's the best E-business model? They're experimenting with different formulas. Some are incorporating E-business throughout the organization. Some are creating E-business subsidiaries, then spinning them off as separate online entities. Others are investing in or merging with Internet startups. Some are even moving their businesses entirely to the Web."¹⁰

5. Business Model Taxonomies

Normally, business models fall within three main categories: transactional models, advertising models, and subscription models. Due to the Internet economy's seemingly endless modes by which a company may sustain itself, these categories have expanded and permuted. Development of new models and hybrids of traditional models has become a common

occurrence.

In recognition of this, the "US Patent and Trademark Office has begun granting patents for new and novel business models. There were 1,390 patents related to the Internet granted in the first half of 1999."¹ Examples of this include: Amazon.com's "One-click purchase", Mercata's group buying technology, DoubleClick's online advertising and related measurement, and Coolsavings.com's distribution of discount coupons via the web.¹⁵

Taxonomy One

The first Taxonomy is categorized by: Brokerage, Advertising, Infomediary, Merchant, Manufacturer, Affiliate, Community, Subscription, and Utility models, as defined in "Business Models on the Web", by Michael Rappa, Professor of Technology Management at North Carolina State University.¹

Brokerage Model

Brokers are market-makers: they bring buyers and sellers together and facilitate transactions. Those can be business-to-business (B2B), business-to-consumer (B2C), or consumer-to-consumer (C2C) markets. A broker makes its money by charging a fee for each transaction it enables. Brokerage models can take a number of forms, such as:

- **Buy/Sell Fulfillment** – This can be an online financial brokerage, like eTrade, where customers place buy and sell orders for transacting financial instruments. Also, travel agents fit into this category. In this the broker charges the buyer and/or seller a transaction fee. Some models work on volume and low overhead to deliver the best negotiated prices, for example, CarsDirect.
- **Market Exchange** – Increasingly common model in B2B markets. Good examples are MetalSite or ChemConnect's World Chemical Exchange. In the exchange model, the broker typically charges the seller a transaction fee based on the value of the sale. The pricing mechanism can be a simple offer/buy, offer/negotiated buy, or an auction offer/bid approach.
- **Business Trading Community** – Or "vertical web community," a concept pioneered by VerticalNet. It is as a site that acts as an "essential, comprehensive source of information and dialogue for a particular vertical

market." VerticalNet's communities contain product information in buyers' guides, supplier and product directories, daily industry news and articles, job listings and classifieds. In addition, VerticalNet's sites enable B2B exchanges of information, supplementing existing trade shows and trade association activities. [see also: Buzzsaw.com]

