Impacts and Revenues Models from Brazilian Portals

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INTRODUCTION

Tapscott (1996) states that, since the end of the last millennium, the world is witnessing the birth of a new era called the age of networked intelligence, which creates a new economy, new policy and a new society, based on networking of human intelligence through technology. In other words, in this new era, machines do not predominate, but individuals who use networks to combine their intelligence, their knowledge and their creativity to create wealth and social development.

The new economy, which appears with this new era, can be called digital economy because information, in all its forms, becomes digital; that is, it is reduced to bits, binary code formed by combination of ones and zeros, stored on computers and circulating at light speed over networks.

In this new economy, Internet plays a fundamental role, which is shown by its growth and creation of new business (portals, B2B, B2C, search tools, MP3, etc.) all round the world.

In Brazil, the Internet is also growing. There was substantial growth in Internet usage: from 3.9 million users in 2000 to 18 million in 2005 (Ibope, 2006). The comparison of volume of sale on the Internet (B2C mode), between January 2001 and 2005, shows a 254% growth. Another important fact is that in 2005, 20.6 million taxpayers (97.5%) submitted their income tax declarations through Internet. This market growth, allied with new development of network technologies, has increased competition among Brazilian portals.

This article aims to describe the Internet market in Brazil, describing and analyzing its background, business models, revenue sources, and market competition. Besides, this study allows a comparison between some important points in Brazilian market and other international markets.

BACKGROUND

Market Competition

Kalakota (1997) defines the main drivers in Internet portals market: price, content, ease of use, and services offered to consumers.

Porter (1979) identified five competitive forces that determine competitiveness and intrinsic attraction for long term profit in a market (industry) or market segment: rivalry among competitors, potential new competitors, substitute products, buyers and suppliers. The threats that these forces represent are:

- **Threat of Intense Segment Rivalry:** An industry is not attractive if it already contains powerful, aggressive, or a large number of rivals. It is even less attractive if it is stable or in decline, if additional productive capacity takes place in major stages, if fixed costs are high, if barriers to exit are high or if competitors have a major interest in remaining in the segment. These conditions frequently lead to price wars, advertising battles and product launches, which makes competition burdensome.
- **Threat of New Competitors:** The attraction of an industry varies with barriers to entry and exit of the segment. The most attractive segment is one with high barriers to entry and few barriers to exit. Few new companies manage to enter the sector and companies with poor performance can leave easily. When barriers to entry and exit are small, companies can easily enter and leave the sector and returns are stable but low. The worst case is when barriers to entry are low and to exit are high; companies enter in good periods, but find it hard to leave in difficult periods. The result is excess capacity and reduced gains for all.

- **Threat of Substitute Products:** A segment is not attractive when there are real or potential substitutes for the product. Substitutes limit industry prices and profits. The company needs to monitor price tendencies closely. Technological advances or increased competition in substitute sectors mean that prices and profits tend to fall.
- **Threat of Increasing Buyer Bargaining Power:** A segment is not attractive if buyers have major or growing bargaining power. Buyers will try and force a price cut, demand more quality and service options and will set competitors against each other, all to the detriment of the selling company's profits. Purchaser bargaining power grows as they organize and become more concentrated, when the product represents a significant portion of purchaser costs, when the product is not differentiated, when buyer's costs of changing are low, when buyers are sensitive to prices because of low profit margins or when buyers may integrate prior stages in production chain. To protect themselves, companies must select buyers with less negotiating capacity and lower power to change supplier. The best defense is developing better offerings which cannot be rejected by powerful buyers.
- **Threat of Increasing Supplier Bargaining Power:** A segment is not attractive if its suppliers can raise prices or reduce supplies. Suppliers tend to be powerful when concentrated or organized, if there are few substitutes, if the product supplied is important, if the cost of changing supplier is high and if suppliers can integrate later stages of the production chain. The best defenses are to construct relationships with suppliers where all parties win and use various supply sources.

Portal Types

Portal sites give their visitors the opportunity to find everything that they are looking for in a single place. According to Deitel (2004), "most people think of search tools when they hear the word portal" (p. 32). Search tools are normally horizontal portals (i.e., portals that provide services for companies of different industries) that offer information on many topics. More specific portals, those offering a substantial amount of information on a single area of interest, are called vertical portals.

Kalakota (2002) states that portals can be called e-business killer applications. The term portal currently has a variety of meanings in the business world. For our purposes, the definition proposed by Kalakota (2002) will be used: "an aggregate set of services for a specific and well defined user group" (p. 96). For example, Yahoo! is a portal that organizes news, search tools and communications services that consumers want to use. eBay users can administrate business activities associated with auctions.

Kotler (2000) states that the Internet, or more specifically, the World Wide Web, is currently the largest information repository that the world has ever seen. The author says that, in a very short period, the Web has become a key tool for sales and marketing professionals to obtain information about the competition and carry out demographic, sector or customer research.

The portals take many forms. For Turban (2004), one way of differentiating them is by verifying their content, which can be more or less wide-ranging, and their community or target market, which may also vary. Thus, portals can be divided into five types:

- **Publication Portals:** Directed towards large communities with diverse interests, involving very little content customization, except in online research and typical interactive Web resources.
- **Commercial Portals:** Offering less varied content to various markets, commercial portals are the most popular among online communities. Although they allow user interface customization, they are still directed towards wide-ranging markets and their content is very simple (a list of actions and news on pre-selected themes).
- **Personal Portals:** Filter specific information for the user. As with commercial portals, they do not offer wide-ranging content, but are generally more personalized; some go to the extreme of having a single user for their market.
- **Corporate Portals:** Coordinating rich content for a relatively small community. Also known as business portals or business information portals.
- **Mobile Portals:** Accessible from mobile devices.

Revenue Models

According to Turban (2004) revenue model highlights include: transaction, subscription, transaction tariff, advertisement, affiliate and sales models.

The transaction fee model is when a company receives commission on a volume of transactions carried out. For example, the amount paid in the sale or purchase of a house is called a transaction fee. The greater the value of the property, the higher is the transaction fee.

Subscription fees arise when customers pay a fixed value to obtain certain services, generally on a monthly basis. One example would be the access fee charged by a Internet provider: The basic revenue model for access providers is based on the subscription fee.

The advertising fee model exists when companies charge other companies to advertise on their sites. This model is used by radios, TV networks, newspapers, and so forth