PART 2

BUSINESS STRATEGIES FOR ELECTRONIC COMMERCE

CHAPTER 3

SELLING ON THE WEB: REVENUE MODELS AND BUILDING A WEB PRESENCE

LEARNING 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

INTRODUCTION

The **Vanguard Group** manages a variety of pooled investment accounts for individuals and institutions. These pooled accounts are called mutual funds. Vanguard earns revenue by charging an annual management fee that is based on the size of each mutual fund. Thus, Vanguard is interested in attracting new investors to its mutual funds and managing the funds' holdings so they grow over time. To sell its investment products effectively, Vanguard must maintain good communications with both current and potential customers. In the past, Vanguard used the telephone and mail to develop and maintain contact with its customers and prospects. As more and more investors began using the Internet, Vanguard realized that the Web would give it another good way to stay in touch with customers and prospects. To that end, Vanguard spent more than $100 million to develop and refine its Web site. In its current version, Vanguard's Web site allows customers to obtain account information, manage current investments, and make further investments in Vanguard mutual funds. Many other mutual fund management companies have Web sites, and most of those sites are focused on promoting the investment products those companies offer. Vanguard has chosen not to focus its Web site on direct product promotion. Instead, Vanguard's strategy has been to use its Web site to build customer loyalty and to promote its products indirectly.

The stated purpose of Vanguard's Web site is to educate its customers and provide them with a high level of service. Sometimes, information on the site discourages customers from buying particular mutual fund shares if those shares are inappropriate for their investment goals. Vanguard's stated policy is to help its customers make good investment decisions rather than to pick up a quick profit by selling customers on particular investments. Although Vanguard risks losing sales in the short run, it believes that by providing information and educating its potential customers, it will achieve better long-term growth. The company's Web site is a consistent representation of that corporate strategy.

REVENUE MODELS

As you learned in Chapter 1, 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. You will learn about cost reduction initiatives in Chapter 5. In this chapter, you will learn about various models for generating revenue used by Web businesses today, including Web catalog, digital content, 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.

Web Catalog Revenue Models

Many companies sell goods and services on the Web using an adaptation of a mail order catalog revenue model that is more than 100 years old. In 1872, a traveling salesman named Aaron Montgomery Ward started selling dry goods to farmers through a one-page list. Richard Sears and Alvah Roebuck began mailing catalogs to farmers and small-town residents in 1895. Both Montgomery Ward (which closed in 2001) and Sears, Roebuck & Company grew to become dominant retailers in the United States by the 1950s, with retail stores serving urban markets in addition to the catalog business that served their rural and small-town markets.

In this traditional catalog-based retail revenue model, the seller establishes a brand image, and then uses the strength of that image to sell through printed information 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**. Customers can place orders through the Web site or by telephone. This flexibility is important because many consumers are still reluctant to buy on the Web. In the first few years of consumer electronic commerce, most shoppers used the Web to obtain information about products and compare prices and features, but then made their purchases by telephone. These shoppers found early Web sites hard to use and were often afraid to send their credit card numbers over the Internet. Although these fears are less prevalent today, most companies that use the Web catalog revenue model do give customers a way to complete the payment part of the transaction by telephone or by mail.

Many of the most successful Web catalog sales businesses are firms that were already operating in the mail order business and simply expanded their operations to the Web. Other companies that use the Web catalog revenue model adopted it after realizing that the products they sold in their physical stores could also be sold on the Web. This additional sales outlet did not require them to build additional stores, yet provided access to customers throughout the world. Types of businesses using the Web catalog revenue model include sellers of computers and consumer electronics; books, music, and videos; luxury goods; clothing; flowers and gifts; and general discount merchandise. In the next sections, you will learn how these types of businesses have applied the Web catalog revenue model to their operations.

Computers and Consumer Electronics

Leading computer manufacturers such as **Apple**, **Dell**, **Gateway**, **Hewlett-Packard**, and **Sun Microsystems** have had great success selling on the Web. All of these companies sell a full range of products—from small desktop computers to large server computers—to individuals, businesses, and other organizations through their Web sites.

Dell has been a leader in allowing customers to specify exactly the configuration of computers they order on the Web. Dell created value by designing its entire business around offering this high degree of configuration flexibility to its customers. Other personal computer manufacturers that sell directly to customers on the Web have followed Dell's lead by offering visitors different ways to access product information. These sites usually offer links to specific products and pages designed for specific categories of customers, such as home, small business, education, or government users.

Retailers of consumer electronics products have also been active in undertaking electronic commerce using the Web catalog revenue model. Companies such as **Crutchfield** and **The Sharper Image** expanded their successful mail order catalog operations to include Web sites such as the Sharper Image site shown in Figure 3-1. Other companies that had strong retail presences in their physical stores, such as **Best Buy**, **Circuit City**, **The Good Guys!**, **J&R Music World**, and **Radio Shack**, also opened Web sites to sell the same products that they had been selling in their stores.

FIGURE 3-1 Sharper Image home page

Books, Music, and Videos

Retailers using the Web catalog model to sell books, music, and videos have been among the most visible examples of electronic commerce. In 1994, a 29-year-old Wall Street financial analyst named Jeff Bezos became intrigued by the rapid growth of the Internet. Looking for a way to capitalize on this new marketing tool, he made a list of 20 products that he thought would sell well on the Internet. After some intense analysis, he determined that books were at the top of that list. Bezos had no experience in the book-selling business, but he realized that books were small-ticket commodity items and were easy and inexpensive to ship. He knew many customers would be willing to buy books without inspecting them in person and that books could be impulse purchase items if properly promoted. More than 4 million book titles are in print at any one time throughout the world; however, even the largest physical bookstore cannot stock more than 200,000 books. Bezos had identified a strategic opportunity for selling online. Twelve years later, **Amazon.com**, the company Bezos formed to sell books on the Internet, has annual sales of more than $8 billion and more than 70 million customers. Amazon.com has evolved to become a general retailer that sells books, music, videos, consumer electronics, housewares, tools, and many other items.

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 & Noble**, **Blackwell's**, **Books-A-Million**, and **Powell's Books**, all adopted the Web catalog model in their online sales endeavors. Borders eventually decided to close its site and have Amazon.com handle its online business, but the other companies continue to operate their own sites successfully.

In 1994, the same year that Jeff Bezos started his online bookstore, 24-year-old twin brothers Jason and Matthew Olim began an online music store they called **CDnow** that used the Web catalog revenue model. By 1997, CDnow had one-third of the online music business. Its success attracted many competitors. Companies such as **Tower Records** and **Sam Goody**, which had been selling music in their retail stores for years, opened Web sites to compete with CDnow. Web-only retailers such as **CD Universe** copied CDnow's approach exactly. CDnow's founders sold their company to German music conglomerate Bertelsmann AG, which created an alliance with Amazon.com to use Amazon.com's electronic commerce platform for its sales. The CD Universe site appears in Figure 3-2.

Luxury Goods

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. The Web sites of couturiers **Vera Wang** and **Versace**, for example, were not constructed to generate revenue directly, but to provide information to shoppers who would visit the physical stores to examine items they had seen on the sites. Such sites tend to make heavy use of graphics and animation. **Evian**, the purveyor of premium-priced bottled water, went so far as to create a Web site that works well only on computers that are connected to the Internet by a broadband connection. Evian intentionally designed its site for a select, affluent group of customers. The Flash animation takes a long time to download to computers that have an inexpensive dial-up modem connection. Tiffany & Co. is an upscale jewelry and gift retailer that has designed its site to be viewed by customers with broadband connections. The site has a large number of graphic and animated elements that would take a long time to display on a computer not connected through a broadband connection.

FIGURE 3-2 CD Universe home page

Clothing Retailers

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 previously discussed, 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. Lands' End pioneered the idea of online Web shopping assistance with its Lands' End Live feature in 1999.

A Web customer with a question can initiate a text chat with a customer service representative or click a button on the Web page to have the representative call. In addition to answering questions, the representative can offer suggestions by pushing Web pages to the customer's browser.

Many of Lands' End's competitors (including Eddie Bauer, L.L. Bean, and Talbots) added similar text chat and call-back features to their sites. More recently, Lands' End added personal shopper and virtual model features to its site. The **personal shopper** is an intelligent agent program that learns the customer's preferences and makes suggestions. The **virtual model** is a graphic image built from customer measurements on which customers can try clothes. About 15 percent of visitors to the site use the virtual model and, on average, dress the model 40 times during a visit. Lands' End has found that the dollar amount of orders placed by customers who use the virtual model is about 10 percent larger than other orders. The Canadian company that developed this Web site feature, **My Virtual Model**, has sold the technology to a number of other clothing retailers. A person who constructs a virtual model on one of those sites can use that same model on the other sites.

Lands' End also has a feature that allows two shoppers to browse the Web site together from different computers. Only one of the shoppers can purchase items, but either shopper can select items to view. These items appear in both Web browsers.

In the fast-changing clothing business, retailers have always had to deal with the problem of overstocks—products that did not sell as well as hoped. Many retailers use outlet stores to sell their overstocks. Lands' End found that its overstocks Web page worked so well that it has closed some of its physical outlet stores. An online overstocks store works well because it reaches more people than a physical store and it can be updated more frequently than a printed overstocks catalog.

In addition to general apparel retailers, a number of specialty retailers opened stores on the Web. For example, women's shoe retailers such as **Steve Madden** and **Nine West** use the Web catalog model to sell directly to consumers on their sites.

One problem that the Web presents for clothing retailers of all types is that the color settings on computer monitors vary widely. It is difficult for customers to get an accurate idea of what the product's color will look like when it arrives. Until technology solves this problem, most online clothing stores will send a fabric swatch on request. The swatch also gives the customer a sense of the fabric's texture—an added benefit not provided by catalogs. Most Web catalog retailers also have generous return policies that allow customers to return unused merchandise for any reason.

Flowers and Gifts

Gift retailers also use the Web catalog revenue model. Florist **1-800-Flowers** created an online extension to its highly successful telephone order business to compete with online-only florists such as **Calyx & Corolla** and **Proflowers.com**. 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. **Harry and David**, famous for its trademarked "Fruit-of-the-Month" club, opened an informational Web site to promote its existing catalog business. The company was surprised by the volume of sales leads that the site generated, and quickly added online ordering features to the site, which appear in Figure 3-3 (on the next page).