- **Buyer Aggregator** – Model pioneered by Accompany, which describes buyer aggregation as the process of bringing together individual purchasers from across the Internet to transact as a group so they can receive the same values traditionally afforded to organizations that purchase in volume. Sellers pay a small percentage of each sale on a per-transaction basis. The U.S. Patent Office has granted Mercata a business method patent on part of its "PowerBuy" purchasing system, which lets customers join together online to win group discounts on merchandise.
- **Distributor** – A catalog-type operation that connects a large number of product manufacturers with volume and retail buyers. B2B models are increasingly common. Broker facilitates business transactions between franchised distributors and their trading partners. For buyers, it enables faster time to market and time to volume as well as reducing the cost of procurement. By providing the buyer with a means of retrieving quotes from preferred distributors -- showing buyer-specific prices, lead-time, and recommended substitutions -- transaction are more efficient. For distributors, it decreases the cost of sales by performing quoting, order processing, tracking order status, and changes more quickly and with less labor. [ex: NECX]
- **Virtual Mall** – A site that hosts many online merchants. The Mall typically charges setup, monthly listing, and/or per transaction fees [see, for example Yahoo! Store's terms. The virtual mall model may be most effectively realized when combined with a generalized portal. Also, more sophisticated malls will provide automated transaction services and relationship marketing opportunities [ex: Yahoo! Stores, ChoiceMall, iMall, Women.com's Shopping Network]
- **Metamediary** – A business that brings buyers and online merchants together and provides transaction services such as financial settlement and quality assurance. It is a virtual mall, but one that will process the transaction, track orders, and provide billing and collection services. The metamediary protects consumers by assuring satisfaction with merchants. The metamediary charges a setup fee and a fee per transaction. Expect to see virtual malls move more in this direction. [ex: HotDispatch, Amazon's zShops].
- **Auction Broker** – A site that conducts auctions for sellers (individuals or merchants). Broker charges the seller a fee, which is typically scaled with the value of the transaction. Seller takes highest bid(s) from buyers above a minimum. Auctions can vary in terms of the offering and bidding rules. [ex: eBay, AuctionNet, Onsale]
- **Reverse Auction** – The "name-your-price" business model, also called "demand collection" and "shopping by request". Prospective buyer makes a final (sometimes binding) bid for a specified good or service, and the broker seeks fulfillment. In some models, the broker's fee is the spread between the bid and fulfillment price and perhaps a processing charge. Frequently aimed at high-priced items like automobiles or airline tickets. [ex: Priceline, Respond.com, eWanted, MyGeek.com]
- **Classifieds** – A listing of items for sale or wanted for purchase, typically run by local news content providers. Price may or may not be specified. Listing charges are incurred regardless of whether a transaction occurs.
- **Search Agent** – An agent (i.e., an intelligent software agent or "robot") used to search-out the best price for a good or service specified by the buyer, or to locate hard to find information. [Ex: DealTime, MySimon, RoboShopper, R U Sure, ShopFind] An employment agency can act as a search agent broker, finding work for job-seekers or finding people to fill open positions listed by an employer. [CareerCentral]

Advertising Model

The web advertising model is an extension of the traditional media broadcasting model. The broadcaster, in this case, a web site, provides content (usually, but not necessarily, for free) and services (like e-mail, chat, forums) mixed with advertising messages in the form of banner ads. The banner ads may be the major or sole source of revenue for the broadcaster. The broadcaster may be a content creator or a distributor of content created elsewhere. The advertising model only works when the volume of viewer traffic is large or

highly specialized.

- **Generalized Portal** – High-volume traffic -- typically tens of millions of visits per month (see chart at right) -- driven by generic or diversified content or services (ex: search engines and directories like Excite, AltaVista and Yahoo! or content driven sites like AOL). The high volume makes advertising profitable and permits further diversification of site services. Competition for volume has led to the packaging of free content and services, such as e-mail, stock portfolio, message boards, chat, news, and local information.
- **Personalized Portal** – The generic nature of a generalized portal undermines user loyalty. This has led to the creation of portals (ex: My.Yahoo!, My.Netscape) that allow customization of the interface and content. This increases loyalty through the user's own time investment in personalizing the site. The profitability of this portal is based on volume and possibly the value of information derived from user choices. Personalization can support a "specialized portal" model.
- **Specialized Portal** – Also called a "vortal" (i.e., vertical portal). Here volume is less important than a well-defined user base (perhaps 0.5-5 million visits per month). For example, a site that attracts only golfers, or home buyers, or new parents, can be highly sought after as a venue for certain advertisers who are willing to pay a premium to reach that particular audience.
- **Attention / Incentive Marketing** – The "pay for attention" model -- pays visitors for viewing content and completing forms, or sweepstakes, or frequent flyer-type point schemes. The attention marketing approach has the most appeal to companies with very complex product messages, which might otherwise find it hard to sustain customer interest. The concept was pioneered by CyberGold, with its "earn and spend community" that brings together advertisers interested in incentives-based marketing with consumers looking to save. To facilitate transactions, the company developed and patented a micropayment system. Other loyalty-based relationship marketing approaches are Netcentives, or MyPoints.
- **Free Model** – Give users something for free: site hosting [ex: FreeMerchant], web services,

Internet access, free hardware, electronic greeting cards [BlueMountain]. Freebies create a high volume site for advertising opportunities. Viability is hardest when based purely on advertising revenue. Opportunity to blend with infomediary model.

