# Structure and Components of E-Commerce Business Model

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## INTRODUCTION

A successful e-commerce venture requires a viable business model and a long-term sustainable strategy. When planning and implementing e-commerce ventures, business executives must address several strategic questions, such as: What are the functions and components of a viable business model? How does one capture and capitalize on the unique features of the Internet and e-commerce to achieve sustainable competitive advantage and profits? How are values being created in the Digital Economy? How can network effects and scope economies change a company's competitive position in e-commerce? How can cost, revenue, and growth models in e-commerce differ from the traditional businesses? This article extends Lee (2001) and Lee and Vonortas' (2004) works on business model and strategy to discuss the structure, components, and key issues of a viable e-commerce business model.

## BACKGROUND

A business model describes the basic framework of a business. It is the method of doing business by which a company can generate revenue to sustain itself (Rappa, 2003; Turban, King, Lee, & Viehland, 2004). It also tells what market segment is being served (who), the service that is being provided (what), and the means by which the service is produced (how) (Chaudhury & Kuilboer, 2002), and how it plans to make money long term using the Internet (Afuah & Tucci, 2003, p. 51). A firm's business model should also describe how the organization is positioned in the industry value chain. Timmers (1998) defines 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. Weill and Vitale (2001) define an e-business model as a description of the roles and relationships among a firm's consumers, customers, allies, and suppliers that identifies the major flows of product, information, and money, and the major benefits to participants.

In terms of business areas, Rappa (2003) identifies nine basic Internet business models. They are: brokerage, advertising, infomediary (e.g., recommender system, registration model), merchant, manufacturer (direct marketing), affiliate (provide commission for online referrals), community (voluntary contributor model or knowledge networks), subscription, and utility (e.g., pay by the byte). In addition, Turban et al. (2004) also identify several types of Internet business models including: name your price, find the best price, dynamic brokering, affiliate marketing, group purchasing, electronic tendering systems, online auctions, customization and personalization, electronic marketplaces and exchanges, supply chain improvers, and collaborative commerce.

As for the specific components, an e-commerce business model should consist of multiple components and perform different functions. Rayport and Jaworski (2001) argue that a "new economy" business model requires four choices on the part of senior management. They include the specification of a value proposition or a value cluster for targeted customers; a scope of marketspace offering, which could be a product, service, information, or all three; a unique, defendable resource system—that is, the associated resource system to deliver the benefits; and a financial model, which includes a firm's revenue models, shareholder value models, and future growth models. To study the role of the business model in capturing value from innovation, Chesbrough and Rosenbloom (2002) identify the functions of a business model, which include: (1) to articulate the value proposition; (2) to identify a market segment; (3) to define the structure of the firm's value chain; (4) to specify the revenue generation mechanism(s) for the firm; (5) to describe the position of the firm within the value network; and (6) to formulate the competitive strategy to gain advantage over rivals. Other scholars, such as Dubosson-Torbay, Osterwalder, and Pigneur (2002) and Alt and Zimmermann (2001), also made significant contributions to the theoretical discussions and business practices of e-commerce business models.

## MAJOR COMPONENTS AND KEY ISSUES OF AN E-COMMERCE BUSINESS MODEL

In order to sustain a successful business venture, a viable business model should address a number of issues and the dynamics of the respective elements which include: what value to offer customers (strategic goals and value proposition), which customers to provide the value to (scope of offerings), what capabilities are needed to build a successful and unique resource system, how to price the products or services and generate streams of revenues, how to increase the scale and the scope of the venture, and what strategies and processes are needed to build and sustain a successful e-commerce business model.

### Structure and Components of a Viable E-Commerce Business Model

Table 1 lists and discusses major components and several key issues of a viable e-commerce business model. It can be used to assist business executives and entrepreneurs in planning and implementing e-commerce business ventures. It also serves as a basic framework for further study of the e-commerce business model and strategy.

*Table 1. Components and key issues of the e-commerce business model*

| Component | Element | Key Issue |
|---|---|---|
| **Value propositions** | **Choice of focal customer benefits** | **Core products/services:**<br>• What kinds of value or benefit do we provide for our customers?<br>• How uniqueness is the value or benefit?<br>• Do those values satisfy customer's demand?<br>• Does the products or services have strong network effects?<br>• Are there substitutes for our products or services?<br>**Supplement products/services:**<br>• How important are the supplement products or services?<br>• How to increase customer value by improving or redesigning business processes?<br>• How important do we need to provide product instructions, user training, and customer services? |
| | **Target segment** | **Market attractiveness**<br>• How substantial is the market segment?<br>• Whether the market is underserved or over-served?<br>• What is the growth rate of the market segment?<br>• Which stage is the product in the product lifecycle?<br>**Intensity of market competition**<br>• What is the market or industry structure?<br>• How intensity is the competition?<br>• How large is the entry and exit barriers? |
| **Scope of offerings** | **Customer decision process** | **Pre-purchase**<br>• How to make easy for customers to obtain and compare product- or service-related information?<br>• How importance is the advertising to inform or persuade customers to make the purchase?<br>• Do we need to obtain a 3rd-party certificate or verification (e.g., VeriSign) in order to build a trust relationship with our customers?<br>**Purchase**<br>• When, where, and how do customers make the purchase?<br>• What kinds of service are required to assist customer in purchasing the product or service?<br>• Whether the delivery of products or services is efficient?<br>**Post purchase**<br>• Do we understand customer's evaluation and satisfaction of the products or service?<br>• Do the majority of the customer make repeat purchase?<br>**Purchasing process**<br>• How important is to offer customer assistance in the whole process of purchasing a product?<br>• Can we identify customer decision process and be able to provide effective assistance?<br>• Do we have an effective e-commerce site that is user friendly?<br>• How to lower the "transaction costs" to make easy for customer to do business with you? |

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