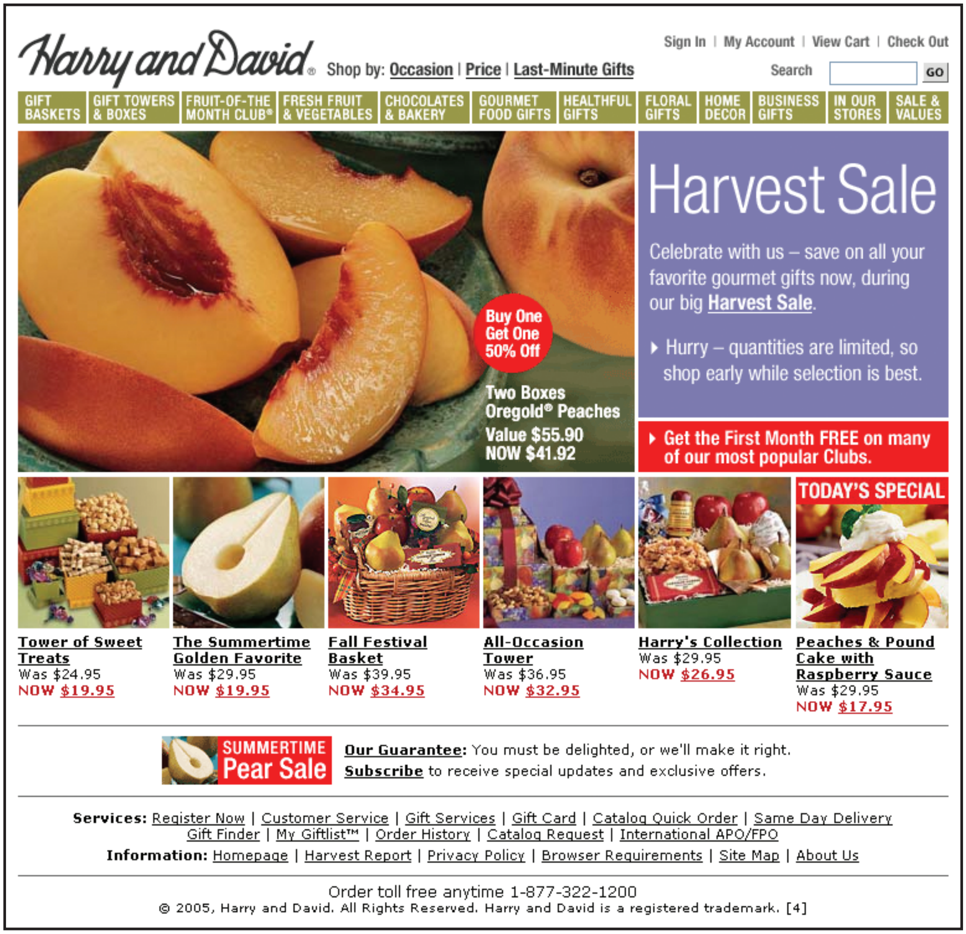

FIGURE 3-3 Harry and David home page

General Discounters

A number of new companies have started retail operations on the Web. Some of these completely new businesses, such as **Buy.com**, 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.

Some of these Web discount retailers originally sold advertising on their sites to subsidize their low product prices. Beyond.com closed its retail operation and now sells the software it created for operating a Web catalog site. Buy.com changed its approach because advertising revenues were not sufficient subsidies. Buy.com now relies on the same volume-purchasing strategy as physical world retailers to keep prices low. As in the physical world, the online discount retail business is fiercely competitive and many of these companies operate on thin margins—and consequently earn little profit. Cyberian Outpost began business in 1995 as one of the first retailers on the Web. In 2001, after six years of winning awards for customer service, it ran out of cash and was purchased by Fry's Electronics, which continues to operate the **Outpost.com** Web site as a subsidiary.

Traditional discount retailers, such as **Costco**, **Kmart**, **Target**, and **Wal-Mart**, were slow to introduce electronic commerce on their Web sites. Many industry observers criticized these traditional retailers for their slow entry into online sales; however, those same industry observers now expect the traditional retailers to do very well competing against the retailers that started on the Web.

LEARNING FROM FAILURES

WALMART.COM

Wal-Mart is the world's largest retailer, with more than 5300 stores and annual sales of $300 billion. Founded in 1962 by retailing legend Sam Walton, the company has won numerous awards for business innovation. However, Wal-Mart's move into online retailing has been troubled, to say the least.

Wal-Mart launched its first Web site in July 1996. Like most company sites of that time, it contained some information about the company, but did not offer any products for sale. Wal-Mart did little to develop the Web site over the next three years, but it did add a Web store—just in time to participate in the disastrous 1999 holiday shopping season.

Wal-Mart was not the only Web retailer to have trouble in 1999. Many companies found that they were ill prepared for the large number of customers who decided to try electronic commerce in that year's holiday season. Lost orders, unfilled orders, and shipments that failed to arrive until January 2000 were common for many Web retailers that year. Wal-Mart was noted as an industry leader in shipping and logistics management; however, the announcement on its Web site that it could not promise Christmas delivery for items ordered after December 14 was particularly embarrassing.

To make matters worse, Wal-Mart was in the middle of developing a new Web site that it had hoped to launch before the holiday season. The project, which industry analysts estimate cost more than $100 million, ran months late and did not operate until January 2000.

After eight months of operating the new Web site, Wal-Mart found itself with low levels of customer traffic (well below those of its major rivals J.C. Penney, Sears, Kmart, and Target) and high levels of criticism from Web site design experts who found the site slow, difficult to use, and lacking customer service features.

In October 2000, Wal-Mart closed the site completely for four weeks. Earlier in the year, it had created Walmart.com, a joint venture with Accel Partners to develop a new Web site, but the new site was not ready to launch until November. Industry analysts widely criticized Wal-Mart's decision to completely shut down its Web operations for such a long time period at the beginning of the holiday shopping season.

The new Web site is a vast improvement over the old site. It is much better organized and offers improved browsing and search functions. The new site offers about the same number of items as the old site did (about 500,000—several times more than what the physical stores carry); however, the new site has more offerings of consumer electronics, toys, and sporting goods, and fewer offerings of consumable products. Behind the scenes is a new distribution center that serves Walmart.com exclusively.

continued

Walmart.com's experience is a testament to how difficult it can be to get Web retailing right. Success eluded the largest retailer in the world for years. Wal-Mart is estimated to have spent more than $150 million on its various Web implementations before it was able to present a truly usable site to its customers.

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. The original legal information product exists on the Web today as **Lexis.com** and provides full-text search of court cases, laws, patent databases, and tax regulations. In the past, law firms had to subscribe to and install expensive dedicated computer systems to obtain access to this information.

The Web has given LexisNexis customers much more flexibility in how they purchase information. Through the Lexis.com Web site, law firms can subscribe to several versions of the service that are customized for different firm sizes and usage patterns. The Web site even offers a credit card charge option for infrequent users who do not want a subscription. LexisNexis has used the Web to improve the delivery and variety of its existing product line and has been able to devise new products that take advantage of the Web's features.

ProQuest, a Web site that sells digital copies of published documents, has its roots in two businesses: the former Bell and Howell learning materials business and University Microfilms International (UMI). These firms acquired reproduction rights to a variety of published and unpublished materials. For example, UMI had contracts with most North American universities to publish all doctoral dissertations and masters theses on demand. ProQuest offers digital versions of these documents for sale, along with a number of newspapers, journals, and other specialized academic publications. Many schools and libraries have subscriptions to ProQuest. **Ovid** and **EBSCO Information Services** also sells subscriptions to digital versions of journals to corporate and university libraries. These companies sell access to bibliographic databases and electronic journals to schools, companies, and libraries as well. The EBSCO Information Services home page that appears in Figure 3-4 shows the types of services it offers.

Dow Jones, a business-focused publisher of newspapers such as *The Wall Street Journal* and *Barron's*, was one of the first publishers to create a Web site for selling subscriptions to digitized newspaper, magazine, and journal content. The Dow Jones Interactive site offered a customized digital clipping service that provided subscribers with a daily e-mail message of news on topics of interest to them. In 2002, Dow Jones and Reuters, a British company, joined to create an online content management and integration service called **Factiva**. In addition to the content and services previously offered on the Dow Jones Interactive site, Factiva gives companies the ability to integrate their existing content (such as a corporate library) with Dow Jones and Reuters news sources.

FIGURE 3-4 EBSCO Information Services home page

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.

As was the case for other technologies, such as VCRs and subscription cable television, many of the early commercial users of Web technology were dealers in adult-themed entertainment material. Many of the first profitable sites on the Web were sellers of adult digital content. These sites pioneered the online processing of credit card payment transactions (about which you will learn in Chapter 11) and many different digital video technologies that are now used by all types of businesses on the Web.

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. After trying to develop profitable advertising-supported revenue models on the Web, most companies today are considerably less optimistic about the general potential of these revenue models. However, a few information sites, such as **About.com**, **HowStuffWorks**, and the ***Drudge Report***, are successful in using advertising-supported revenue models. The sites that have been successful tend to be sites that attract a specific group of visitors to which advertisers can direct specific messages. For example, About.com and HowStuffWorks both provide pages of information that are directed at visitors with highly focused interests. A visitor looking for an explanation of how heating stoves work on either of these sites would be a good prospect for advertisers that sell heating stoves. The site would not need to obtain any specific information from the visitor, the fact that the visitor is viewing the heating stoves information page is enough justification for charging an advertiser a higher rate for ads placed on those pages.

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 **stickiness** of a Web site is its ability to keep visitors at the site and attract repeat visitors. People spend more time at a **sticky** Web site and are thus exposed to more advertising.

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. It can be difficult to determine whether a given Web site is attracting a specific market segment unless that site collects demographic information from its visitors—information that visitors are increasingly reluctant to provide because of privacy concerns.

Web Portals

Few general-interest sites have generated sufficient traffic to be profitable based on advertising revenue alone. The drop in advertising rates and spending that occurred between 2000 and 2002 created difficulties for even the largest advertising-supported sites. One of the leading general-interest sites is **Yahoo!**, which was one of the first Web directories. A **Web directory** is a listing of hyperlinks to Web pages. Because so many people use Yahoo!

as a starting point for searching the Web, it has always attracted a large number of visitors. This large number of visitors made it possible for Yahoo! to expand its Web directory into one of the first portal sites. A **portal** or **Web portal** is a site that people use as a launching point to enter the Web (the word "portal" means "doorway"). A portal almost always includes a Web directory and search engine, but it also includes other features that help visitors find what they are looking for on the Web and thus make the Web more useful. Most portals include features such as shopping directories, white pages and yellow pages searchable databases, free e-mail, chat rooms, file storage services, games, and personal and group calendar tools.

