**Class Announcements**

- **Group database assignment 1** due on 2/3 through ecommons.

- **Group homework #2** due on 2/5 through ecommons.

- Please read/bring Alibaba Case

- **Midterm:** 2/16
LEARNING OBJECTIVES

• What are the unique features of e-commerce, digital markets, and digital goods?

• What are the principal e-commerce business and revenue models?

• How has e-commerce transformed marketing?

• How has e-commerce affected business-to-business transactions?

• What is the role of m-commerce in business and what are the most important m-commerce applications?

• What issues must be addressed when building an e-commerce presence?
Look for Bargains?

**Problem:** How to derive profits from large and desirable user base

**Solution?** Enable businesses to promote brand awareness and refer back to retail sites for purchasing

Groupon: https://www.youtube.com/watch?v=tgeh607ZXA0
Problem: How to derive profits from large and desirable user base

Solution? Enable businesses to promote brand awareness and refer back to retail sites for purchasing

Groupon: https://www.youtube.com/watch?v=tgeh607ZXA0

1. What are the weaknesses of Groupon’s business model described in the videos?
2. What features of contemporary e-commerce does Groupon Now! utilize?
3. What value does this service provide subscribing merchants? What value does it provide customers?
4. What kinds of businesses are most likely to benefit from using Groupon?
5. Visit Groupon’s Web site and enter your zip code. What kinds of deals are displayed? Would you use Groupon? Why or why not?
Look for Bargains?

**Problem:** How to derive profits from large and desirable user base

**Solution?** Enable businesses to promote brand awareness and refer back to retail sites for purchasing

Groupon: https://www.youtube.com/watch?v=tgeh607ZXA0

- **Groupon** invested heavily in technologies for:
  - Massive “bargain” database (Porter’s model)
  - User social networking tools, e.g., emails, facebook?
- **Demonstrates use of social networking technologies in generating new business models**
- **Illustrates the difficulties many social networking sites have in showing a profit or monetizing.**
E-Commerce Today

- E-commerce: use of the Internet and Web to transact business; digitally enabled transactions. e.g., iTunes, streamed Netflix, ebook Amazon
  - Digitally enhanced commercial transactions between and among organizations and individuals
- Began in 1995 and grew exponentially (Netscap.com); still stable even in a recession.
- Companies that survived the dot-com bubble burst now thrive.
- E-commerce revolution is still in its early stages.
Retail e-commerce revenues grew 15–25 percent per year until the recession of 2008–2009, when they slowed measurably. In 2013, e-commerce revenues are growing again at an estimated 12 percent annually.

Figure 10-1
The New E-Commerce: Social, Mobile, Local

- **Original e-commerce marketing:**
  - Web sites
  - Display ads
  - Measures “eyeballs” and impressions of display ads
    i.e., how many times a consumer sees the ad.

- **Social, mobile, local e-commerce marketing:**
  - Social media: Facebook, Twitter, Pinterest
  - Mobile, localized ads and apps
  - Measures “conversations” and “engagement”
    i.e., focus on interactions; no only a new channel but …
Why E-Commerce Is Different

Ubiquity
Global reach
Universal standards
Richness
Interactivity
Information density
Personalization/Customization
Social technology
Why E-Commerce Is Different

Ubiquity

Internet/Web technology available everywhere: work, home, and so on, anytime, e.g., upper Yosemite fall

- Effect:
  - Marketplace removed from temporal, geographic locations to become “market-space”
  - Enhanced customer convenience (i.e., anytime and anywhere), thereby reducing “shopping costs”
Unique Features of E-Commerce Technology

Global reach

The technology reaches across national boundaries, around Earth

• Effect:
  • Commerce enabled across cultural and national boundaries seamlessly and without modification.
  • Marketspace includes, potentially, billions of consumers and millions of businesses worldwide.
  • How many of you had experience purchased from website in UK, Japan or other countries directly?
Unique Features of E-Commerce Technology