- **Bargain Discounter** – The most notable example is Buy.com, which sells its goods typically at or below cost, and seeks to make a profit largely through advertising.

Infomediary Model

Data about consumers and their buying habits are extremely valuable. Especially when that information is carefully analyzed and used to target marketing campaigns. Some firms are able to function as infomediaries by collecting and selling information to other businesses. An infomediary may offer users free Internet access [NetZero] or free hardware [eMachines.com] in exchange for detailed information about their surfing and purchasing habits. This is more likely to succeed than the pure advertising model. The infomediary model can also work in the other direction: providing consumers with useful information about the web sites in a market segment that compete for their dollar. One such example is Gomez.

- **Recommender System** – Is a site that allows users to exchange information with each other about the quality of products and services -- or the sellers with whom they have had a purchase experience (good or bad) [See: Deja.com, ePinions]. ClickTheButton takes the concept a step further by integrating the recommender system into the web browser. Such agents monitor a user's habits, thereby increasing the relevance of its recommendations to the users needs -- and the value of the data to the collector. Recommender systems can take advantage of the affiliate model offered by merchants to augment revenue from the sale of consumer information.
- **Registration Model** – Content-based sites that are free to view but require users simply to register (other information may or may not be collected). Registration allows inter-session tracking of users' site usage patterns and thereby generates data of greater potential value in targeted advertising campaigns. This is the most basic form of infomediary model. [ex: NYTimes.com]

Merchant Model

Classic wholesalers and retailers of goods and services (increasingly referred to as "e-tailers"). Sales may be made based on list prices or through auction. In some cases, the goods and services may be unique to the web and not have a traditional "brick-and-mortar" storefront.

- **Virtual Merchant** – A business that operates only over the web and offers either traditional or web-specific goods or services (a.k.a., pure-play e-tailers). The method of selling may be list price or auction. An example of a service merchant is Facetime, which calls itself an "application service provider". It offers live customer support for e-commerce web sites. [ex: Amazon, eToys, Eyewire]
- **Catalog Merchant** – The migration of mail-order to a web-based order business. [ex: Chef's Catalog]
- **Surf-and-Turf** – Traditional brick-and-mortar establishment with web storefront. The model has the potential for channel conflict. Physical stores can prove to be an asset if cleverly integrated into web operations. Also known as "bricks-and-clicks". [ex: Gap, Lands End, B&N]
- **Bit Vendor** – A merchant that deals strictly in digital products and services and, in its purest form, conducts both sales and distribution over the web.

Manufacturer Model

This model is predicated on the power of the web to allow manufacturers to reach buyers directly and thereby compress the distribution channel (i.e., eliminate wholesalers and retailers). The manufacturer model can be based on efficiency (cost-savings that may or may not be passed on to consumers), improved customer service, and a better understanding of customer preferences. Perishable products that benefit from fast distribution, like fresh flowers [ex: Flowerbud], may prove advantageous by eliminating middlemen. The model has the potential for channel conflict with a manufacturer's established supply chain. [ex: Intel, Apple]

Affiliate Model

In contrast to the generalized portal, which seeks to drive a high volume of traffic to one site, the affiliate model, provides purchase opportunities wherever people may be surfing. It does this by offering financial incentives (in the form of a percentage of revenue) to affiliated partner sites. The affiliates

provide purchase-point click-through to the merchant. It is a pay-for-performance model -- if an affiliate does not generate sales, it represents no cost to the merchant. The affiliate model is inherently well-suited to the web, which explains its popularity. Variations include, banner exchange, pay-per-click, and revenue sharing programs. Potential problems loom ahead that may inhibit the diffusion of the affiliate model due to the granting of a broad patent to Amazon.com. [ex: BeFree, and while there, read about affiliate marketing; also see i-revenue.net, a guide to affiliate programs on the web, or AffiliateWorld.]