Because the Yahoo! portal's search engine presents visitors' search results on separate pages, it can include advertising on each results page that is triggered by the terms in the search. For example, when the Yahoo! search engine detects that a visitor has searched on the term "new car deals," it can place a Ford ad at the top of the search results page. Ford is willing to pay more for this ad because it is directed only at visitors who have expressed interest in new cars. This example demonstrates one attractive option for identifying a target market audience without collecting demographic information from site visitors. Unfortunately, only a few high-traffic sites are able to generate significant advertising revenues this way.

Besides Yahoo!, the main portal sites using the advertising-supported revenue model today are **AOL**, **AltaVista**, **Excite**, **Google**, **Lycos**, **Netscape**, and **MSN**. Smaller general-interest sites, such as the Web directory **refdesk.com**, have had more difficulty attracting advertisers than the larger search engine sites. This may change in the future as more people use the Web. Another type of portal that may be able to earn a profit with smaller numbers of visitors is the portal that offers items of interest to a specialized interest group. The technology portal **C-NET** is one example of this type of portal. You will learn more about portal strategies in Chapter 6.

Newspaper Publishers

Many newspapers publish all or part of their print content on the Web. The **Internet Public Library Online Newspapers** page includes links to hundreds of newspaper sites around the world. It is unclear whether a newspaper's presence on the Web helps or hurts the newspaper's business as a whole. Although it provides greater exposure for the newspaper's name and a larger audience for advertising that the paper carries, it also can take away sales from the print edition. Like retailers or distributors whose online sales lead to the loss of their brick-and-mortar sales, publishers also experience sales losses as a result of online distribution. Newspapers and other publishers worry about these sales losses because they are very difficult to measure. Some publishers have conducted surveys in which they ask people whether they do not buy the newspaper because the content they want to see is available online, but the results of such surveys are not very reliable.

In addition to the concern about lost sales of print editions, most newspaper publishers have found that the cost of operating their Web sites cannot be covered by the revenue they generate from selling advertising on the sites. Thus, many newspaper publishers are currently experimenting with various other ways of generating revenue from their Web sites. You will learn about these alternative revenue models later in this chapter. Because newspapers are now using several different online revenue models, you will see newspapers mentioned in the discussions of several different revenue models.

Targeted Classified Advertising Sites

Although attempts to create general-interest Web sites that generate sufficient advertising revenue to be profitable have met with mixed results, sites that target niche markets have been more successful. For newspapers, classified advertising is very profitable; thus, Web sites that specialize in providing only classified advertising do have profit potential. This is especially true if they can reach a narrow target market and charge higher rates because the advertising reaches the right audience.

One implementation of the advertising-supported revenue model that is successful is Web employment advertising. Industry analysts estimate that online recruiting site revenues will exceed $80 billion by 2007. Companies such as **CareerBuilder.com** offer international distribution of employment ads. As the number of people using the Web increases, these businesses will be able to move beyond their current focus on technology and higher-level jobs and include advertising for all kinds of positions. These sites can use the same approach that Web directories and search engine sites use to offer advertisers target markets. When a visitor specifies an interest in, for example, engineering jobs in Dallas, the results page can include a targeted banner ad for which an advertiser will pay more because it is directed at a specific segment of the audience.

Employment ad sites can also target specific categories of job seekers by including short articles on topics of interest. These articles increase the site's stickiness and attract people who are not necessarily looking for a job. This is a good tactic because people who are not looking for a job are often the candidates most highly sought by employers. The **Monster.com** page directed at management-level job applicants (as distinguished from entry-level job applicants or executive-level job applicants) appears in Figure 3-5. This page offers links to articles, reports, a message board, and chat sessions that might interest a mid-career manager. It also offers a subscription to a newsletter for managers.

Another type of classified advertising Web site that can generate sufficient revenue to be profitable is the used vehicle site. Trader Publishing has printed advertising newspapers for many years and now operates the **AutoTrader.com**, **CycleTrader.com**, and **BoatTrader.com** sites. These sites accept paid advertising from individuals and companies that want to sell cars, motorcycles, and boats. Trader Publishing charges a fee for each listing and gives the seller the option of running the ad on the Web site only or on the Web and in the print version of the advertising newspaper. If the product has a dedicated following, this type of site can be successful by catering to small audiences. For example, the **VetteFinders** site sells classified ads for Corvette automobiles only.

Any product that is likely to be useful after the original buyer uses it provides the potential for a classified advertising site. People who want to sell used musical instruments can place ads on the **Musicians Buy-Line** site. Comic book collectors will find classified ads directed to them at **ComicLink.com**. Golfers who have given up the game or moved on to better clubs can place classified ads for their old equipment on **The Golf Classifieds**.

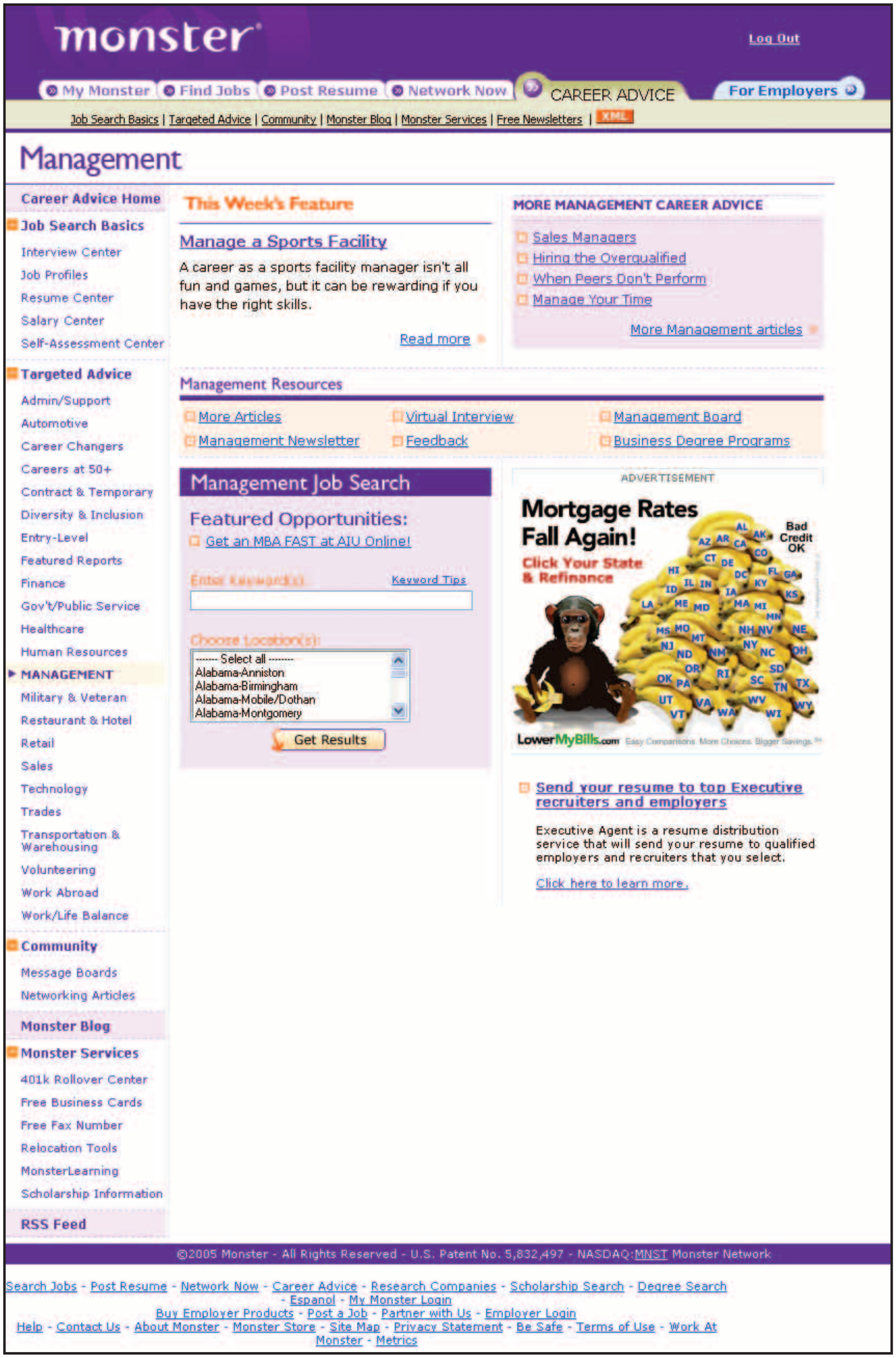

FIGURE 3-5 Monster.com page for management-level job candidates

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.

Note that both of these newspapers use one version of this revenue model for their print editions and another version for their online editions. More and more newspapers and magazines are finding that they need to use different revenue models for their print and online editions.

Some newspapers, including ***The Washington Post*** and the ***Los Angeles Times***, use another variation of the mixed revenue model. These newspapers do not charge any subscription fees for access to their Web sites. Instead, they offer current stories free of charge on their Web sites, but require visitors to pay for articles retrieved from their archives. The *Los Angeles Times* did charge for access to its entertainment listings and reviews for a time, but it ended that experiment in 2005. In general, newspaper sites today are relying on advertising to provide revenue. Although Web site advertising revenue is less than 3 percent of total revenue for most newspapers, it is growing steadily.

Business Week offers yet another variation on the mixed model theme. It offers some free content at its **Business Week online** site, but requires visitors to buy a subscription to the *Business Week* print magazine if they want to gain access to the entire site. Subscribers who want to read archived articles that are more than five years old are levied an additional charge per article. *Business Week* does place content in the subscriber section of its Web site before the magazine appears on the newsstands or is delivered to subscribers.

Sports fans visit the **ESPN** site for all types of sports-related information. Leveraging its brand name from its cable television businesses, ESPN is one of the most visited sites on the Web. It sells advertising and offers a vast amount of free information, but die-hard fans can subscribe to its Insider service to obtain access to even more sports information. Thus, ESPN uses a mixed model that includes advertising and subscription revenue, but it only collects the subscription revenue from Insider subscribers, who make up only a small portion of site visitors.

Consumers Union, the publisher of product evaluations and ratings monthly magazine *Consumer Reports*, operates a Web site, **ConsumerReports.org**, that relies heavily on subscriptions. Consumers Union is a not-for-profit organization that does not accept advertising as a matter of policy because it might appear to influence its research results. Thus, the site is supported by a combination of subscriptions and a small amount of charitable donations. The Web site does offer some free information as a way to attract subscribers and fulfill its organizational mission of encouraging improvements in product safety.

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**.

Travel Agents

Travel agents earn commissions on each airplane ticket, hotel reservation, auto rental, or vacation that they book. These commissions are paid to the travel agent by the transportation or lodging provider. The travel agency revenue model involves receiving a fee for facilitating a transaction. The value added by a travel agent is that of information consolidation and filtering. A good travel agent knows many things about the traveler's destination and knows enough about the traveler to select the information elements that are useful and valuable to the traveler. Computers, particularly computers networked to large databases, are very good at information consolidation and filtering. In fact, travel agents have used networked computers, such as the **Sabre** system, for many years to make reservations for their customers.

