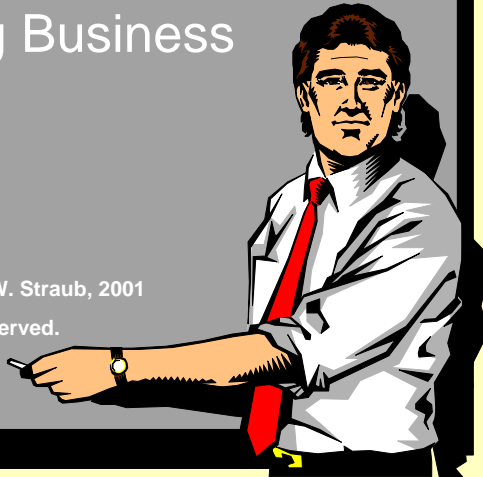


Emerging Business Models

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Lecture



▼ New Models are a-Coming

"Executives must mentally deconstruct their businesses to see the real value of what they have. If they do not, someone else will!"

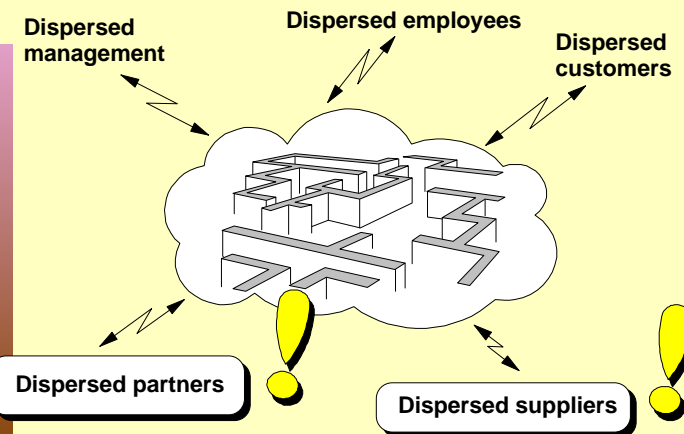


-Philip B. Evans & Thomas S. Wurster,
Harvard Business Review, 1997

▼ Agenda

- Virtual Designs
- Information-Based Model
- Expansionary Market Model
- New Pricing Models
 - Comparison Pricing as a Driving Force
 - Savvy consumers versus savvy providers
 - The Seller's Edge: rapid pricing changes
 - Yield management spreading to retail?
- Atomic and Hybrid e-Business Models

▼ What are Virtual Designs?



▼ Virtual Designs

In a Virtual Corporation,....:

"...the majority of the activities of the firm are contracted or outsourced."
(Study Definition based on ...)

This allows the firm to focus on its strategic, core processes (core competencies)

Strategic alliances.....

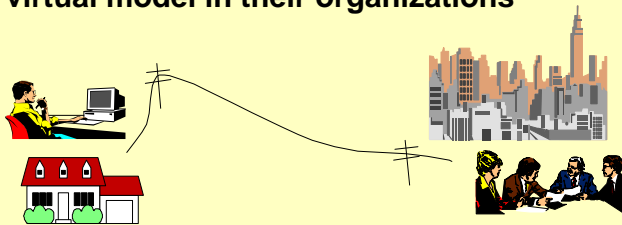
▼ Changes in the Underlying Business Model/Linkages

- Partnering, Supplier Links → Virtual Model

A "Virtual Organization" operates as if it were a group of enterprises. It depends on contracts rather than outright ownership of resources and services that it requires in order to do business.

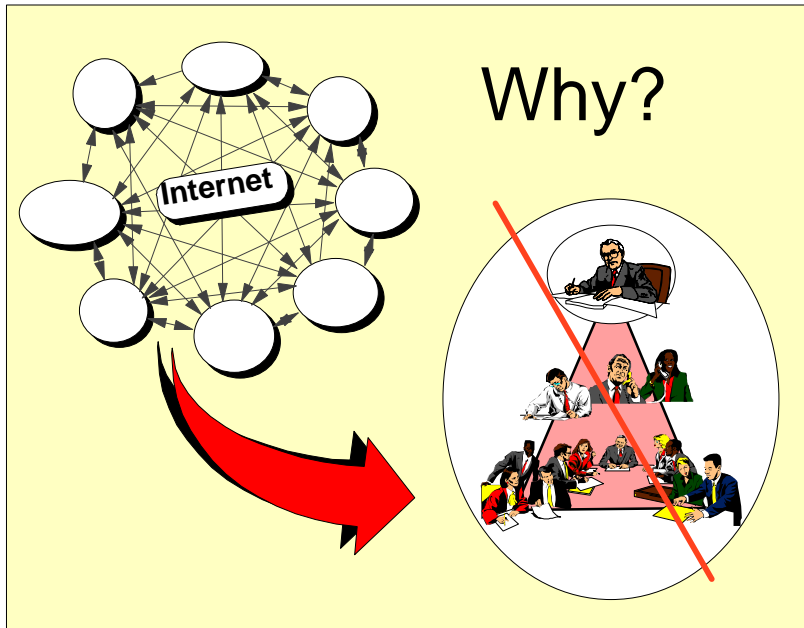
▼ Virtual Models

- Respondents saw a connection between virtual versus physical coordination processes and virtual organizational designs
 - They mentioned "virtual teams" & telecommuting as examples of an emerging virtual model in their organizations