Community Model

The viability of the community model is based on user loyalty (as opposed to high traffic volume). Users have a high investment in both time and emotion in the site. In some cases, users are regular contributors of content and/or money. Having users who visit continually offers advertising, infomediary or specialized portal opportunities. The community model may also run on a subscription fee for premium services.

- **Voluntary Contributor Model** – Similar to the traditional public broadcasting model -- the listener or viewer contributor method used in not-for-profit radio and television broadcasting. The model is predicated on the creation of a community of users who support the site through voluntary donations. Not-for-profit organizations may also seek funding from charitable foundations and corporate sponsors that support the organization's mission. The web holds great potential as a contributor based model because the user base is more readily apparent. [Ex: National Public Radio]
- **Knowledge Networks** – Or expert sites, that provide a source of information based on professional expertise or the experience of other users. Sites are typically run like a forum where persons seeking information can pose questions and receive answers from (presumably) someone knowledgeable about the subject. The experts may be employed staff, a regular cadre of volunteers, or in some cases, simply anyone on the web who wishes to respond. [Deja, ExpertCentral, KnowPost, Xpertsite, Abuzz] Also fee-based model [Ex: Guru, Exp]

Subscription Model

Users pay for access to the site. High value-added content is essential [ex: Wall St. Journal, Consumer Reports]. Generic news content, viable on the

newsstand, has proven less successful as a subscription model on the web [ex: Slate]. A 1999 survey by Jupiter Communications found that 46 percent of Internet users would not pay to view content on the web. Some businesses have combined free content (to drive volume and ad revenue) with premium content or services for subscribers only.

Utility Model

The utility model is a metered usage or pay as you go approach. Its success may depend on the ability to charge by the byte, including micropayments (that is, those too small to pay by credit card due to processing fees). [ex: FatBrain, SoftLock, Authentica]

Taxonomy Two

The second Taxonomy of Business Models is specified to the Electronic Markets, and is categorized as: E-Shop, E-Procurement, E-Auction, E-Mall, Third Party Marketplace, Virtual Communities, Value Chain Service Provider, Value Chain Integrators, Collaboration Platforms, Information Brokerage, and Trust Services, as defined by Paul Timmers, European Commission, Directorate-General III.³

- **E-Shop** – This is Web marketing of a company or a shop. In first instance this is done to promote the company and its goods or services. Increasingly added is the possibility to order and possibly to pay, often combined with traditional marketing channels. Benefits sought for the company are increased demand, a low-cost route to global presence, and cost-reduction of promotion and sales.
- **E-Procurement** – This is electronic tendering and procurement of goods and services. Large companies or public authorities implement some form of e-procurement on the Web. Benefits sought are to have a wider choice of suppliers, which is, expected to lead to lower cost, better quality, improved delivery, reduced cost of procurement.
- **E-Auction** – Electronic auctions (on the Internet) offer an electronic implementation of the bidding mechanism also known from traditional auctions. This can be accompanied by multimedia presentation of the goods. Usually they are not restricted to this single function. They may also offer integration of the bidding process with contracting, payments and delivery. The sources of income for the auction
- provider are in selling the technology platform, in transaction fees, and in advertising.
- **E-Mall** – An electronic mall, in its basic form, consists of a collection of e-shops, usually enhanced by a common umbrella, for example of a well-known brand. It might be enriched by a common - guaranteed - payment method. When they specialize on a certain market segment such malls become more of an industry marketplace, which can add value by virtual community features (FAQ, discussion forums, closed user groups, ...). The e-mall operator may not have an interest in an individual business that is being hosted. Instead the operator may seek benefits in enhanced sales of the supporting technologies
- **Third Party Marketplace** – This is an emerging model that is suitable in case companies wish to leave the Web marketing to a 3rd party (possibly as an add-on to their other channels). They all have in common that they offer at least a user interface to the suppliers' product catalogues. Several additional features like branding, payment, logistics, ordering, and ultimately the full scale of secure transactions are added to 3rd party marketplaces.
- **Virtual Communities** – The ultimate value of virtual communities is coming from the members (customers or partners), who add their information onto a basic environment provided by the virtual community company. The membership fees as well as advertising generate revenues.
- **Value Chain Service Provider** – These specialize on a specific function for the value chain, such as electronic payments or logistics, with the intention to make that into their distinct competitive advantage. Banks for example have been positioning themselves as such since long, but may find new opportunities using networks.
- **Value Chain Integrators** – These focus on integrating multiple steps of the value chain, with the potential to exploit the information flow between those steps as further added value. Revenues are coming from consultancy fees or possibly transaction fees.
- **Collaboration Platforms** – These provide a set of tools and an information environment for collaboration between enterprises. This can focus on specific functions, such as