When the Internet emerged as a new way to network computers and then became available to commercial users, a number of online travel agencies began doing business on the Web. Existing travel agencies did not, in general, rush to the new medium. They believed that the key value they added, personal customer service, could not be replaced with a Web site. Therefore, the first Web-based travel agencies were new entrants. One of these sites, **Travelocity**, is based on the same Sabre system that traditional travel agents use. (Travelocity is also owned by Sabre.)

Microsoft also established a position in the online travel agency business with its **Expedia** subsidiary. **Travelocity**, **Expedia**, **Hotels.com**, and **Hotel Discount Reservations** are regularly listed among the top electronic commerce sites in surveys and industry analyst rankings. All four are profitable. In 2001, a consortium of five major U.S. airlines (American, Continental, Delta, Northwest, and United) launched a new Web travel site,

Orbitz. A number of consumer groups and the attorneys general of 20 states expressed concern over possible antitrust issues that could arise with a site such as Orbitz, which is sponsored by competing airlines. For example, Orbitz offers a monetary incentive to airlines that agree to offer Orbitz customers their lowest fares at all times. That means that the airline cannot offer a special low fare on its own Web site (or on another site such as Travelocity or Expedia) unless it also makes that fare available through Orbitz. The site launch was met with mixed reviews in surveys and criticism from industry analysts. The site encountered some technical difficulties; however, the site did immediately generate significant amounts of visitor traffic. Within a year, Orbitz had become one of the three most visited travel sites on the Web. The Orbitz home page appears in Figure 3-6.

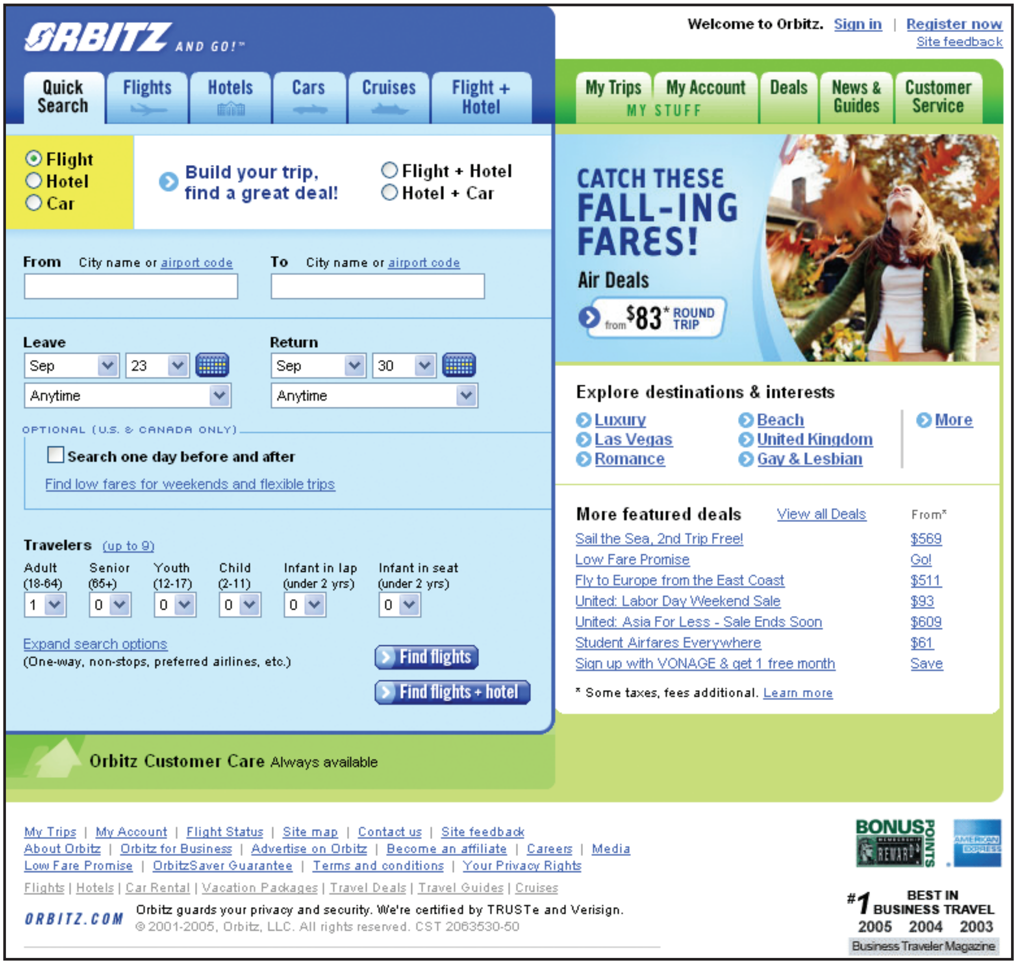

FIGURE 3-6 Orbitz home page

In addition to earning commissions from the transportation and lodging providers, these sites generate advertising revenue from ads placed on travel information pages. These ads are similar to those on search engine results pages because advertisers can target them without obtaining demographic details about the site visitor. For example, if you are booking a flight to Chicago, the page that lists airline ticket options may also carry a banner ad for a hotel in Chicago or a car rental company that is running a promotion in the Chicago area.

Many traditional travel agents are finding themselves squeezed out of the business today. Airlines are reducing or even eliminating the commissions they pay to travel agents on each ticket. Many travel agents (including the online travel sites) now charge their customers a flat fee for processing a ticket on an airline that has reduced or eliminated the fees it pays to travel agents.

Although these changes have hurt all travel agents, some industry observers believe that the large online travel agencies will have a better chance of surviving any shakeout that occurs in the business. Other industry observers note that smaller traditional travel agents often specialize in cruises or finding specialized hotel accommodations. Both cruise lines and hotels still view travel agents as an important part of their selling strategy and continue to pay reasonable commissions to travel agents on the sales that they make.

Some travel agents have been successful by following a reintermediation strategy with a focus on specific groups of travelers. These travel agents identify a group of travelers with specific needs and create travel packages designed for that group. For example, surf vacations have become increasingly popular in recent years. The stereotypical surfer of years gone by (a young unemployed male) has been replaced by a much broader demographic. Today's surfers often have significant financial resources and enjoy surfing in exotic locations. Web sites such as **WaveHunters.com** and **WannaSurf** have followed a reintermediation strategy and cater to this highly specialized market in ways that generalist travel agents have not.

Automobile Sales

Auto dealers buy cars from the manufacturer and sell them to consumers. They provide showrooms and salespeople to help customers learn about product features, arrange financing, and make a purchase decision. Most auto dealers negotiate the prices at which they sell their cars; thus, the salesperson's job also includes extracting the highest possible price from the consumer. Many people do not like negotiating car prices, especially if they have taken the time to learn about car features, arrange financing, and are ready to purchase a car without further assistance from a salesperson.

As you learned in Chapter 1, Autobytel and other firms offer knowledgeable consumers an option that removes the salesperson from the process. Autobytel and similar firms, such as **MSN Autos** and **CarsDirect.com**, provide an information service to car buyers. Each of these firms implements the fee-for-transaction revenue model in a slightly different way. For example, CarsDirect.com offers customers the ability to select a specific car (model, color, options) at a price it determines. CarsDirect.com then finds a local dealer that has such a car and is willing to sell it for the CarsDirect.com price. Alternatively, **Autoweb.com** and **Autobytel** locate dealers in the buyer's area that are willing to sell the car specified by the buyer (including make, model, options, and color) for a small premium over the dealer's nominal cost. The buyer can purchase the car from the dealer without negotiating with a salesperson. Autobytel and Autoweb.com charge participating dealers a fee for this service. In effect, firms such as Autobytel, Autoweb.com, and

CarsDirect.com are taking the salesperson out of the value chain. To the extent that the salesperson provides little or no value to the consumer, these firms are reducing the transaction costs in the process. The car salesperson is disintermediated and the Web site becomes the new intermediary in the transaction, which is an example of reintermediation.

Stockbrokers

Stock brokerage firms also use a fee-for-transaction model. They charge their customers a commission for each trade executed. In the past, stockbrokers offered investment advice and made specific buy and sell recommendations to customers. They did not charge for this advice, but they did charge relatively high commissions on the trades they handled for their customers. After the U.S. government deregulated the securities trading business in the early 1970s, a number of discount brokers opened. These discount brokers distinguished themselves from the established “full-line” brokerage houses by not offering any investment advice and charging very low commissions. Because the full-line brokers had failed to provide value to some of their customers, those customers were very happy to move their business to the discount brokers.

The Web made it possible for firms such as **E*TRADE** and Datek (later purchased by **Ameritrade**) to offer investment advice (posted on Web pages) similar to that offered by a full-line broker, without incurring many of the costs of distributing the advice (such as stockbroker salaries, overhead, and the costs of printing and mailing newsletters). Web-based brokerage firms could also offer fast execution of trades that customers entered into Web page forms. Thus, in the 1990s, discount brokers who had taken business away from full-line brokers for 15 years faced new competition from online firms. Of course, the full-line brokers found that they were losing business to both the discount brokers and the online brokers. In response, both discount brokers (such as **Charles Schwab** and **Ameritrade**) and full-line brokers (such as **Merrill Lynch** and **Smith Barney**) opened new stock trading and information Web sites.

The online brokers are offering customers the same kind of transaction cost reductions as the online auto buying sites. Stockbrokers are finding themselves disintermediated in the same way as car salespeople. Online brokers are offering an alternative service that has greater perceived value for many investors today.

Insurance Brokers

Other sales agency businesses are moving to the Web. Although insurance companies themselves were slow to offer policies and investments for sale on the Web, a number of intermediaries that sell insurance policies from a variety of companies have been online since the early days of the Web. Quotesmith, which began business in 1984 as a policy-quoting service for independent insurance brokers, decided in 1996 to offer its policy price quotes directly to the public over the Internet. By quoting policies and accepting applications directly, Quotesmith is disintermediating the independent insurance agents with whom it formerly worked. Quotesmith operates the **Insure.com** Web site, which appears in Figure 3-7.