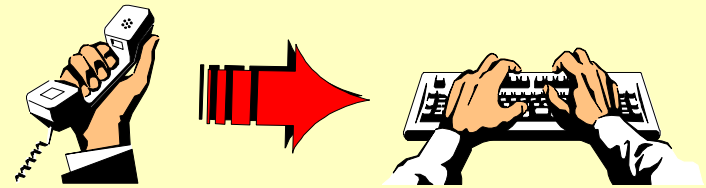
They are not HIERARCHICAL!





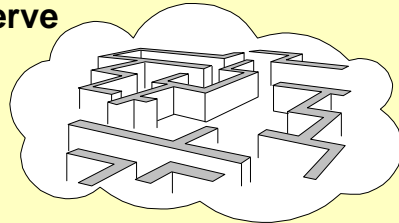
▼ Effects of New Information Economics on Business Models

- Internet shifting to freer information exchange should break down bureaucratic structures within organizations
 - Fewer layers, freer flow of information



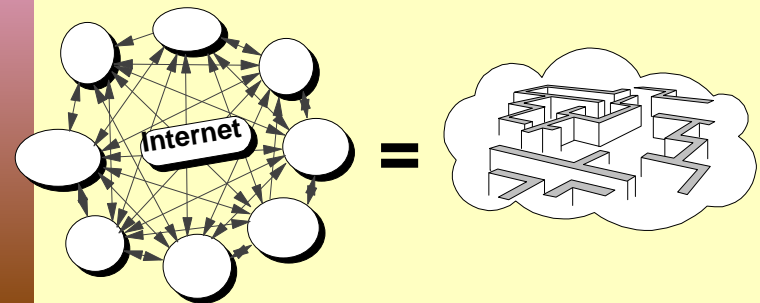
▼ Why are there Virtual Designs?

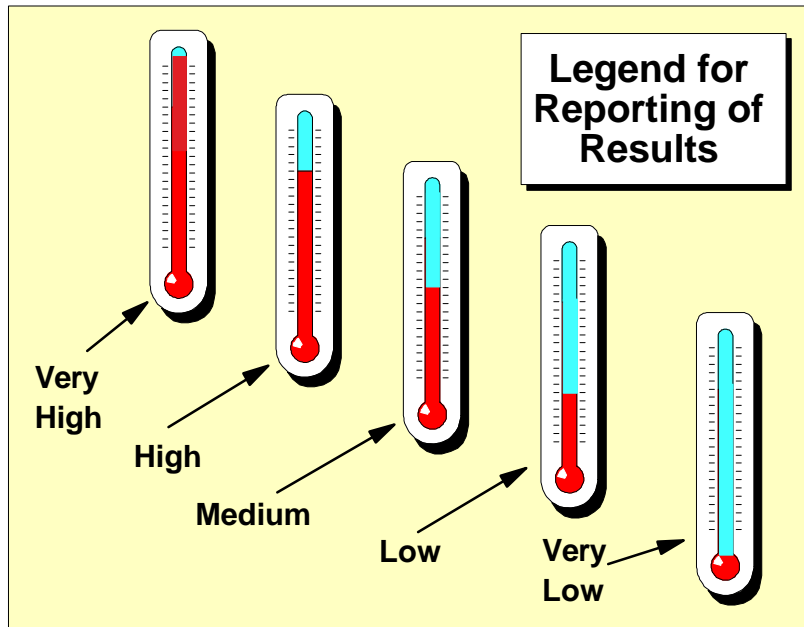
- These examples and definitions tell us what a virtual organization (by how it operates)
- But they do not answer the question of why these organizational forms have come into existence and what purpose they serve



▼ Why are Virtual Designs?

- ...and they do *not* tell us why there might be a connection between EC and virtual designs

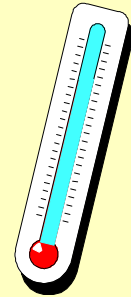




▼ Changes in the Underlying Model for Doing Business

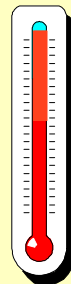
▪ Virtual Models

- Most firms in our study said they were not now a "virtual" company
- ...and unlikely to be one in the near future
- Yet, astonishingly, most felt that virtual models would be **required** to effectively do business in e-Commerce



▼ Virtual Models & e-Commerce

- Most of the respondents in the study felt that there was a natural link between virtual models and e-Commerce
- **They believed that success in e-Commerce would require, over time, a change to a virtual organization**



▼ Need for Virtual Designs in Electronic Commerce?

