Chapter 3

Selling on the Web:
Revenue Models and Building a Web Presence

At a Glance

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Chapter Overview

In this chapter, you will learn about various models for generating revenue used by Web businesses today, including Web catalog, advertising-supported, advertising-subscription mixed, and fee-based models. These approaches can work for both business-to-consumer (B2C) and business-to-business (B2B) electronic commerce. Many companies create one Web site to handle both B2C and B2B sales. Even when companies create separate sites (or separate pages within one site), they often use the same revenue model for both types of sales.

Chapter Objectives

In this chapter, you will learn about:

- Revenue models
- How some companies move from one revenue model to another to achieve success
- Revenue strategy issues that companies face when selling on the Web
- Creating an effective business presence on the Web
- Web site usability
- Communicating effectively with customers on the Web

Instructor Notes

Revenue Models

A useful way to think about electronic commerce implementations is to consider how they can generate revenue. Not all electronic commerce initiatives have the goal of providing revenue; some are undertaken to reduce costs or improve customer service.

Web Catalog Revenue Models

In this revenue model, the seller establishes a brand image, and then uses the strength of that image to sell through printed catalogs mailed to prospective buyers. Buyers place orders by mail or by calling the seller’s toll-free telephone number. This revenue model, which is often called the mail order or catalog model, has proven to be successful for a wide variety of consumer items, including apparel, computers, electronics, housewares, and gifts.
Companies can take this catalog model online by replacing or supplementing their print catalogs with information on their Web sites. When the catalog model is expanded this way, it is often called the Web catalog revenue model.

<table>
<thead>
<tr>
<th>Web Catalog Revenue Models:</th>
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<tbody>
<tr>
<td>♦ <strong>Computers and consumer electronics:</strong> Dell created value by designing its entire business around offering this high degree of configuration flexibility to its customers.</td>
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<tr>
<td>♦ <strong>Books, Music, and Videos:</strong> The rapid growth of Amazon.com inspired many booksellers to undertake electronic commerce. A number of well-established companies that operated physical bookstores, such as Barnes &amp; Noble, Blackwell’s, Books-A-Million, and Powell’s Books, all adopted the Web catalog model in their online sales endeavors.</td>
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<tr>
<td>♦ <strong>Luxury Goods:</strong> For some types of products, people are still reluctant to buy through a Web site. This is particularly true for luxury goods and high-fashion clothing items.</td>
</tr>
<tr>
<td>♦ <strong>Clothing Retailers:</strong> A number of apparel sellers have adapted their catalog sales model to the Web, including bebe, Gap, Lands’ End, L.L. Bean, Talbots, and Wet Seal. Unlike sellers in the high-fashion clothing category, these Web stores display photos of casual and business clothing with prices, sizes, colors, and tailoring details. Their intent is to have customers examine the clothing and place orders through the Web site.</td>
</tr>
<tr>
<td>♦ <strong>Flowers and Gifts:</strong> Gift retailers also use the Web catalog revenue model. Florist 1-800-Flowers created an online extension to its highly successful telephone order business. Chocolatier Godiva offers business gift plans on its site. For gift shoppers who want a familiar brand name, shopping mall mainstays Hickory Farms and Mrs. Fields Cookies both have created Web catalog sites.</td>
</tr>
<tr>
<td>♦ <strong>General Discounters:</strong> A number of new companies have started retail operations on the Web. Some of these completely new businesses operate as Web-based deep discounters. Borrowing a concept from the physical world’s Wal-Marts and discount club stores, these discounters sell merchandise such as computer equipment, software, consumer electronics, books, music CDs, and sports equipment at extremely low prices.</td>
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**Digital Content Revenue Models**

Firms that own written information (words or numbers) or rights to that information have embraced the Web as a new and highly efficient distribution mechanism. **LexisNexis** began as a legal research tool, and it has been available as an online product for years. Today, LexisNexis
offers a variety of information services, including legal information, corporate information, government information, news, and resources for academic libraries.