Other Web sites that offer insurance policy information, comparisons, and sales include **InsWeb**, **Answer Financial**, **Insurance.com**, and **YouDecide.com**, which was created by the human resources software development company **ProAct Technologies**. In response tabs link to information about specific types of insurance policies

FIGURE 3-7 Quotesmith's Insure.com Web site

to the appearance of independent Web sites that offered customers a way to compare prices from various insurance companies, **Progressive Insurance** decided to offer quotes on its Web site with an interesting twist. The company provides quotes for its insurance products and also for its competitors' products. If a site visitor finds that one of the competitor's products is less expensive, Progressive provides a link to that company's site so site visitors can buy their insurance elsewhere. Progressive has always promoted itself as offering the lowest-priced insurance, and this is a way that the company reinforces its image. If it cannot offer the lowest price, the company invites potential customers to buy elsewhere. Progressive's well-advertised strategy encourages many insurance shoppers to visit the Progressive site instead of an independent comparison site. Today, many major insurance companies, such as **Allstate**, **GEICO**, and **State Farm Insurance**, offer information or policies for sale on their Web sites.

Event Tickets

Obtaining tickets for concerts, shows, and sporting events can be a challenge. Some venues only offer tickets for sale at their own box offices, and others sell tickets through ticket agencies that can be difficult for patrons to find. The Web offers event promoters an ability to sell tickets from one virtual location to customers practically anywhere in the world. Traditional ticket agencies such as **Ticketmaster** have opened shop online. Other companies, such as **Tickets.com** and **TicketWeb**, also offer a wide variety of tickets for events in many different locations. In addition to original sale of tickets, the Web has offered opportunities for those who deal in secondary market tickets (tickets that have already been sold by the event's producer and that are being offered for resale to other persons). Companies such as **StubHub** and **TicketsNow** operate as brokers to connect owners of tickets with buyers in this market. All of these electronic commerce initiatives reduce transaction costs for both buyers and sellers of tickets.

Real Estate and Mortgage Loan Brokers

Other fee-for-transaction businesses are also starting to open electronic commerce Web sites, including real estate brokers and mortgage loan brokers. Online real estate brokers provide all of the services that a traditional broker might provide—except that online brokers provide these services through their Web sites. Leading real estate sites include Web pioneers **eRealty** and **zipRealty.com**. Industry observers agree that these new online brokers do a much better job selling on the Web than traditional real estate brokers that have opened Web sites, such as **Coldwell Banker** and **Prudential**. The industry's trade association, the National Association of Realtors, sponsors a Web site, **Realtor.com**, that carries ads for houses listed by its member companies.

IndyMac Bank Home Lending offers mortgage loan seekers an online credit review and decision in minutes. Approved customers can then print an approval letter from their own computers and take it with them the same day to shop for a new house. This rapid decision-making ability and other customer service features have helped IndyMac become a leading mortgage banker successfully integrating the Internet into its business, funding more than $12 billion in home loans each year. Other successful mortgage brokers on the Web include **Ditech** and **E-LOAN**. These sites often provide helpful features such as the IndyMac Bank Quick Pricer, a loan payment calculator that appears in Figure 3-8.

Online Banking and Financial Services

Because financial services do not involve a physical product, they are easy to offer on the Web. The greatest concerns that most people have when they consider moving their financial transactions to the Web are security and the reliability of the financial institution—the same concerns that exist in the physical world. However, on the Web, it is much more difficult for a firm to establish its reputation for security and trust than it is in the physical world, where massive buildings and clearly visible room-sized safes can help create the necessary image. Many people who are willing to buy products and services online are unwilling to trust a Web site for their banking services. Fewer than 15 percent of all people who have made a purchase online also conduct their banking business online. You will learn more about the security of Web payments and other Internet financial transactions in Chapter 11.

Some existing banks opened online "branches" that carry the identification and reputation of the physical world bank's brand (such as Citibank's **Citibank Online**). Other firms started online banks that are not affiliated with an existing bank (such as the **First Internet Bank of Indiana**). Bank One opened an online bank under the name Wingspan in 1999. Bank One's expressed intent at the time was to present Wingspan as a new and separate entity, in the spirit of the dot-com boom that was then under way. After operating Wingspan separately for about two years, Bank One decided to close Wingspan and merge

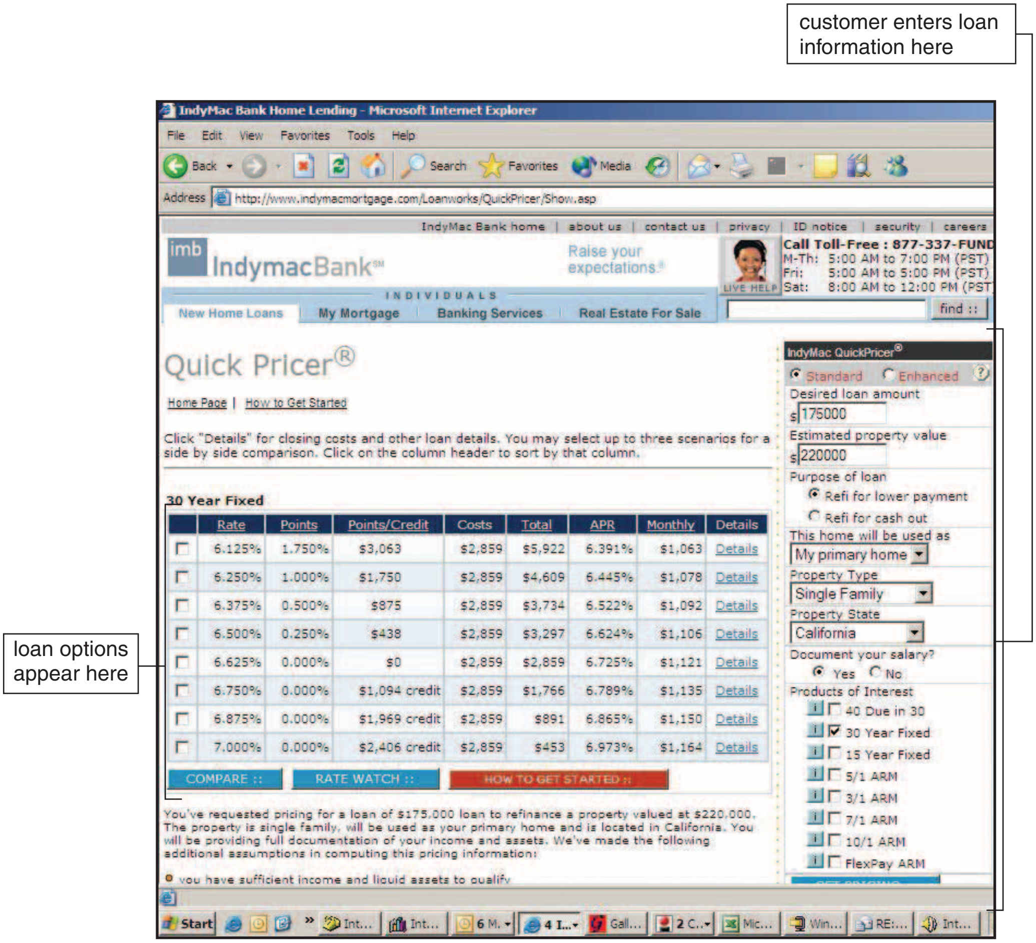

FIGURE 3-8 IndyMac mortgage loan pricing tool

it with the **BankOne.com** site. Industry observers today agree that an online bank can benefit from using the name of an established traditional bank to help create its reputation and provide customers with a sense of trustworthiness.

Online banks handle only a tiny portion of the world's financial transactions today, but as the reputation and reliability of online banks grow, more customers will accept them as a good way to conduct their banking business. Banks are interested in serving their customers online because it costs the bank less to provide services to a customer online than to provide services through a personal interaction with bank employees in a branch office. In addition to customers' concerns about trust and security online, two other significant barriers are preventing a more rapid rate of growth in the online banking business: a lack of bill presentment features and a lack of account aggregation tools.

Today's online banks give customers a way to pay their bills electronically, but the customers still receive most of the bills in the mail. Unfortunately, most people must visit a different Web site to view each online bill. As online banks add bill presentment features that allow their customers to view all of their bills on the bank's Web site (and pay each of them with a single click), those banks will find more customers willing to do their banking on the Web.

Another important feature that few online banks currently offer is **account aggregation**, which is 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. Many of a bank's best customers have credit card, loan, investment, and brokerage accounts with multiple financial institutions. Having all of this information in one place would be very useful for these customers. Another service that banks offer online is bill presentment. A **bill presentment** service provides an electronic version of an invoice or billing statement (such as a credit card bill or a mobile phone services statement) with all of the details that would appear in the printed document. Although some banks have created their own account aggregation and bill presentment software, companies such as **Yodlee** sell these services to banks and to nonbank sites such as **MSN Money**.

Online Music

The recording industry has been slow to embrace online distribution of music because audio files are digital products that can be easily copied once purchased. The digital copies are perfect and thus can seriously impair future sales of the original audio file. The demand for music files was so great that many otherwise law-abiding persons made copies of music and shared it online with others, which in most cases is illegal. As you will learn in Chapter 7, recording companies fought this illegal sharing of music files by suing some of the people who shared files and the Web sites that facilitated their sharing activity. Although the recording companies still file lawsuits, they have also finally decided that they should capture some of the market for music files by selling their audio tracks online.

The major online music stores include Apple's **iTunes**, Microsoft's **MSN Music**, **Napster**, **RealPlayer Music Store**, Sony's **Connect**, **Yahoo! Music** and **Walmart.com Music Downloads**. These sites sell single songs (tracks) for less than a dollar each and sell albums at various prices (most are between $10 and $14). Although some sites offer subscription plans, most of the sales revenue on these sites is generated using the fee-for-transaction model.

The online music market is complicated because each store does not offer all of the music that is available in digital format and because each store tries to promote its own music file format. Artists and recording companies sometimes only offer their music through one store and some refuse to offer their music online at all. By promoting its own file format, each store is trying to force music consumers to use their store exclusively. Each store also requires the buyer to download and install software that manages the number of copies that can be made of each audio file. This does not prevent illegal copying, but it does make it somewhat more difficult and the sellers hope that the extra effort required will discourage some of this copying. However, each store has different rules about how many copies are permitted and on which devices the files can be played. Consumers, especially those who buy music from more than one store, might find these varying restrictions to be confusing.

The current online music market is an interesting example of an industry that has failed to embrace the network effect it could gain by adopting one standard file format (or a set of compatible file formats). By trying to gain an advantage in the market, each company is inadvertently limiting the growth of the overall market. Some stores (such as **Calabash Music**, **eMusic.com**, and **Smithsonian Global Sound**) do sell audio files in a generally compatible file format with no copying restrictions. However, the music sold on these sites is not produced by the major recording companies. It will be interesting to watch the online music market evolve over the next few years.

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.

