Chapter at a glanceMain topicsThe e-commerce environment
Location of trading in the marketplace
Business models for e-commerce
Focus on ...Auction business models
Internet start-up companies
Case studies2.1 The impact of B2B reverse auctions
2.2 Lastminute.com – an international dot-com survivor
2.3 Zopa launches a new lending model
Suggested teaching and learning approachesTo highlight changes introduced in the e-marketplace, the following topics can be covered:
Why are environment influences important? Activity 2.1 (based on Figure 2.1) gives a
structured approach to highlighting changes in the macro- and micro-environment. Can use
the strategic agility video(s) featured in Mini-case study 2.1. Maybe difficult to find on
FT.com – a Google search may reveal it in ‘Truveo’.
Online marketplace analysis. This is an important section since it provides students with a
technique/tools they can use to evaluate a company within its online marketplace for
assignments or in the workplace. Workthrough an example, for example, for a retailer or a
bank for Figure 2.3. Use examples of research sources shown in Table 2.2. to illustrate data
available on customer demand for produts through search engines (Google Keyword Tool,
Figure 2.12) and comparing site popularity (Google Trends for Websites).
Channel changes – disintermediation and reintermediation. Use diagrams such as Figure
2.5–2.7 for a particular industry such as the car industry to explain these terms. Talk about
these as strategic responses. What are the penalties for ignoring these?
Location of trading in the marketplace. Tables 2.3 and 2.4 and examples shown in Figure
2.8 should be understood by students. Understanding customer journeys across online and
offline channels through using channel chains (Figure 2.10) should also be covered.
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Different types of online intermediary. The different types of intermediary shown in Table
2.5 and their relative importance through the buying process should be discussed with
students. As a group activity, intermediaries important in different sectors such as retail,
banking, financial services and travel can be identified.
Business and revenue models. Ask students to consider different models in the context of
Figure 2.13 or by reviewing different revenue models of different companies such as those
introduced in Table 1.1. Different advertising revenue models such as CPM, CPC and CPA
should be reviewed and the example in Figure 2.15 can be reviewed or used as an activity.
A spreadsheet version of this model is available from www.davechaffey.com/Spreadsheets.
Case studiesCase study 2.1 The impact of B2B reverse auctionsThis case explains the process of a reverse auction and the types of products suitable for
purchase by this method. The benefits of reverse auctions are explored through many examples
from different sectors including purchases by government departments.
Questions1. Summarize the operation of a B2B reverse auction from both the buyer’s and seller’sperspective.Buyer’s perspective:
The buying company posts an invitation to bid for the product they want to purchase.
According to the article:
‘The process works by the purchaser spelling out precisely what is needed, advertising the
requirement and then drawing up an approved list of those who can meet it. Potentially,
Mr Dempsey says, that opens up the market to small and medium-sized companies that might
not normally see the government as a customer. The parameters of the auction are then set, the
suppliers trained – and battle commences. Usually auctions are set to last 30 minutes but are
extended for 10 minutes each time a bid comes in during the last five minutes. An average
auction runs for about 90 minutes, although some have lasted for several hours’.
Seller’s perspective:
The seller bids to supply at a particular price. They then monitor the prices posted by
competitors and reduce their prices as appropriate.
2. Which type of products are suitable for purchase by reverse auction?This is highlighted by this paragraph:
‘More than 125 different commodities have been bought and sold this way, including fork lift
trucks, coffee, foil, fuel, filters, pallets, pipes and structural steel. Auctions have also included
services, such as temporary staff and contracts for earth removal’.
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The characteristics of such products are that they are standard commodities that can readily be
compared. They also need to be in sufficiently large volumes to warrant the overhead of sale by
this method.
3. Explain the benefits of the reverse auctions to purchasers.As well as the obvious ability to achieve lower prices through competition with a greater
number of suppliers who the purchaser may have been previously unaware of, it also enables a
more rapid procurement cycle.
As the article puts it:
‘The reason, Mr Dempsey argues, is twofold: the field of suppliers can be widened from those
who traditionally do business with government; and the auction takes place in real time,
increasing the competition on suppliers to find their lowest price’.
4. What are the implications to selling companies of reverse auction?Reverse auctions are a threat since selling prices tend to be reduced through the bidding process.
However, it does enable smaller companies to compete more effectively with larger
organizations. The process will benefit efficient selling-organizations.
Source: INSIDE TRACK: A bid to save money for the government By Nicholas Timmins,
Financial Times; 29 Jan 2003, © Financial Times.Case study 2.2 lastminute.com an international dot-com survivorQuestions1. Explain the business and revenue model for lastminute.com and assess the potential forprofitability.The business model of lastminute is an intermediary that is used to help unite ‘distressed
inventory’ with consumers looking to make ‘last minute bookings’. The revenue model is based
on lastminute taking a percentage of ticket price. One of the difficulties is that since this
percentage is small, it is difficult to build substantial revenues without high sales volumes.
2. Summarize the measures which are used to assess the effectiveness of an e-business such aslastminute.com (such as subscribers, conversion rate and total transaction value). How dothey relate to each other?Students should be advised that measures can be logically grouped. For example:
Financial metrics and value:
Turnover (Total transaction value)
Profit
Average commission (not supplied)
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Customer metrics:
Number of customers
Number of active customers
Average order value
Email subscribers
Turnover is dependent on the number of active customers, the number of transactions in a
period (not given) and average order value
3. Explain the relative success of lastminute.com and Thomson travel using the six criterialisted below.Concept – Since Lastminute is an intermediary with revenue based on transactions it has
very low profit margins compared to Thomson. Differentiation is perhaps more difficult for
Lastminute and it is subject to competition from other intermediaries.