One of the first academic organizations to make the transition to electronic distribution on the Web was (not surprisingly) the Association for Computer Machinery (ACM). The ACM Digital Library offers subscriptions to electronic versions of its journals to its members and to library and institutional subscribers. Academic publishing has always been a difficult business in which to make a profit because the base of potential subscribers is so small. Even the most highly regarded academic journals often have fewer than 2000 subscribers. To break even, academic journals often must charge each subscriber hundreds or even thousands of dollars per year. Electronic publishing eliminates the high costs of paper, printing, and delivery, and makes dissemination of research results less expensive and more timely.

**Advertising-Supported Revenue Models**

The advertising-supported revenue model is the one used by network television in the United States. Broadcasters provide free programming to an audience along with advertising messages. The advertising revenue is sufficient to support the operations of the network and the creation or purchase of the programs. Many observers of the Web in its early growth period believed that the potential for Internet advertising was tremendous. Web advertising grew from essentially zero in 1994 to $2 billion in 1998. However, Web advertising was flat or declining in the years 2000 through 2002. Since then, Web advertising has once again started to grow, but at much lower rates than in the early years of the Web.

The overall success of online advertising has been hampered by two major problems. First, no consensus has emerged on how to measure and charge for site visitor views. Since the Web allows multiple measurements, such as number of visitors, number of unique visitors, number of click-throughs, and other attributes of visitor behavior, it has been difficult for Web advertisers to develop a standard for advertising charges. In addition to the number of visitors or page views, stickiness is a critical element in creating a presence that attracts advertisers.

The second problem is that very few Web sites have sufficient numbers of visitors to interest large advertisers. Most successful advertising on the Web is targeted to very specific groups. The set of characteristics that marketers use to group visitors is called demographic information, which includes such things as address, age, gender, income level, type of job held, hobbies, and religion.

**Advertising-Subscription Mixed Revenue Models**

In an advertising-subscription mixed revenue model, which has been used for many years by traditional print newspapers and magazines, subscribers pay a fee and accept some level of advertising. On Web sites that use the advertising-subscription revenue model, subscribers are typically subjected to much less advertising than they are on advertising-supported sites. Firms have had varying levels of success in applying this model and a number of companies have moved to or from this model over their lifetimes.
Two of the world’s most distinguished newspapers, The New York Times and The Wall Street Journal, use a mixed advertising-subscription model. The New York Times version is mostly advertising supported, but the newspaper has experimented in recent years with charging fees for access to various parts of its site. In 2005, The New York Times began charging a fee for access to its Op Ed and news columns. The newspaper also charges for access to its premium crossword puzzle pages. The New York Times also provides a searchable archive of articles dating back to 1996 and charges a small fee for viewing any article older than one week. The Wall Street Journal’s mixed model is weighted more heavily to subscription revenue. The site allows nonsubscriber visitors to view the classified ads and certain stories from the newspaper, but most of the content is reserved for subscribers who pay an annual fee for access to the site. Visitors who already subscribe to the print edition are offered a reduced rate on subscriptions to the online edition.

Fee-for-Transaction Revenue Models

In the fee-for-transaction revenue model, businesses offer services for which they charge a fee that is based on the number or size of transactions they process. Some of these services lend themselves well to operating on the Web. To the extent that companies can offer Web site visitors the information they need about the transaction, companies can offer much of the personal service formerly provided by human agents. If customers are willing to enter transaction information into Web site forms, these sites can provide options and execute transactions much less expensively than traditional transaction service providers. The removal of an intermediary, such as a human agent, from a value chain is called disintermediation. The introduction of a new intermediary, such as a fee-for-transaction Web site, into a value chain is called reintermediation.

Fee-for-Service Revenue Models

Companies are offering an increasing variety of services on the Web for which they charge a fee. These are neither broker services nor services for which the charge is based on the number or size of transactions processed. The fee is based on the value of the service provided. These fee-for-service revenue models range from games and entertainment to financial advice and the professional services of accountants, lawyers, and physicians.