Universal standards

One set of technology standards: Internet standards

- Effect:
  - Disparate computer systems easily communicate with one another.
  - Lower market entry costs—costs merchants must pay to bring goods to market (i.e., to customers’ attention).
  - Lower consumers’ search costs—effort required to find suitable products.
Unique Features of E-Commerce Technology

Richness

Supports video, audio, and text messages

- Effect:
  - Possible to deliver rich messages with text, audio, and video simultaneously to large numbers of people.
  - Video, audio, and text marketing messages can be integrated into single marketing message and consumer experience.
  - Any examples? Experience?
Unique Features of E-Commerce Technology

Interactivity

The technology works through interaction with the user

- Effect:
  - Consumers engaged in dialog that dynamically adjusts experience to the individual.
  - Consumer becomes co-participant in process of delivering goods to market.
  - Any examples? Experience?
Unique Features of E-Commerce Technology

Information density

Large increases in information density—the total amount and quality of information available to all market participants

• Effect:
  • Greater price transparency (lower search cost)
  • Greater cost transparency
  • Enables merchants to engage in price discrimination. That is, consumer with higher WTP will pay more, e.g., eBay sites.
Unique Features of E-Commerce Technology

Personalization/Customization

Technology permits modification of messages, goods

- Effect:
  - Personalized messages can be sent to individuals as well as groups.
  - Products and services can be customized to individual preferences.
  - Any examples? Experience?
Unique Features of E-Commerce Technology

Social technology

The technology promotes user content generation and social networking

• Effect:
  • New Internet social and business models enable user content creation and distribution, and support social networks.
  • Many-to-many model
Unique Features of E-Commerce Technology

Social technology

The technology promotes user content generation and social networking

- **Effect:**
  - New Internet social and business models enable user content creation and distribution, and support social networks, e.g., youtube. In what context? Interactions?
  - Many-to-many model (used to be one-to-many)
### How the Internet Changes the Markets for Digital Goods?

<table>
<thead>
<tr>
<th></th>
<th><strong>Digital Goods</strong></th>
<th><strong>Traditional Goods</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Marginal cost/unit</td>
<td>Zero (why?)</td>
<td>Greater than zero, high</td>
</tr>
<tr>
<td>Cost of production</td>
<td>High (most of the cost)</td>
<td>Variable</td>
</tr>
<tr>
<td>Copying cost</td>
<td>Approximately zero</td>
<td>Greater than zero, high</td>
</tr>
<tr>
<td>Distributed delivery cost</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Inventory cost</td>
<td>Low (why?)</td>
<td>High</td>
</tr>
<tr>
<td>Marketing cost</td>
<td>Variable</td>
<td>Variable (high, e.g., ??)</td>
</tr>
<tr>
<td>Pricing</td>
<td>More variable (bundling, random pricing games)</td>
<td>Fixed, based on unit costs</td>
</tr>
</tbody>
</table>
Key Concepts: Digital Markets and Digital Goods

• Digital market effects:
  • Decreased information asymmetry (examples?, price discrimination)
  • Reduced search costs and transaction costs (examples?)
  • Delayed gratification: effects dependent on product
  • Reduced menu costs (machine’s cost of changing prices, example?)
  • Increased dynamic pricing (e.g., Amazon)
  • Increased price discrimination (e.g., eBay)
  • Increased market segmentation (differentiation; example?)
  • Switching costs: effects dependent on product (examples?)
  • Stronger network effects (examples?)
  • More dis-intermediation
The Benefits of Disintermediation to the Consumer

The typical distribution channel has several intermediary layers, each of which adds to the final cost of a product, such as a sweater. Removing layers lowers the final cost to the consumer.

Figure 10-2
Types of E-Commerce

• Business-to-consumer (B2C)
  - Retailing products and services to individual shoppers, e.g., BarnesandNoble.com (others?)