Online Games

Computer and video games are a huge industry. In the United States alone, more than $10 billion per year is spent on these types of games. An increasing portion of that revenue is generated online. Although many sites that offer games relied on advertising revenue in the past, a growing number now include premium games in their offerings. Site visitors must pay to play these premium games, either by buying and downloading software to install on their computers, or by paying a subscription fee to enter the premium games area on the site. Microsoft's **MSN Games by Zone.com**, Sony's **Station.com**, RealNetworks' **RealArcade**, and **Electronic Arts** are among the leading game sites that include subscription game services. For example, Sony's EverQuest adventure game draws more than 400,000 players who have purchased a $40 software package and pay $10 per month to continue playing the game. Most of the game sites charge a monthly subscription of between $5 and $20 for access to all their fee-based games offerings. The **Entertainment Software Association** is an industry group that tracks computer and video game use. Its Web site includes a number of interesting statistics about computer game sales and demographics of game players. For example, more than 40 percent of frequent computer game players are over the age of 35!

Concerts and Films

As more households obtain broadband access to the Internet, an increasing number of companies provide streaming video of concerts and films to paying subscribers. With a revenue model patterned after cable television companies, **Intertainer** began selling subscriptions for delivery of video content to computers and other devices through cable modem and DSL connections in 1999. Intertainer had built its business to more than 140,000 subscribers in 2002 when it closed and filed a lawsuit against several major media companies alleging that they were illegally controlling the market. Despite the ongoing lawsuit, MGM Studios, Paramount Pictures, Sony Pictures Entertainment, Universal Studios, and Warner Brothers Studios formed a joint venture to build the **Movielink** site. Movielink offers downloadable movies drawn from the content owned by the joint venture partners and licensed from other content owners such as Walt Disney Pictures and Miramax. Movielink sells a 24-hour window of access to the downloaded movies for a $2 to $5 fee. RealNetwork's **RealOne SuperPass** subscription includes sporting events, music videos, comedy, and other entertainment offerings for $13 per month.

The main technological limitation these companies face is that each additional customer who downloads a video stream requires that the provider purchase additional bandwidth from its ISP. Television broadcasters, on the other hand, need only pay the fixed cost of a transmitter—the airwaves are free and carry the transmission to an unlimited number of viewers at no additional cost. In contrast, as the number of an Internet-based provider's subscribers increases, the cost of the provider's Internet connection increases. However, if these Web entertainment companies can charge a high enough monthly fee, they should be able to cover the additional costs of technology upgrades and still make a profit.

Professional Services

State laws have been one of the main forces preventing U.S. professionals (such as physicians, lawyers, accountants, and engineers) from extending their practices to the Web. Since most professionals are licensed by individual states, state laws can effectively prevent them from practicing their professions on the Web because their patients or clients could be located in other states. If they were to offer their services over the Web, professionals could be charged with unlicensed practice in those other states. State laws that address the location of services are vague—it is difficult to determine where a service provided over the Internet actually occurred. This uncertainty arises because most state professional practice laws were written long before the Internet existed.

Although some medical, legal, and other professional practices are using online services such as **MyDocOnline** to allow patients to make appointments, most practices are reluctant to do even that limited amount of business activity on the Web. The major concern expressed by physicians regards the protection of patients' privacy. Until the Web is perceived as more secure, most people will continue to be reluctant to make medical appointments, or even refill prescriptions, on the Web.

The **Law on the Web** site offers legal consultations on a variety of matters for residents of the United Kingdom. Accounting professionals in the United States can be located through the **CPA Directory**, and a number of legal referral sites can direct site visitors to local attorneys. Although a number of Web sites such as **RealAge**, **Dr. Andrew Weil's Self Healing**, **pain.com**, and **WebMD** (shown in Figure 3-9) offer general health information, physicians and other health care professionals have been reluctant to sell specific advice to specific patients over the Internet. The difficulty of diagnosing medical problems without a physical examination of the patient is a significant barrier to providing many types of health care services on the Web.

FIGURE 3-9 WebMD home page

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. Some companies created electronic commerce Web sites that needed many years to grow large enough to become profitable. This is not unusual; both CNN and ESPN took more than 10 years to become profitable and they had both created new businesses in television, which was an existing and well-established medium. After the investment community became reluctant to continue funding most Web businesses in 2000, many Web companies that were counting on additional investments to support them during their unprofitable growth phases were forced to either change their revenue models or go out of business.

This section describes the revenue model transitions undertaken by five different companies as they gained experience in the online world and faced the changes that occurred in that world. As the world embarks on the second wave of electronic commerce, these and other companies might well face the need to make further adjustments to their revenue models.

Subscription to Advertising-Supported Model

Microsoft founded its ***Slate* magazine** Web site as an upscale news and current events publication. Because *Slate* included experienced writers and editors on its staff, many people expected the online magazine to be a success. Microsoft believed that the magazine had a high value, too. At a time when most online magazines (also called **e-zines**, or electronic magazines) were using an advertising-supported revenue model, *Slate* began charging an annual subscription fee after a limited free introductory period.

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. Because it is a part of Microsoft, *Slate* does not report its own profit numbers, but most industry observers believe that the site does not earn a profit. Microsoft maintains the *Slate* site as part of its MSN portal, so it is likely that *Slate* increases the stickiness of the portal.

Advertising-Supported to Advertising-Subscription Mixed Model

Another upscale online magazine, ***Salon.com***, which has also received acclaim for its innovative content, has moved its revenue model in the direction opposite to *Slate*'s transition. 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.

Subscribers pay $30 per year to view a version of the magazine called *Salon Premium*, which is free of advertising and can be downloaded for storage and later offline reading on the subscriber's computer. Premium subscribers also gain access to additional content such as downloadable music, e-books, and audio books.

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. The amount of the monthly subscription is based on the amount of disk space reserved for the user. In recent years, disk drive costs have been dropping and Xdrive has frequently adjusted its monthly fee downward. Currently, Xdrive offers 5 GB of storage for about $10 per month. Other companies, such as **IBackup** and **Kela** have followed Xdrive's lead in offering online storage for a monthly fee.

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. When a user ran a search, Northern Light returned a results page that included links to Web sites and abstracts of the items in its own database. Users could then follow the links to Web sites, which were free, or purchase access to the database items.

Thus, 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. The difference in the Northern Light model was that users could pay for just one or two articles (the cost was typically $1–$5 per article) instead of paying a large amount of money for unlimited access to its database on an annual subscription basis. Northern Light also offered subscription access to most of its database to companies, schools, and libraries, however.

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. It still offers an individual account option, however. A person interested in having the ability to search the Northern Light database can open an account, supply a credit card number, and be billed monthly for the articles accessed.

Multiple Transitions

Encyclopædia Britannica is an excellent example of a company that transferred its existing reputation for high quality to the Web. Encyclopædia Britannica has developed one of the most respected brand names in research and education over its many years in print publishing. It is particularly interesting that Encyclopædia Britannica began in 1768 as a sort of precomputer-age frequently asked questions (FAQ) list. A group of academics collected notes they had made while conducting research and decided to publish them as a series of articles.

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 more than 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*. One of the most successful aspects of the site was the way it integrated the Britannica Internet Guide Web-rating service with its print content. The Britannica Store sold the CD version of the encyclopedia along with other educational and scientific products to help generate revenue.

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.

Britannica has gone from being a print publisher to a seller of information on the Web to an advertising-supported Web site to a mixed advertising subscription model—three major revenue model transitions—in just a few short years. The main value that Britannica has to sell is its reputation and the expertise of its editors, contributors, and advisors. For now, Britannica has decided that the best way to capitalize on that reputation and expertise is through a combined format of subscriptions and advertising support. Figure 3-10 shows the Britannica search page available to subscribers. The clean look of the advertising-free page is noticeable. The page offers direct links to all of Britannica's subscriber-only services.

FIGURE 3-10 Britannica paid subscriber search page

REVENUE STRATEGY ISSUES

In the first part of this chapter, you learned about the revenue models that companies are using on the Web today. 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. The **Levi's** Web site now provides product information, but directs customers who want to buy its products to online stores that carry those products. Levi's product pages also include links that lead to a store finder page, so that customers who want to shop for Levi's products in a physical store can find stores near them.

Maytag, the manufacturer of home appliances, found itself in the same position as Levi Strauss. It created a Web site that allowed customers to order directly from Maytag. After less than two years of operating its direct sales outlet and receiving many complaints from its authorized distributors and resellers, Maytag decided to incorporate online partners into its Web site store design. Now, after searching and gathering information about specific products from the Maytag Web site, a customer can select a retailer who will deliver and install the appliance. These retail store partners are authorized Maytag distributors. The customer can complete the transaction on the Maytag site or can choose to complete the transaction on the retailer's site.

Both Levi's and Maytag faced channel conflict and cannibalization issues with their retail distribution partners. Their established retailers sold many times the dollar volume than either company could ever hope to sell on their own Web sites. Thus, to avoid angering their retailers, who could always sell competing products, both Levi's and Maytag decided that it would be best to work with their retail partners. Similar issues can also arise within a company if that company has established sales channels that would compete with direct sales on the company's Web site.

Eddie Bauer, a retailer of clothing and outdoor gear, was selling through a catalog and retail stores located primarily in major shopping malls when it decided to begin selling products on its Web site. The company believed that it could make online sales more attractive by allowing customers to return unwanted products that they had purchased online at the retail store locations. The managers of these stores were concerned about the time it would take for their sales associates to process these returns and about having to add the items to their stores' inventories. In a retail store operation, managing labor costs and inventory are very important in achieving store profitability. The managers at the company's catalog division were also worried. They feared that sales through the Web site would cannibalize sales through the catalog.

By making adjustments in the managers' compensation and bonus plans, Eddie Bauer was able to convince all of the managers to support the Web site. The retail store managers were credited with an inventory and labor cost allowance for each Web site return they handled. The catalog division managers were given a credit for existing catalog customers who purchased goods from the Web site. By giving their customers access to the company's products through a coordinated presence in all three distribution channels, Eddie Bauer was able to increase overall sales to those customers. This type of solution is called **channel cooperation**.

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. For example, the relationships that Levi's created with its retail partners by giving them space on the Levi's Web site to sell Levi's products is an example of a strategic alliance.

Earlier in this chapter you learned about Yodlee, the account aggregation services provider, and the Web portal sites that offer these services to consumers. The relationship between Yodlee and its portal site clients is another example of a strategic alliance. Yodlee can concentrate on developing the technology and services while the Web portals provide the customers. Because account aggregation services increase the propensity of customers to return to the site, they add to the portal sites' stickiness. Thus, both parties benefit from the strategic alliance.