Revenue Models in Transition

Many companies have gone through transitions in their revenue models as they learn how to do business successfully on the Web. As more people use the Web to buy goods and services, and as the behavior of those Web users changes, companies often find that they must change their revenue models to meet the needs of those new and changing Web users.
Subscription to Advertising-Supported Model

Microsoft founded its *Slate* magazine Web site as an upscale news and current events publication. Although *Slate* drew a wide readership and received acclaim for its incisive reporting and excellent writing, it was unable to draw a sufficient number of paid subscribers. At its peak, *Slate* had about 27,000 subscribers generating annual revenue of $500,000, which was far less than the cost of creating the content and maintaining the Web site. *Slate* is now operated as an advertising-supported site.

Advertising-Supported to Advertising-Subscription Mixed Model

After operating for several years as an advertising-supported site, *Salon.com* now offers an optional subscription version of its site. The subscription offering was motivated by the company’s inability to raise the additional money from investors that it needed to continue operations.

Advertising-Supported to Fee-for-Services Model

Xdrive Technologies opened its original advertising-supported Web site in 1999. Xdrive offered free disk storage space online to users. The users saw advertising on each page and had to provide personal information that allowed Xdrive to send targeted e-mail advertising to them. Its offering was very attractive to Web users who had begun to accumulate large files, such as MP3 music files, and wanted to access those files from several computers in different locations.

After two years of offering free disk storage space, Xdrive found that it was unable to pay the costs of providing the service with the advertising revenue it had been able to generate. It switched to a subscription-supported model and began selling the service to business users as well as individuals.

Advertising-Supported to Subscription Model

Northern Light was founded in August 1997 as a search engine with a twist. In addition to searching the Web, it searched its own database of journal articles and other publications to which it had acquired reproduction rights. Northern Light’s revenue model was a combination of the advertising-supported model used by most other Web search engines plus a fee-based information access service, similar to the subscription services offered by ProQuest and EBSCO that you learned about earlier in this chapter.

In January 2002, Northern Light decided that the advertising revenue it was earning from the ads it sold on search results pages was insufficient to justify continuing to offer that service. It stopped offering public access to its search engine and converted to a new revenue model that was primarily subscription supported. Northern Light’s main revenue source in its new model is from annual subscriptions to large corporate clients.
Multiple Transitions

Encyclopædia Britannica began its online expansion with two Web-based offerings. The Britannica Internet Guide was a free Web navigation aid that classified and rated information-laden Web sites. It featured reviews written by Britannica editors who also selected and indexed the sites. The company’s other Web site, Encyclopædia Britannica Online, was available for a subscription fee or as part of the Encyclopædia Britannica CD package. Britannica used the free site to attract users to the paid subscription site.

In 1999, disappointed by low subscription sales, Britannica converted to a free, advertiser-supported site. The first day the new site, Britannica.com, became available at no cost to the public, it had over 15 million visitors, forcing Britannica to shut down for two weeks to upgrade its servers.

The Britannica.com site then offered the full content of the print edition in searchable form, plus access to the *Merriam-Webster’s Collegiate Dictionary* and the *Britannica Book of the Year*. After two years of trying to generate a profit using this advertising-supported model, Britannica faced declining advertising revenues. In 2001, Britannica returned to a mixed model in which it offered free summaries of encyclopedia articles and free access to the *Merriam-Webster’s Collegiate Dictionary* on the Web, with the full text of the encyclopedia available for a subscription fee of $50 per year or $5 per month.

**Teaching Tip:**
- ♦ Demonstrate the different revenue models in the physical world.
- ♦ Search the Internet for a Web site for each revenue model and present your results to the class.

**Quick Quiz**

1. The _____ is an intelligent agent program that learns the customer’s preferences and makes suggestions.
   Answer: personal shopper

2. The _____ is a graphic image built from customer measurements on which customers can try clothes.
   Answer: virtual model

3. True or false: Firms that own written information or rights to that information have embraced the Web as a new and highly efficient distribution mechanism.
   Answer: True

4. The set of characteristics that marketers use to group visitors is called _____, which includes such things as address, age, gender, income level, type of job held, hobbies, and religion.
Answer: demographic information

5. A(n) _____ is a listing of hyperlinks to Web pages.
   Answer: Web directory

Issues Box: Business Analysis #1: Marketing, Sales, and Promotions

Identify a company that uses the Internet for marketing, sales, and promotions. Answer the following questions for the company of your choice.