collaborative design and engineering, or in providing project support with a virtual team of consultants. Business opportunities are in managing the platform (membership/usage fees), and in selling the specialist tools (e.g. for design, workflow, document management).

- **Information Brokerage, Trust and other Services** – A whole range of new information services are emerging, to add value to the huge amounts of data available on the open networks or coming from integrated business operations, such as information search, e.g. Yahoo (www.yahoo.com), customer profiling, business opportunities brokerage, investment advice, etc. Usually information and consultancy have to be directly paid for either through subscription or on a pay-per-use basis, although advertising schemes are also conceivable. Many consultancy and market research companies are now offering commercial business information services via the Internet.

6. How do Investment Banks view Business Models?

A good business model typically includes elements of the following:

- First mover advantage (little direct competition)
- Ability to quickly change strategic direction
- High margins
- Large potential market
- Significant barriers to entry
- Low capital intensity

First mover advantage

Chris Justice, co-founder and CEO of Asiacontent, and Brooks Entwistle, Goldman Sachs Executive Director, took their audience along the winding road to an IPO, from the different perspectives of the start-up and the underwriter.

Why did Goldman Sachs choose to underwrite Asiacontent? Entwistle presented criteria that Goldman Sachs uses to measure an IPO candidate, and Justice responded with how Asiacontent met the requirements. In regard to their Business Model, Goldman Sachs states, "Put simply, Goldman Sachs looks for winners. If you are out there first with a business model that works, you can dominate."

Asiacontent states how they met this requirement:

"Asiacontent.com was created in April 1999 from its predecessor, Tricast of Singapore. When Justice joined the company, the scope of the business was broadened to include not only content but advertising and e-commerce." Their business model creates "...high-quality content..." as well as drives "...revenue into the business through advertising and e-commerce." ²⁰

Little direct competition / First mover advantage

A recent Morgan Stanley Dean Witter news article discusses its funding of Asista, an upcoming online business-to business eMarketplace for indirect goods and services in Latin America. Asista is a business-to-business solution for companies in Latin America, and the only multibuyer, multiseller digital trading hub fully operating in Latin America's three largest markets: Mexico, Argentina and Brazil. Carlos Alberto Guajardo, CEO of Asista, remarked that, "Today Asista is on-track to become the first operational web-based market place in the region with the support of a proven technology platform like Ariba's. High quality investors' commitment to the project represents an undeniable vote of confidence in the Asista.com business model." ²⁶

Ability to quickly change strategic direction

Comstellar, a newly launched organization, is charged with establishing and operating a group of independent communications infrastructure companies. Comstellar's CEO, Sanjiv Ahuja, explains that it is built on a unique business model in which the agility of a startup is combined with the resources of a large organization in order to launch and build new companies at an accelerated pace and with a higher success rate. Mark Perry, General Partner at New Enterprise Associates, one of the key initial investors, states, "The strength of the new business model being pioneered by Comstellar is its clear focus on providing value-added services to assist entrepreneurs. In addition to providing capital, they offer creative technologists a way to be free to innovate and build their businesses, without any of the usual distractions that can slow this process, by offloading the operational needs and resource requirements of a successful business onto the expert management team at Comstellar. For CTOs that don't want to be CEOs, let alone COOs, CFOs, or CMOs, this is a real blessing and can only accelerate the pace at which new ideas reach marketable form." ²¹