Innovation – although innovative at the time, the comparison model has been copied.
Perhaps more important is the capability to form links with other companies.
Execution – although Lastminute had early problems with this, this has been refined to
ensure its success.
Traffic. As a more nimble entrant into online, Lastminute could drive visitors using
innovative techniques such as viral marketing, search engine marketing and PR. However, it
is expensive for new brands to publicise themselves through traditional advertising. Existing
brands will generate traffic naturally since they are well known brands within their market.
Financing. Lastminute was subject to Venture Capitalists.
Profile. This was excellent for Lastminute in the early dot-com days, particularly with two
visually appealing directors! This is more difficult for an existing brand.
4. What action do you consider the founders of the company should take to ensure the futuresuccess of www.lastminute.com?From Moreover.com you may have read some of the actions that they have taken. These include
the following:
Forming more partnerships with different market sectors;
Increasing customer service and site quality by a redesign with enhanced personalization
offering better matching between offers and customer needs;
Increasing access to the service by opening high street branches.
Lastminute.com has had to face competition from its suppliers such as the airlines joining forces
to offer a rival service.
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Case study 2.3 Zopa launches a new lending modelQuestionImagine you are a member of the team at the investors reviewing the viability of the Zopabusiness.On which criteria would you assess the future potential of the business and the returns in yourinvestment based on Zopa’s position in the marketplace and its internal capabilities.Students should be given guidance on the extent to which you require an analytic answer based
on a detailed revenue model or a consideration of the strategic issues.
If a detailed revenue model is required, then some additional information will be required or
students will need to state their assumptions. The relevant section to point students to is
Conversion marketing in Chapter 9 on p491.
Essentially this question is about revenue models and costs, so it requires the students to
consider total costs of driving visitors to the site and converting them to sale in comparison with
revenue sources. Profitability will also be dependent on the long-term capability of the company
to gain revenue customers.
Students should mention these elements of a conversion based revenue model including:
Total market size for these products based on the size of existing loans markets. Sub-set of
market who would meet Zopas lending criteria.
Cost of customer acquisition – this is a competitive market and it may be difficult to attract
visitors to the site, for example, using search engine marketing or offline advertising.
Cost of servicing sales – to what extent are phone contacts needed to facilitate sales?
Conversion rate from visitor to lead to sale.
Average revenue earned from each new borrowers that is based on charging borrowers one
per cent of their loan as a fee, and from commission on any repayment protection insurance
that the borrower selects.
Lifetime value from customers based on attrition rates – will borrowers continue to use
Zopa or will they use it as a one-off?
Flexibility on revenue model – for example, after launch, Zopa has gained additional
revenue from lenders.
From a strategic perspective, the issues that students should consider are a follows:
Proportion of total loans market that this service will appeal to.
Proportion of savings and investments market this model will appeal to. It is a lot of effort
compared to other savings and investments methods for a limited differential. As a result it
will only appeal to a limited number of investors.
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Will the number of lenders balance the number of borrowers depending on the appeal of the
proposition as noted above?
Business model scalability – can it be applied in other countries and to other financial
products or beyond?
Technology costs and scalability.
Additional case studyDynamic pricing at SmithKline BeechamWhen the healthcare company SmithKline Beecham bought supplies of a basic solvent recently,
the price was 15 per cent lower than the day’s spot price in the commodity market. On other
purchases, also of highly specified solvents and chemicals, SmithKline Beecham is regularly
beating its own historic pricing by between 7 and 25 per cent.
The reason is that SmithKline Beecham is using the Internet to hold downward or ‘reverse’
auctions in which suppliers bid against each other for pre-specified contracts. FreeMarkets, the
company that manages the SmithKline Beecham auctions, quotes examples of savings achieved
by other clients in these virtual marketplaces: 42 per cent on orders for printed circuit boards, 41
per cent on labels, 24 per cent on commercial machinings and so on.
As well as production items, the process also works well for many services, such as car hire
contracts.
This pricing free-for-all sounds a little shocking at first. After all, successful companies are
supposed to buy on quality, nurture critical supplier relationships and think strategically. And,
of course, they still do.
Guy Allen, director of purchasing at SmithKline Beecham emphasizes that the auction itself is a
new part of a still rigorous buying process. ‘It’s just one tool in our toolbox’, he says. ‘The
process only works if you put good purchasing management up front’. This includes issuing a
particularly detailed request for proposals (RFP) to which hopeful suppliers respond as usual,
but without quoting a price.
Based on the RFPs, selected suppliers are invited to take part in the auction.
Training in using the software is available. Once the bidding starts, the participants see every
bid, but not the names of the bidders. In the final stages of the auction, each last bid extends the
bidding time by one more minute. One auction scheduled for 2 hours ran for 4 hours and 20
minutes and attracted more than 700 bids.
A buyer need not necessarily accept the lowest bid, but may still prefer to use a tried and tested
supplier at a slightly higher price. But the reverse auction offers buyers a number of benefits: it
shortens the time spent negotiating separately with each supplier; the inclusion of nonincumbent suppliers can help bring pricing down and, according to Mr Allen, ‘It makes the
process a little more transparent, since everyone can see the lowest price on offer. In general,
non-incumbent suppliers like the process, though some incumbent suppliers are a little less
happy