1. What is the name of the company?
2. What is the URL of the company home page?
3. History:
   a. Who founded it and when?
   b. Initial products/services and markets?
   c. Private or public?
   d. E-company or brick and mortar?
4. Financials:
   a. Most recent year’s revenues?
   b. Most recent year’s profits?
5. What are its main products and services?
6. What is its target market and who are its customers?
7. Who are its main competitors?
8. How is the company using the Internet for marketing, sales, and promotions?

Revenue Strategy Issues

In this section, you will learn about some issues that arise when companies implement those models. You will also learn how companies deal with those issues.

Channel Conflict and Cannibalization

Companies that have existing sales outlets and distribution networks often worry that their Web sites will take away sales from those outlets and networks. For example, Levi Strauss & Company sells its Levi’s jeans and other clothing products through department stores and other retail outlets. The company began selling jeans to consumers on its Web site in mid-1998. Many of the department stores and retail outlets that had been selling Levi’s products for many years complained to the company that the Web site was now competing with them. In January 2000, Levi Strauss decided to stop selling products on its own Web site.

Such a channel conflict can occur whenever sales activities on a company’s Web site interfere with its existing sales outlets. The problem is also called cannibalization because the Web site’s sales consume sales that would be made in the company’s other sales channels.
Strategic Alliances and Channel Distribution Management

When two or more companies join forces to undertake an activity over a long period of time, they are said to create a strategic alliance. When companies form a strategic alliance, they are operating in the network form of organization that you learned about in Chapter 1. Companies form strategic alliances for many purposes. An increasing number of businesses are forming strategic alliances to sell on the Web.

Creating an Effective Web Presence

Businesses have always created a presence in the physical world by building stores, factories, warehouses, and office buildings. An organization’s presence is the public image it conveys to its stakeholders. The stakeholders of a firm include its customers, suppliers, employees, stockholders, neighbors, and the general public. Most companies tend not to worry much about the image they project until they grow to a significant size - until then, they are too focused on just surviving to spare the effort. On the Web, presence can be much more important. Many customers and other stakeholders of a Web business know the company only through its Web presence. Creating an effective Web presence can be critical even for the smallest and newest firms operating on the Web.

Identifying Web Presence Goals

On the Web, businesses and other organizations have the luxury of building their Web sites intentionally to create distinctive presences. A firm’s physical location must satisfy so many other business needs that it often fails to convey a good presence. A good Web site design can provide many image-creation and image enhancing features very effectively - it can serve as a sales brochure, a product showroom, a financial report, an employment ad, and a customer contact point. Each entity that establishes a Web presence should decide which features the Web site can provide and which of those features are the most important to include.

Achieving Web Presence Goals

An effective site is one that creates an attractive presence that meets the objectives of the business or organization. These objectives include:

| Objectives: | ♦ Attracting visitors to the Web site  
♦ Making the site interesting enough that visitors stay and explore  
♦ Convincing visitors to follow the site’s links to obtain information  
♦ Creating an impression consistent with the organization’s desired image  
♦ Building a trusting relationship with visitors  
♦ Reinforcing positive images that the visitor might already have about the organization  
♦ Encouraging visitors to return to the site |
Web Site Usability

Research indicates that few businesses accomplish all of their goals for their Web sites in their current Web presences. Even sites that succeed in achieving most of these goals often fail to provide sufficient interactive contact opportunities for site visitors. Most firms’ Web sites give the general impression that the firm is too important and its employees are too busy to respond to inquiries. This is no way to encourage visitors to become customers!

How the Web is Different

Most Web sites that are designed to create an organization’s presence in the Web medium include links to a fairly standard information set. The site should give the visitor easy access to the organization’s history, a statement of objectives or mission statement, information about products or services, financial information, and a way to communicate with the organization. Sites achieve varying levels of success based largely on how they offer this information. Presentation is important, but so is realizing that the Web is an interactive medium.