As you learned earlier in this chapter, Amazon.com has added many product lines to its original offering of books. In some cases, Amazon.com built these businesses from the ground up. In other cases, it forged strategic alliances with existing firms. Amazon has joined with Target to sell that discount retailer's products on a Web site devoted to Target products. The Target site is housed within the Amazon.com site. Its partner in the tools and hardware category is **Tool Crib of the North**. Amazon.com agreed to operate the online sales function for **Borders** after that retailer decided it did not want to continue in the online books and music business. Amazon.com has teamed up with **CDnow** to sell music and video products on the Amazon.com Web site. Most of these alliances have worked well for both parties, but not all have been fully satisfactory relationships. **ToysRUs** was one of Amazon.com's earliest strategic partners, but the two companies have sued each other alleging violations of their strategic alliance agreement. **Circuit City** also had a strategic alliance with Amazon.com, but decided to end the arrangement after several years and sell through its own site.

Another type of strategic alliance that industry observers expect to see taking place in the near future is the joining of Web sites with channel distribution management companies. **Channel distribution managers**, also called **fulfillment managers** or **category managers**, are companies that take over responsibility for a particular product line within a retail store. For example, the **Handleman Company** is a channel distribution manager that has specialized in retail music sales for more than 50 years. Wal-Mart, Kmart, and other large retailers have Handleman manage their inventories of music CDs in their physical stores. Companies such as Handleman monitor inventory levels, order CDs, maintain in-store product displays, and coordinate marketing and advertising of music CDs for their partners.

The idea behind this type of affiliation is that the channel distribution manager can develop and maintain more knowledge about the specific product line, or category, than its partners because it specializes in that product category. Even after taking its fee, which is usually a percentage of the sales volume of the products it manages, the channel distribution manager's efforts can yield a greater profit for the retailer than if the retailer managed the product category itself.

Handleman and other music product channel distribution managers such as **Alliance Entertainment** have extended their businesses, offering assistance to online retailers. As these companies offer Web site support in addition to their physical retailer management programs, they compete with companies such as Amazon.com because they offer an alternative to the strategic alliance approach.

Mobile Commerce

In Chapter 2, you learned about a number of technologies that use wireless data transmission technologies to link laptop computers, PDAs, cell phones, and other devices to the Internet. Beginning in 1997, industry experts would predict each year that mobile commerce would present important growth opportunities for online businesses. Each year, those experts have been wrong. Although people do obtain stock quotes, directions, weather forecasts, airline flight schedules, and other information on their cell phones and PDAs, few companies have been successful in generating any significant revenues from the sale of this information to consumers.

One exception is NTT's **DoCoMo I-Mode** service, which is offered in Japan. DoCoMo is a successful cell phone that people avidly use to send short messages, play games, and obtain weather forecasts and other information. Many of these services are not free, and NTT, which is a telephone company, charges by the minute for connect time to the Internet. After several years of rapid growth, however, DoCoMo's sales have flattened and NTT is struggling to find new services to sell on the network to generate future revenue growth.

In the United States, **AvantGo** offers consumers several thousand channels of information as PDA downloads. The content of most of these channels is provided by online magazines and newspapers, who are permitted to include advertising with the content. AvantGo also sells a small amount of advertising that it includes with the content downloads. Most of AvantGo's revenue, however, is generated by other services it offers to businesses. You will learn more about business uses of mobile technology for cost reduction in Chapter 5.

Although few companies have made money in mobile commerce to date, many industry observers still believe that a company with the right service could be successful. Some experts predict that mobile commerce could exceed $400 billion by 2009. As you learned in Chapter 2, the bandwidth of wireless devices is increasing. A service that could capitalize on the increased bandwidth, such as the delivery of short movies or news reports, could be successful if the audience would be willing to pay a subscription fee or view ads. In 2004, Fox Entertainment began offering one-minute episodes of its television programs on mobile phones (Vodaphone in Europe and Verizon in the United States). The company is planning to add sports and news broadcasts in the future. In 2005, Rand McNally introduced a service that provides real-time traffic information to mobile phones. The traffic information includes detailed maps that show average vehicle speeds and other current conditions. This service would not be possible without the increased bandwidth that mobile phones and other devices now have. A few companies have introduced services that allow people to pay for items with their cell phones and wireless PDAs. You will learn about these payment services in Chapter 11.

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

When a business creates a physical space in which to conduct its activities, its managers focus on very specific objectives. Few of these objectives are image driven. The new company must find a location that will be convenient for its customers, with sufficient floor space and features to allow the selling activity to occur. A new business must balance its needs for inventory storage space and employee work space with the costs of obtaining that space. The presence of a physical business location results from satisfying these many other objectives and is rarely a main goal of designing the space.

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.

Making Web Presence Consistent with Brand Image

Different firms, even those in the same industry, might establish different Web presence goals. For example, **Coca Cola** and **Pepsi** are two companies that have established powerful brand images in the same business, but they have developed significantly different Web presences. These two companies frequently change their Web pages, but the Coca Cola page usually includes a trusted corporate image such as the Coke bottle. Alternatively, the Pepsi page is usually filled with hyperlinks to a variety of activities and product-related promotions.

These Web presences convey the images each company wishes to project. Each presence is consistent with other elements of the marketing efforts of these companies—Coca Cola's traditional position as a trusted classic, and Pepsi's position as the upstart product favored by a younger generation.

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:

- 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

Profit-Driven Organizations

The **Toyota** site that appears in Figure 3-11 is a good example of an effective Web presence. The site provides links to detailed information about each vehicle model, links to a dealer locator page, links to information about the company and the financing services it offers, and a link to a site search/help feature. The presence that Toyota created with its home page is consistent with its corporate goal of providing cars and trucks that meet the needs of a wide variety of customers.

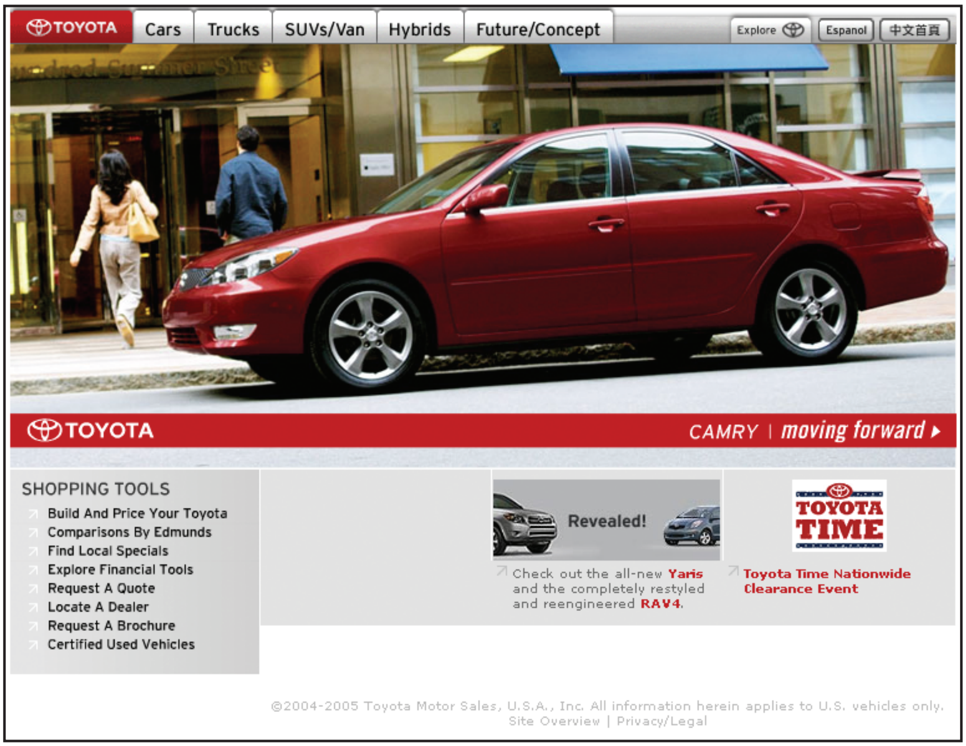

FIGURE 3-11 Toyota U.S. home page

In contrast, **Quaker Oats** created a Web site that did not offer a particularly strong sense of corporate presence, although it provided a good selection of information about the firm. Figure 3-12 shows the Quaker Oats Web site as it appeared until 1999.

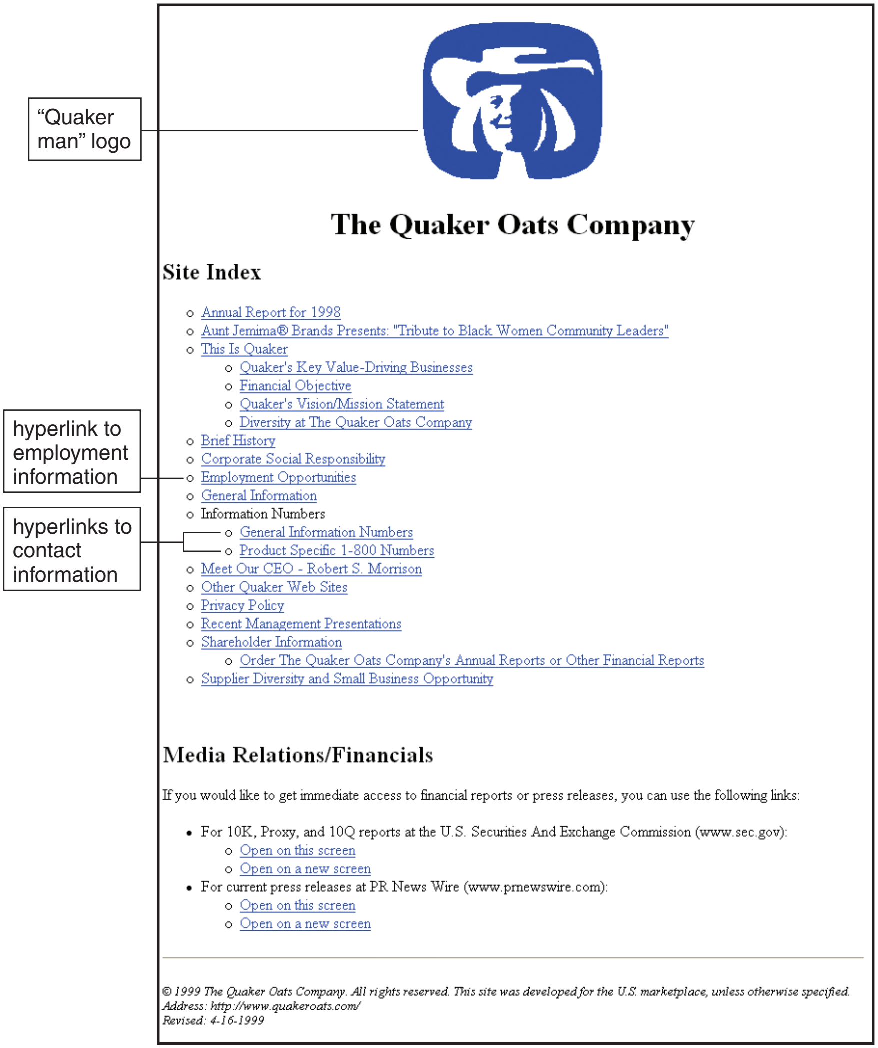

FIGURE 3-12 Quaker Oats home page before 1999 redesign

The site was a straightforward presentation of links to information about the firm. This page included 24 links to financial information, employment opportunities, current press releases, and other information about the company. It included links to contact information for the firm. It even had the corporate "Quaker man" logo. Although this Quaker Oats site provided access to useful information about the company, it offered the visitor a completely different experience and impression than that provided by the Toyota site. In

1999, Quaker changed its Web page to include some pictures of its products and improve its general appearance and user-friendliness. The overall impression of this new site was much more lively and fun than the original site. The Quaker Oats site went through another redesign after the company merged with Pepsi in 2001. The current site is more colorful and interesting than the original site; however, the basic information offered is essentially the same as that offered on the original site. The current site offers information more efficiently, using fewer links. Quaker Oats has used versions of its "Quaker man" logo on each of its sites to convey a highly recognizable image that is strongly associated with its brands. The redesigned Quaker Oats home page appears in Figure 3-13.