High-margins

In a new study by Salomon Smith Barney and

McKinsey & Company, multiple channel retailers are slated with the most potential for generating returns and emerging successfully from the growing e-tail shakeout. The study states that the experience of failing e-tailers "...provides an object lesson for the new economy: businesses have to make money." The study goes on to state that, among other things, "...to succeed on the Web, all companies involved in e-tailing must... refine the business model to seek revenue from high-margin referral and advertising commissions. Like Amazon, e-tailers can focus on their most successful categories and add partners for others, in which they can take a commission. But they will be forced either to fight or to ally with content players that are trying to reach the same sweet spot."²²

Large potential market

'New' does not necessarily mean 'bad' for business models. Salomon Smith Barney Director, Lanny Baker, is excited by Goto.com's inventive business model. Baker states, "Their business model is magical. It is a search engine or online directory in which merchants, services and advertisers can bid for placement prominence within Goto's search results pages. As more people search the web via Goto, more merchants and advertisers are enticed in by Goto's growing volume of consumers. In turn, these firms bid against each other for prominence, pushing up Goto's revenue. As volume grows, prices are rising, you gotta love that."¹³

From the Salomon Smith Barney report, Photography and Imaging Industry, regarding Internet-based companies that place themselves between commercial printers and customers, the report states they "... have the potential to create and retain a sizable amount of economic value. This is primarily due to the highly fragmented composition of the market on both the supplier and customer sides. As a result, there is not enough market concentration on either side for an industry based group to emerge. Accordingly, we believe Internet-based companies, like Collabria..." a radically new supply-chain solution for the \$250 billion printing industry, "... and Impresse..." the leading provider of business-to-business electronic collaboration and commerce services addressing complex, labor-intensive processes associated with the creation and procurement of commercially printed materials, "...that connect printers and customers, which allow for more a streamlined job management process, could represent a sustainable business model."¹⁵

The printing industry is "...large, fragmented, and

inefficient," states Alan Hu, President and CEO of Collabria. Their supply-chain solution encompasses both the buy side and the supplier side of the industry.¹⁴

The Salomon Smith Barney report continues that on the commercial side of the printing industry, "... traditional printers may initially see pricing pressure from a more transparent and efficient marketplace, as well as online printers possibly taking away business. However, we believe eventually these companies will be net beneficiaries from an Internet-driven streamlined production process, and printers' own efforts to move business online. Online job management companies and Internet integrators should create a sustainable business model by offering unique value-added services in a highly fragmented marketplace."¹⁵

Significant barriers to entry, first mover advantage, and low capital intensity

COMindico, Australia's premier national wholesale provider of convergent communication services across an IP network, raised \$175 million equity in funding led by J.P. Morgan, AGL and AMP Asset Management. Brian Watson, Managing Director of J.P. Morgan Capital Asia Pacific, called the COMindico investment "a very exciting opportunity for J.P. Morgan to lead the funding of an early stage Australian private equity raising that is unprecedented in its size..." Regarding the COMindico business model, Mr. Watson said "Data traffic is unequivocally the driving force behind global telecom network growth and we believe that COMindico is ideally positioned within Australia to take maximum advantage of this pervasive trend."¹⁷

Mr. Demetriou, CEO of COMindico states, "...the explosion of the internet usage within Australia, and the growing trend towards converged, IP-based data and voice networks, is likely to lead to a significant increase in the demand for quality Internet port access. This represents a substantial market opportunity for COMindico as an early mover." The article continues that COMindico, "...will not install or lay new area wide cables, and instead will use the existing ATM backbones and local loop circuits of other carriers to transmit traffic through IP packet switching." Also as clarified on their website, COMindico is "a new player in the communications industry, COMindico is free of legacy systems and is able to embrace all that today's technology has to offer."¹⁷

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