Meeting the Needs of Web Site Visitors

Businesses that are successful on the Web realize that every visitor to their Web sites is a potential customer. Thus, an important concern for businesses crafting Web presences is the variation in visitor characteristics. People who visit a Web site seldom arrive by accident; they are there for a reason.

<table>
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<tr>
<th>Motivations of Web Site Visitors:</th>
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<tr>
<td>♦ Learning about products or services that the company offers</td>
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<tr>
<td>♦ Buying products or services that the company offers</td>
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<tr>
<td>♦ Obtaining information about warranty, service, or repair policies for products they purchased</td>
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<tr>
<td>♦ Obtaining general information about the company or organization</td>
</tr>
<tr>
<td>♦ Obtaining financial information for making an investment or credit granting decision</td>
</tr>
<tr>
<td>♦ Identifying the people who manage the company or organization</td>
</tr>
<tr>
<td>♦ Obtaining contact information for a person or department in the organization</td>
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</table>

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<tr>
<th>Goals when Constructing Web sites:</th>
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<tbody>
<tr>
<td>♦ Offer easily accessible facts about the organization</td>
</tr>
<tr>
<td>♦ Allow visitors to experience the site in different ways and at different levels</td>
</tr>
<tr>
<td>♦ Provide visitors with a meaningful, two-way (interactive) communication link with the organization</td>
</tr>
<tr>
<td>♦ Sustain visitor attention and encourage return visits</td>
</tr>
<tr>
<td>♦ Offer easily accessible information about products and services and how to use them</td>
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</tbody>
</table>
Trust and Loyalty

When customers buy a product, they are also buying that service element. A seller can create value in a relationship with a customer by nurturing customers’ trust and developing it into loyalty. Recent studies by business researchers have found that a 5 percent increase in customer loyalty measures (such as proportion of returning customers) can yield profit increases ranging from 25 percent to 80 percent.

When a customer has an experience with a seller who provides good service, that customer begins to trust the seller. When a customer has multiple good experiences with a seller, that customer feels loyal to the seller. Thus, the repetition of satisfactory service can build customer loyalty that can prevent a customer from seeking alternative sellers who offer lower prices.

Rating Electronic Commerce Web Sites

Two companies routinely review electronic commerce Web sites for usability, customer service, and other factors. Many people have found these review sites to be useful as they decide which sites to patronize. Unfortunately, one of the sites, Gomez.com, no longer publishes most of its scorecards for electronic commerce sites. It now sells the information it gathers to the companies that operate the Web sites and offers suggestions for improvements. BizRate.com provides a comparison shopping service and offers links to sites with low prices and good service ratings for specific products.

Usability Testing

Only a small percentage of companies perform any usability testing on their Web sites; however, more and more companies are realizing its importance and are doing some usability testing. As the practice of usability testing becomes more common, more Web sites will meet the goals outlined previously in this chapter.

Customer-Centric Web Site Design

Putting the customer at the center of all site designs is called a customer-centric approach to Web site design. A customer-centric approach leads to some guidelines that Web designers can follow when creating a Web site that is intended to meet the specific needs of customers, as opposed to all Web site visitors. These guidelines include the following:

<table>
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<th>Guidelines:</th>
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<tr>
<td>♦ Design the site around how visitors will navigate the links, not around the company’s organizational structure.</td>
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<tr>
<td>♦ Allow visitors to access information quickly.</td>
</tr>
<tr>
<td>♦ Avoid using inflated marketing statements in product or service descriptions.</td>
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<tr>
<td>♦ Avoid using business jargon and terms that visitors might not understand.</td>
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</tbody>
</table>
♦ Build the site to work for visitors who are using the oldest browser software on the oldest computer connected through the lowest bandwidth connection—even if this means creating multiple versions of Web pages.
♦ Be consistent in use of design features and colors.
♦ Make sure that navigation controls are clearly labeled or otherwise recognizable.
♦ Test text visibility on smaller monitors.
♦ Check to make sure that color combinations do not impair viewing clarity for color-blind visitors.
♦ Conduct usability tests by having potential site users navigate through several versions of the site.