• Business-to-business (B2B)
  - Sales of good or services among business, e.g., ChemConnect (chemicals & plastics) (others?)

• Consumer-to-consumer (C2C)
  - Consumers sell directly to consumers, e.g., eBay (others?)
E-Commerce Business Models

- **Portal** (gateway to the web, use’s homepage, e.g., google.com, revenue?): 2013: 17.5b, not including google, bing
- **E-tailer** (online retail stores, e.g., Amazon.com, revenue?): 2011, 60$b
- **Content provider** (iTunes, others? revenue?): potcasting, streaming
- **Transaction broker** (Expedia, paypal, others?, revenue?)
- **Market creator** (build digital environment so buyers and sellers meet! eBay, Amazon merchant platform, others? revenue?)
- **Service provider** (gmail.com, dropbox, others? revenue?)
- **Community provider** (facebook, others? revenue?)
E-Commerce Revenue Models

- **Advertising** (attracting and expose large audiences to ads, e.g.,)
- **Sales** (sells good, information, e.g., Amazon, gap.com)
- **Subscription** (content, service charges, e.g., Netflix)
- **Free/Freemium** (with basic service free, fee with upgrade, e.g., flickr, spotify)
- **Transaction fee** (receiving fee for executing transactions, e.g., E*Trade)
- **Affiliate** (send/refer readers to other sites, e.g., Yelp)
E-Commerce Revenue Models

- **Advertising** (attracting and expose large audiences to ads, e.g.,

- **Sales** (sells good, information, e.g., Amazon, gap.com)

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  - E*Trade)

- **Affiliate** (send/refer readers to other sites, e.g., Yelp)

A company gives away a large chunk of its services with the hope that a small # of customers will pay a premium price for Extra services.

If market is large, it's okay... but ... Work better if marginal cost is low...
E-Commerce Revenue Models

- **Advertising** (attracting and expose large audiences to ads, e.g.,)
- **Sales** (sells good, information, e.g., Amazon, gap.com)
- **Subscription** (content, service charges, e.g., Netflix)
- **Free/Freemium*** (with basic service free, fee with upgrade, e.g., flickr, spotify)
- **Transaction** (E*Trade)
- **Affiliate** (send/refer readers to other sites, e.g., Yelp)

**Discussions**
1) Any other business models that take advantage of “communicating” capability of the current technologies?
2) Other examples of freemium?
Interactive Session: Organizations
Can Pandora Succeed with Freemium?

Read the Interactive Session and then discuss the following questions:

• Analyze Pandora using the value chain and competitive forces models. What competitive forces does the company have to deal with? What is its customer value proposition?
• Explain how Pandora’s “freemium” business model works. How does the company generate revenue?
• Can Pandora succeed with its “freemium” model? Why or why not? What people, organization, and technology factors affect its success with this business model?
Interactive Session: Organizations
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Can Pandora Succeed with Freemium?

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Analyze Pandora using the value chain and competitive forces models. What competitive forces does the company have to deal with? What is its customer value proposition?

- Compete with AM/FM radio (substitutes), iTunes, spotify (rivals)
- Strong consumers’ bargain power
- Value supply chain using IT to play only those songs the customers want to hear
Interactive Session: Organizations
Can Pandora Succeed with Freemium?

Read the Interactive Session and then discuss the following questions:

Explain how Pandora’s “freemium” business model works. How does the company generate revenue?
Interactive Session: Organizations
Can Pandora Succeed with Freemium?

Read the Interactive Session and then discuss the following questions:

Explain how Pandora’s “freemium” business model works. How does the company generate revenue?

- Pandora gives away a large chunk of its services with the hope that a small number of customers will pay a premium price for extra or added services: big vs small market
- bulk of its revenues from advertising fees and referrals to other sites: Amazon.com, etc.
Interactive Session: Organizations
Can Pandora Succeed with Freemium?