- Why?
- Is there a natural connection between EC and firm design?
- Theoretically?
- Your intuition??

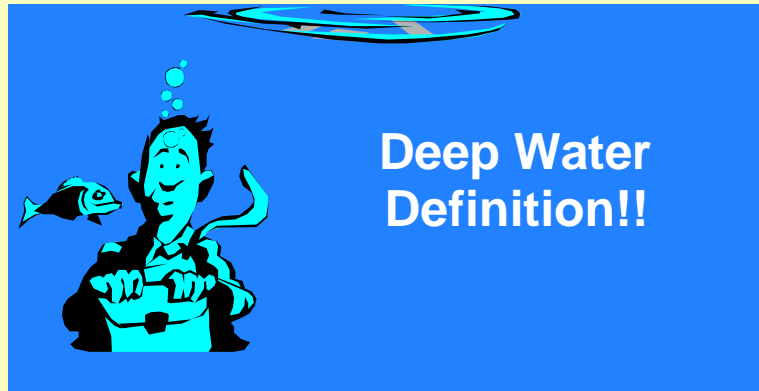
Need for Virtual Designs in Electronic Commerce?

Thought Experiment.....

1. Write down the one single factor in your mind that would argue for why a firm that wants to become proficient at EC must become more virtual
2. Next write down why it would not!

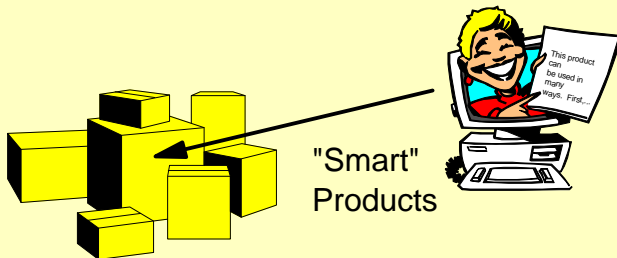


E-commerce is commercial activity utilizing open network protocols like TCP/IP, in which information is typically substituted for physical processes.



Information-Based Model

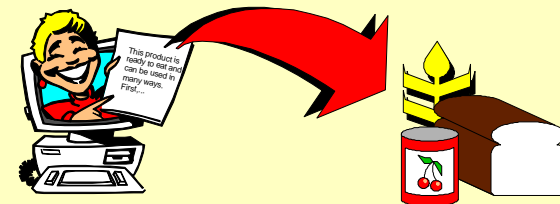
- Nearly all organizations have high information content in their products and services, whether they realize it or not (Evans & Wurster, 1996)
 - Few can escape the competitive effects of delivering information to customers in new, more efficient and effective ways



"Smart" Products

Information-Based Model

- Tapscott's "Smart" Bread
 - It knows when a customer who usually buys it is about out and send him/her an email as a reminder that it is baked and waiting as well as several other special items on sale that the customer has ordered regularly before



Expansionary Model Rather than a Diminishing (Zero Sum) Model

Example: Discount Stock Brokerages

Full service firms did not become dinosaurs!



But are still thriving today!

-Source: Raghavan, 1998

Expansionary Model Rather than a Diminishing Model

- New markets are opened with new product lines, and wholly new lines of business
 - Amazon.com is classic case
 - books --> CDs --> videos
 - What is next? Insurance?
 - Expedia has also expanded its horizons and may be inducing sales in travelling where there was lower interest before

New Pricing Models

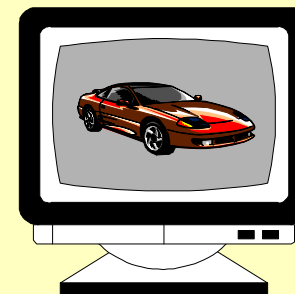
"There is nothing more terrifying than a consumer who knows everything about the pricing of your product."



Kenneth Orton, president and CEO Preview Travel Inc., an on-line travel agency based in San Francisco. Its services include a Web-based "bargain finder" that scans for cheap air fares.