Connecting with Customers

An important element of a corporate Web presence is communicating with site visitors who are customers or potential customers. In this section, you will learn how Web sites can help firms identify and reach out to customers.

The Nature of Communication on the Web

Most businesses are familiar with two general ways of identifying and reaching customers: personal contact and mass media. These two approaches are often called communication modes because they each involve a characteristic way (or mode) of conveying information from one person to another (or communicating). In the personal contact model, the firm’s employees individually search for, qualify, and contact potential customers. This personal contact approach to identifying and reaching customers is sometimes called prospecting. In the mass media approach, firms prepare advertising and promotional materials about the firm and its products or services. They then deliver these messages to potential customers by broadcasting them on television or radio, printing them in newspapers or magazines, posting them on highway billboards, or mailing them.
**Issues Box: Mobile transactions offer steep growth potential**

Mobile commerce has taken off and m-commerce services are poised to grow rapidly, according to a study from Telecom Trends International. The study says while successful mobile commerce deployments today mostly focus on digital content, there is a growing movement toward a wider range of m-commerce transactions. "M-commerce is not just e-commerce gone mobile - it's much more-and it will become a serious part of the global economy," said Susan Welsh de Grimaldo, author of the study. "Since people carry their cell phones everywhere, cell phones will eventually start to replace wallets as a place to store credit cards, frequent shopper cards, and even family photos," she said.

According to the study, there were 94.9 million mobile commerce users in 2003, which will grow to 1.67 billion users by 2008. Revenues from mobile commerce will grow globally from US$6.86 billion in 2003 to over US$554.37 billion in 2008, the study said.

Digital content, although evolving in nature to include more multimedia, will retain a large percentage of total sales, the study said, while tangible goods (purchased remotely or at point-of-sale) and interactive-type transactions will continue to increase.

"M-commerce is taking off due to a confluence of three major developments - rollout of packet-data networks, availability of enhanced data devices, and development of rich content for m-commerce applications," said Naqi Jaffery, president, Telecom Trends International.


Questions

- What are the advantages and disadvantages of mobile commerce?
- Provide examples of services you think could be successful initiatives for mobile commerce.

**Quick Quiz**

1. Channel conflict is also referred to as _____.
   Answer: cannibalization

2. An organization’s ____ is the public image it conveys to its stakeholders.
   Answer: presence
3. The _____ of a firm include its customers, suppliers, employees, stockholders, neighbors, and the general public.
   Answer: stakeholders

4. Putting the customer at the center of all site designs is called a(n) _____ approach to Web site design.
   Answer: customer-centric

5. This personal contact approach to identifying and reaching customers is sometimes called _____.
   Answer: prospecting

Discussion Questions

- How do you think businesses can create an effective presence on the Web?
- Identify three companies on the Web and discuss their Web presence goals.
- How is the Web different from other presence-building media?
- What are the challenges when creating a Web presence?

Additional Resources

- Design (Websites) with Purpose: http://website-design.mcdar.net/49128.php
- Customer Centric Web Design: http://www.aptiview.co.uk/Articles/ccw.htm
- Avoiding Channel Conflict: http://www.line56.com/articles/default.asp?articleID=2382&TopicID=6

Key Terms

- **Account aggregation**: The ability to obtain bank, investment, loan, and other financial account information from multiple Web sites and display it all in one location at the bank’s Web site.
- **Addressable media**: Advertising efforts directed to a known addressee and include direct mail, telephone calls, and e-mail.
- **Cannibalization**: Occur whenever sales activities on a company’s Web site interfere with its existing sales outlets.
- **Disintermediation**: The removal of an intermediary, such as a human agent, from a value chain.
- **Presence**: The public image it conveys to its stakeholders.
- **Prospecting**: Personal contact approach to identifying and reaching customers is sometimes.
- **Stickiness**: A Web site’s ability to keep visitors at the site and attract repeat visitors.