Read the Interactive Session and then discuss the following questions:

Can Pandora succeed with its “freemium” model? Why or why not?
What people, organization, and technology factors affect its success with this business model?

People:
Organization:
Technology:
Interactive Session: Organizations
Can Pandora Succeed with Freemium?

Read the Interactive Session and then discuss the following questions:

Can Pandora succeed with its “freemium” model? Why or why not? What people, organization, and technology factors affect its success with this business model?

**People:** users are used to getting much of their content free. That’s a very tough habit to break.

**Organization:** the freemium model is worth the price they pay; change or renegotiate royalty agreements to reduce its costs

**Technology:** mixing up the music chosen for listeners can help reduce royalty costs, however…
Web 2.0, Social Networking, and the Wisdom of Crowds

- **Most popular Web 2.0 service:** social networking
  - Social networking sites sell banner ads, user preference information, and music, videos and e-books.
- **Social shopping sites**
  - Swap shopping ideas with friends through “like”, “+1”, etc.
- **Wisdom of crowds**
  - Large numbers of people can make better decisions about topics and products than a single person.
- **Crowdsourcing**
  - Soliciting advices through social network, e.g., 1$M reward by Netflix for recommender system
- **Prediction markets:** peer-to-peer betting markets on specific outcomes (elections, sales figures, designs for new products). e.g., betfair.com
E-commerce Marketing

- Internet provides marketers with new ways of identifying and communicating with customers, e.g., search engines, data mining, recommender system.

- Long tail marketing:
  - Traditionally, difficult, expensive, thus trying to reach out big population (general taste)
  - Sell large number of unique items
  - Relatively few of each item sold

- Behavioral targeting: tracking online behavior of individuals on thousands of Web sites.

- Advertising formats include search engine marketing, display ads, rich media, and e-mail.
# E-commerce Marketing

<table>
<thead>
<tr>
<th>Marketing Format</th>
<th>2013 Revenue</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Search engine</td>
<td>$19.5</td>
<td>Text ads targeted at precisely what the customer is looking for at the moment of shopping and purchasing. Sales oriented.</td>
</tr>
<tr>
<td>Display ads</td>
<td>$8.7</td>
<td>Banner ads (pop-ups and leave-behinds) with interactive features; increasingly behaviorally targeted to individual Web activity. Brand development and sales. Includes blog display ads.</td>
</tr>
<tr>
<td>Video</td>
<td>$4.1</td>
<td>Fastest growing format, engaging and entertaining; behaviorally targeted, interactive. Branding and sales.</td>
</tr>
<tr>
<td>Classified</td>
<td>$2.7</td>
<td>Job, real estate, and services ads; interactive, rich media, and personalized to user searches. Sales and branding.</td>
</tr>
</tbody>
</table>
### E-commerce Marketing

<table>
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<tr>
<th>Marketing Format</th>
<th>2013 Revenue</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lead generation</td>
<td>$1.9</td>
<td>Marketing firms that gather sales and marketing leads online, and then sell them to online marketers for a variety of campaign types. Sales or branding orientation.</td>
</tr>
<tr>
<td>Sponsorships</td>
<td>$1.9</td>
<td>Online games, puzzles, contests, and coupon sites sponsored by firms to promote products. Sales orientation.</td>
</tr>
<tr>
<td>E-mail</td>
<td>$.22</td>
<td>Effective, targeted marketing tool with interactive and rich media potential. Sales oriented.</td>
</tr>
</tbody>
</table>
How Clickstream Tracking Work?

- The tools record the sites users visited prior to coming the website, where those users go after leaving the site, e.g., type of OS, browser info, location data, duration of visits, items purchased, etc.

- Re-target ads to you by showing you the same ads at different sites, e.g., Google’s double click, Yahoo’s right media, etc.

- Enable to understand how well their sites is, creating personalized site that display context or ads of special interests to the users.
E-commerce Web sites have tools to track a shopper’s every step through an online store. Close examination of customer behavior at a Web site selling women’s clothing shows what the store might learn at each step and what actions it could take to increase sales.