Comparison Shopping on 'Net

- The auto business is being rapidly transformed by consumers who use the Internet to find the lowest prices

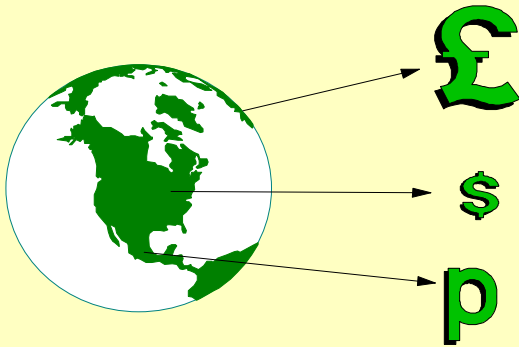


Sea Story

Alyse Terhune of Tuxedo, N.Y., recently went shopping for a \$40,000 Volvo at a dealer. When she couldn't find the right color, she accessed Auto By Tel, an on-line consortium of car dealers with sales of \$500 million a month. She listed her requirements and got back three detailed bids from Volvo dealers. The best offer was \$1,000 below the first quote she received at the dealer showroom.

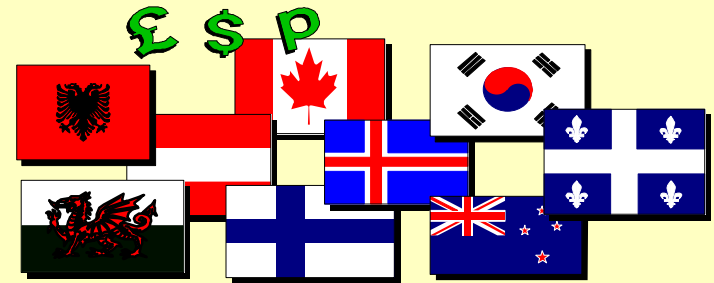
Single Global Pricing?

- The Internet can also trim the customary markup that many businesses enjoy outside their home markets



Single Global Pricing?

- In commodities, Web-based businesses, thus, will be competing with others world wide
- The lowest cost/priced producer will get the Lion's share of the business



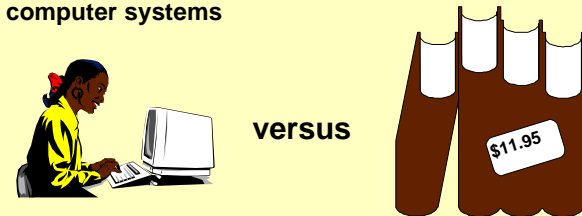
Shifting Commodity Pricing: Advantage Seller?

- *Internet commerce may well be a two-edged sword!*



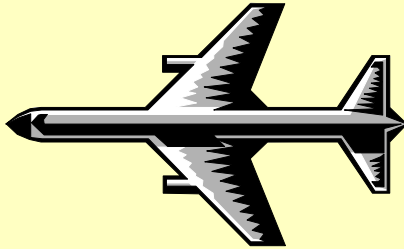
Shifting Commodity Pricing: Advantage Seller?

- Consumers can sniff out book bargains on-line...
- But....booksellers can raise prices at an on-line bookstore faster than in a store, where they have to reprice every copy of a given book (or change the shelf label)
- As buyers rush to get bargains on the Internet, booksellers can change prices quickly through their computer systems



▼ Shifting Commodity Pricing: Advantage Seller?

- Airlines have already become highly sophisticated in manipulating seat prices to fill planes and maximize profit
 - Yield Management



▼ Atomic & Hybrid e-Business Models

1. Content Provider
2. Direct to Consumer
3. Full Service Provider
4. Intermediary (Cybermediary)
5. Shared Infrastructure
6. Value Net Integrator
7. Virtual Community
8. Whole of Enterprise

-Peter Weill and Michael Vitale, *From Place to Space: Atomic Business for e-Commerce*, Harvard Business School Press, 2001 forthcoming

▼ Atomic & Hybrid e-Business Models

The business model you choose will allow you own either:

1. The relationship with the customer
2. The data
3. The transaction

The more of these you own, the better

-Peter Weill and Michael Vitale, *From Place to Space: Atomic Business for e-Commerce*, Harvard Business School Press, 2001 forthcoming

▼ Atomic & Hybrid e-Business Models

	Description	Rel	Data	Trans
1. Content Provider	Provides content (e.g., information, digital products & services via intermediaries)			
2. Direct to Consumer	Provides goods or services directly to customer often surpassing traditional channel players	X	X	X
3. Full Service Provider	Provides a full range of services in one domain (e.g., financial, health care) directly & via complementors attempting to own the primary customer relationship	X	X	X
4. Intermediary (Cybermediary)	Brings together buyers & sellers by concentrating information (e.g., search engines, auctions)	X	X	
5. Shared Infrastructure	Brings together multiple competitors to cooperate by sharing common IT infrastructure		X	X
6. Value Net Integrator	Coordinates value net (or value chain) activities by gathering, synthesizing, & distributing info		X	
7. Virtual Community	Facilitates & creates loyalty to an online community of people with a common interest enabling interaction and service provision [N.B. & cross- & up-selling]	X	X	
8. Whole of Enterprise	Provides a firm-wide single point of contact consolidating all services provided by a large, multi-business organization (by customer events)	X	X	X