How Clickstream Tracking Work?

The shopper clicks on the home page. The store can tell that the shopper arrived from the Yahoo! portal at 2:30 PM (which might help determine staffing for customer service centers) and how long she lingered on the home page (which might indicate trouble navigating the site). Tracking beacons load cookies on the shopper's browser to follow her across the Web.

The shopper clicks on blouses, clicks to select a woman’s white blouse, then clicks to view the same item in pink. The shopper clicks to select this item in a size 10 in pink and clicks to place it in her shopping cart. This information can help the store determine which sizes and colors are most popular. If the visitor moves to a different site, ads for pink blouses will appear from the same or different vendor.

From the shopping cart page, the shopper clicks to close the browser to leave the Web site without purchasing the blouse. This action could indicate the shopper changed her mind or that she had a problem with the Web site's checkout and payment process. Such behavior might signal that the Web site was not well designed.

Figure 10-3
Firms can create unique personalized Web pages that display content or ads for products or services of special interest to individual users, improving the customer experience and creating additional value.

Figure 10-4
Firms can create unique personalized Web pages that display content or ads for products or services of special interest to individual users, improving the customer experience and creating additional value.

Figure 10-4
Advertise networks and their use of tracking programs have been controversial among privacy advocates because of their ability to track individual consumers across the Internet.

If you are a large national ad company with many different clients trying to reach out to million possible customers, how to do it?

Creating a network of several thousand of the most popular websites, tracking the behaviors of those users across the entire network, building profiles of each users and sell those profiles to advisors!

Studies show that “targeted” ads are 10 times more likely to ... (2013, 25% of online displays are targeted!)

Figure 10-5
Advertising networks and their use of tracking programs have become controversial among privacy advocates because of their ability to track individual consumers across the Internet.

**Figure 10-5**

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**Discussions:**

1) Do you think about how advertising networks follow you around the Internet?

2) Are you aware of it? Do you like it?
Social E-Commerce and Social Network Marketing

- **Social e-commerce**
  - Based on idea of digital *social graph* (offline)
    - Mapping of all significant online relationships, i.e., lines to 10 closest people
    - Only six links away from linking to any other person on earth
    - Assuming: the purchases of one person influence others’ purchases

- **Four features of “social” e-commerce driving growth**
  - Social sign-on
  - Collaborative shopping
  - Network notification
  - Social search (recommendations)
Four features of social e-commerce driving growth

• **Social Sign-on (e.g., facebook)**
  - Allow those sites receive valuable social profile information, and use it for their marketing effort

• **Collaborating Shopping**
  - Create a place where customers can share their shopping experience, chat online about products, etc.

• **Network Notification**
  - Create a place where customers can share their (dis)approval of products, contents, geo-locations, restaurants, clubs

• **Social Search (recommendation system, google, amazon)**
  - Enable a place where customers can ask advices on products, service, goods
Social E-Commerce and Social Network Marketing

- **Social media**: Fastest growing media for branding and marketing (44b $, 90% Facebook)

- **Social network marketing**:  
  - Seeks to leverage individuals influence over others in social graph  
  - Target is a social network of people sharing interests and advice  
  - Facebook’s “Like button”

- **Social networks have huge audiences**  
  - Facebook: 144 million U.S. monthly visitors
Business-to-Business E-Commerce: New Efficiencies and Relationships

- Business-to-business (B2B) e-commerce (2013, 10.8t$ of which 4.4t$ e-Business)
  - Commercial transactions between firms
    - Complex
    - Require considerable human intervention
    - Consume significant resources
    - For example: $100 in administrative costs for each procurement purchase, e.g., processing papers, approving purchasing decisions, phones, fax, etc.

Challenges:
- Changing (automating) existing systems of procurement
- Implementing new Internet-based B2B solutions
Business-to-Business E-Commerce: New Efficiencies and Relationships

- Electronic data interchange (EDI) 80% of B2B eCommerce
  - Computer-to-computer exchange of standard transactions such as invoices, shipping, purchase order, e.g., eliminating printing, faxing, etc.
  - Major industries use EDI standards to define structure and information fields.
- More companies increasingly moving away from private networks to Internet for linking to other firms, i.e., not limited to partners linked through EDI network.
  - For example: procurement: businesses can now use Internet to locate most low-cost supplier, search online catalogs of supplier products, negotiate with suppliers, place orders, and so on
Companies use EDI to automate transactions for B2B e-commerce and continuous inventory replenishment. Suppliers can automatically send data about shipments to purchasing firms. The purchasing firms can use EDI to provide production and inventory requirements and payment data to suppliers.

Figure 10-6
Private industrial network (private exchange)

- Large firm using extranet to link to its suppliers, distributors, and other key business partners
- Owned by buyer (the “firm”)
- Permits sharing of:
  - Product design and development
  - Marketing
  - Production scheduling and inventory management
  - Unstructured communication (graphics and e-mail)
A private industrial network, also known as a private exchange, links a firm to its suppliers, distributors, and other key business partners for efficient supply chain management and other collaborative commerce activities.

Figure 10-7
• **Net marketplaces (e-hubs)**
  
  • Provide a single, “digital” marketplace based on IT for many buyers and sellers, e.g., groupon, Alibaba.
  
  • **Industry-owned or owned by independent intermediary.**
  
  • Generate revenue from transaction fees, other services.
  
  • Use prices established through negotiation, auction, RFQs (request for quotations), or fixed prices.
  
  • May focus on **direct (good used in production processes)** or **indirect goods (all other good, e.g., office supplies).**
  
  • May be **vertical** (within an industry, i.e., supply chain), e.g., automobiles, telecommunications, machine tools) or **horizontal** (across different industries e.g., office equipment) marketplaces.
Net marketplaces are online marketplaces where multiple buyers can purchase from multiple sellers.

Figure 10-8
Exchanges: a Net marketplace independently owned third-party.

- Connect thousands of suppliers and buyers for spot purchasing.
- Typically provide **vertical** markets for direct goods for single industry (food, electronics), e.g., go2Paper.com
- Proliferated during early years of e-commerce; many have failed.
  - Competitive bidding drove prices down and did not offer long-term relationships with buyers or services to make lowering prices worthwhile.
M-Commerce (Mobile E-commerce)

- Use of wireless mobile devices for purchasing good or services, for services that are time-critical.
- Represents 10 percent of all e-commerce (or 8$b)
- Fastest growing form of e-commerce
  - Especially popular in online travel industry
  - Main areas of growth:
    - Retail sales at top Mobile 400 companies
      - Amazon ($4b), Apple ($1.1b)
    - Sales of digital content
      - Music, TV and movies ($4b)
Mobile e-commerce is the fastest growing type of B2C e-commerce although it represents only a small part of all e-commerce in 2011.
Location-based services and applications: ties by global position system (GPS)

- **Geosocial services** (foursquare, loopt, geosocial), e.g., where your friends are meeting
- **Geoadvertising**, e.g., where to find nearest restaurant
  - Economic foundation for m-commerce
- **Geoinformation** (wikitude.me), e.g., geo-tag the world, price of a house that you’re looking for

- **Other mobile commerce services**
  - Mobile banking
  - Mobile display advertising
  - Coupon services
Building an E-Commerce Presence

• Requires understanding of business, technology, social issues with systematic approach.

• Most important management challenges
  • Developing clear understanding of business objectives
  • Knowing how to choose the right technology to achieve those objectives

• Develop an e-commerce presence map
  • Four areas: Web sites, e-mail, social media, offline media, through different mobile devices* (think your presence in those “virtual” platforms)

• Develop a timeline: milestones
  • Breaking a project into discrete phases

* touch points where you meet your customers
An e-commerce presence requires firms to consider the four different types of presence, with specific platforms and activities associated with each.

Figure 10-10
### E-Commerce Presence Timeline: A Recipe

<table>
<thead>
<tr>
<th>Phase</th>
<th>Activity</th>
<th>Milestone</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phase 1: Planning</td>
<td>Envision Web presence; determine personnel</td>
<td>Web mission statement</td>
</tr>
<tr>
<td>Phase 2: Web site development</td>
<td>Acquire content; develop a site design; arrange for hosting the site</td>
<td>Web site plan</td>
</tr>
<tr>
<td>Phase 3: Web Implementation</td>
<td>Develop keywords and metatags; focus on search engine optimization; identify potential sponsors</td>
<td>A functional Web site</td>
</tr>
<tr>
<td>Phase 4: Social media plan</td>
<td>Identify appropriate social platforms and content for your products and services</td>
<td>A social media plan</td>
</tr>
<tr>
<td>Phase 5: Social media implementation</td>
<td>Develop Facebook, Twitter, and Pinterest presence</td>
<td>Functioning social media presence</td>
</tr>
<tr>
<td>Phase 6: Mobile plan</td>
<td>Develop a mobile plan; consider options for porting your Web site to smartphones</td>
<td>A mobile media plan</td>
</tr>
</tbody>
</table>

Table 10-8
1. Please briefly describe the business model deployed by Alibaba.

2. What challenges does Alibaba face in developing its business?

3. Alibaba has decided to merge its two tiers of membership. What makes it believe that it will be a successful move?

4. What is Alibaba’s strategy to make online marketplaces more effective for SMEs?
Case Study: ALIBABA.COM

Please briefly describe the business model deployed by Alibaba.
Case Study: ALIBABA.COM

Please briefly describe the business model deployed by Alibaba.

- B2B e-commerce
- Provide a platform to facilitate e-commerce between suppliers and buyers trading in China as well as global importer and exporters
- Host SME’s (medium-sized enterprises) profiles and catalogues in standardized formats and keep active listings for products, services, and trade leads
- Form large and interactive online communities on its marketplaces
- Provide free basic features and services (“freemium”), while generate revenue from purchased services such as suppliers’ membership packages
Case Study: ALIBABA.COM

2. What challenges does Alibaba face in developing its business?
2. What challenges does Alibaba face in developing its business?

- Competition from domestic and international competitors such as Global Sources (HK-based), HC360.com or specialized platforms for specific industries
- Difficult to pursue vertical coverage of a specific industry with current business model of focusing on breadth of its horizontal coverage
- Limited scope: restricted by China’s credit and foreign exchange controls and deficient national distribution network
- Concerns about fraud, privacy and trust for e-business
- Leadership: issue of succession as Ma being company’s cornerstone.
- Global development such as difficulties in recruiting international business talent
3. Alibaba has decided to merge its two tiers of membership. What makes it believe that it will be a successful move?
Case Study: ALIBABA.COM

3. Alibaba has decided to merge its two tiers of membership. What makes it believe that it will be a successful move?

- Become a premier brand in e-commerce domain with the highest traffic
- Breadth and depth of its marketplace has created barriers to new entrants
- Focused only on the highly lucrative SME sector
- Active in build up loyalty to and trust in the brand
- Confident in sales force and customer service support to attract and retain users
Case Study: ALIBABA.COM

4. What is Alibaba’s strategy to make online marketplaces more effective for SMEs?
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- Expand user base and active listing, increase marketplace size
- Enhance community experiences to improve user loyalty and activity
- Transform from free service to monetized user base
- Expand in international markets
- Extend platform to address users’ daily business processes, e.g., customer relationship, management, international operations
- Expand through acquisitions, investments, licensing arrangements and partnerships to expand users and revenue base