FIGURE 3-13 Quaker Oats home page after two redesigns

Not-for-Profit Organizations

The Toyota and Quaker Oats examples show how companies can enhance their images by providing information. For some organizations, this image-enhancement capability is a key goal of their Web presence efforts. Not-for-profit organizations are an excellent example of this. They can use their Web sites as a central resource for communications with their varied and often geographically dispersed constituencies.

A key goal for the Web sites of many not-for-profit organizations is information dissemination. The Web allows these groups to integrate information dissemination with fund-raising in one location. Visitors who become engaged in the issues presented are usually just one or two clicks away from a page offering memberships or other opportunities to donate using a credit card. Web pages also provide a two-way contact channel for people who are engaged in the organization's efforts but who do not work directly for the organization—for example, many not-for-profits rely on volunteers and coordination with other organizations to accomplish their goals. This combination of information dissemination and a two-way contact channel is a key element on any successful electronic commerce Web site. Interestingly, not-for-profit organizations are ahead of many businesses in accomplishing this combination of elements in their Web presences. Figure 3-14 (on the next page) shows the home page of the **American Civil Liberties Union (ACLU)**, which is devoted to the advocacy of individual rights in the United States.

This page allows interested visitors to learn more about the ACLU and join the organization if their interests are piqued by what they see. The Feedback link at the bottom of the page leads to a form that visitors can use to report a civil liberties violation, obtain assistance with legal research, ask questions about ACLU membership, or request permission to reprint ACLU publications. The page contains several links to a page that allows individuals to join the ALCU (and thus make a financial contribution to the organization).

The ACLU's use of a Web site is especially valuable because the organization serves many different constituencies, not all of whom agree with the ACLU or with each other on specific issues. If the ACLU were to create a print newsletter that contained interesting information for some of its supporters, that same information might offend other supporters. The Issues links at the right side of the ACLU home page allow site visitors to select the issues in which they are interested—and only those issues.

Not-for-profit organizations can use the Web to stay in touch with existing stakeholders and identify new opportunities for serving them. Organizations as diverse as the **American Red Cross**, the **Public Broadcasting System**, and the **Union of Concerned Scientists** have created effective Web presences. Organizations such as **Amnesty International** and the **United Nations** also use the Web to create international communities of interested persons.

Political parties want to offer information about party positions on issues, recruit members, keep existing members informed, and provide communication links to visitors who have questions about the party. All the major U.S. political parties have Web sites, and each year candidates running for public office set up their own Web sites. In addition, political organizations that are not affiliated with a specific party, such as the non-partisan **Center for Responsive Politics**, also accomplish similar goals with their Web presences.

FIGURE 3-14 American Civil Liberties Union home page

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!

In this section, you will learn how the Web is different from other ways in which companies have communicated with their customers, suppliers, and employees in the past. You will learn how companies can improve their Web presences by making their sites accessible to more people and easier to use, and by making sure that their sites encourage visitors to trust and even develop feelings of loyalty toward the organization behind the Web site.

How the Web Is Different

When firms first started creating Web sites in the mid-1990s, they often built simple sites that conveyed basic information about their businesses. Few firms conducted any market research to see what kinds of things potential visitors might want to obtain from these Web sites, and even fewer considered what business infrastructure adjustments would be needed to service the site. For example, few firms had e-mail address links on their sites. Those firms that did include an e-mail link often understaffed the department responsible for answering visitors' e-mail messages. Thus, many site visitors sent e-mail messages that were never answered.

This failure to understand how the Web is different from other presence-building media is one reason that so many businesses do not achieve their Web objectives. To learn more about this issue, see Jakob Nielsen's **Failure of Corporate Websites** page in the Online Companion; the article was written in 1998, but still accurately describes far too many Web sites.

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.

A number of Web designers and consultants have taken firms to task for their uninspired use of the Web's interactive nature. Some of these criticisms appear in the print media, but many appear in online newsletters or e-zines. For example, Christopher Locke argues that large corporations should encourage their employees to engage in unrestricted online dialog with the firm's customers, suppliers, and other stakeholders. He believes that this type of dialog is in the spirit of the Internet and helps companies create more honest and real personalities as part of their Web presences (see the references to his work in the For Further Study and Research section at the end of this chapter). David Weinberger presents similar arguments in his online **Journal of the Hyperlinked Organization**.

The main point these consultants make is that large firms must acknowledge and use the Web's capability for two-way, meaningful communication with their customers. They further argue that use of this communication process is not optional; companies that fail to communicate effectively through this channel will lose customers to competitors that do.

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.

Many Motivations of Web Site Visitors

Unfortunately for the Web designer trying to make a site that is useful for everyone, visitors arrive for many different reasons, including these:

- Learning about products or services that the company offers
- Buying products or services that the company offers
- Obtaining information about warranty, service, or repair policies for products they purchased
- Obtaining general information about the company or organization
- Obtaining financial information for making an investment or credit-granting decision
- Identifying the people who manage the company or organization
- Obtaining contact information for a person or department in the organization

Creating a Web site that meets the needs of visitors with such a wide range of motivations can be challenging. Not only do Web site visitors arrive with different needs, they arrive with different experience and expectation levels. In addition to the problems posed by the diversity of visitor characteristics, technology issues can also arise. These Web site visitors are connected to the Internet through a variety of communication channels that provide different bandwidths and data transmission speeds. They will also be using several different Web browsers. Even those using the same browser can have a variety of configurations. The wide array of browser add-in and plug-in software adds yet another dimension to visitor variability. Considering and addressing the implications of these many variations in visitor characteristics when building a Web site can help convert these visitors into customers.

Making Web Sites Accessible

One of the best ways to accommodate a broad range of visitor needs, including the needs of visitors with disabilities, is to build flexibility into the Web site's interface. Many sites offer separate versions with and without frames and give visitors the option of choosing either one. Some sites offer a text-only version. As researchers at the **Trace Center** note, this can be an especially important feature for visually impaired visitors who use special browser software, such as the **IBM Home Page Reader**, to access Web site content. The **W3C Web Accessibility Initiative** site includes a number of useful links to information regarding these issues.

If the site uses graphics, it can give the visitor the option to select smaller versions of the images so that the page loads on a low-bandwidth connection in a reasonable amount of time. If the site includes streaming audio or video clips, it can give the visitor the option to specify a connection type so that the streaming media adjusts itself to the bandwidth for that connection.

A good site design lets visitors choose among information attributes, such as level of detail, forms of aggregation, viewing format, and downloading format. Many electronic commerce Web sites give visitors a selectable level of detail by presenting product information by product line. The site presents one page for each line of products. A product line page contains pictures of each item in that product line accompanied by a brief description. By using hyperlinked graphics for the product pictures, the site offers visitors the option of clicking the product picture, which opens a page of detailed specifications for that product.

One of the more controversial developments in Web site design is the use of animated graphics software, such as **Macromedia Flash**, to create Web pages. These pages (or large portions of the pages) are not rendered in HTML and are often very large files that take considerable time to download, especially for visitors who do not have broadband connections. Many Web site designers love these products because they provide them with an exciting creative design tool, but few major electronic commerce sites use these types of animated graphics pages. For interesting discussions of the disadvantages of Flash and similar tools, see WebWord.com's **Flash Usability Challenge** pages or Jakob Nielsen's **Flash: 99% Bad** commentary. A number of sites address the issue by giving visitors an option to select a Flash or non-Flash version of the site on its home page.

Some specific tasks that customers want to perform do lend themselves to animated Web pages. For example, the **Lee® Jeans FitFinder** is a series of Flash animation pages that can help customers find the right size and style of jeans. One of the Lee® Jeans FitFinder animation pages is shown in Figure 3-15 (on the next page).

Web sites can also offer visitors multiple information formats by including links to files in those formats. For example, a page offering financial information could include links to an HTML file, an Adobe PDF file, and an Excel spreadsheet file. Each of these files would contain the same financial information in different formats; visitors can then choose the format that best suits their immediate needs. Visitors looking for a specific financial fact might choose the HTML file so that the information appears in their Web browsers. Other visitors who want a copy of the entire annual report as it was printed would select the PDF file and either view it in their browsers or download and print the file. Visitors who want to conduct analyses on the financial data would download the spreadsheet file and perform calculations using the data in their own spreadsheet software.

To be successful in conveying an integrated image and offering information to potential customers, businesses should try to meet the following goals when constructing their Web sites:

- Offer easily accessible facts about the organization.
- Allow visitors to experience the site in different ways and at different levels.
- Provide visitors with a meaningful, two-way (interactive) communication link with the organization.
- Sustain visitor attention and encourage return visits.
- Offer easily accessible information about products and services and how to use them.

FIGURE 3-15 Lee Jeans FitFinder Flash animation

Trust and Loyalty

When companies first started selling on the Web, many of them believed that their customers would use the abundance of information to find the best prices and disregard other aspects of the buying experience. For some products, this may be true; however, most products include an element of service. 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.

Even when products are commodity items, the service element can be a powerful differentiating factor for which customers will pay extra. These services include such things as delivery, order handling, help with selecting a product, and after-sale support. Because many of these services are things that a potential customer cannot evaluate before purchasing a product, the customer must trust the seller to provide an acceptable level of service.

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.

Many companies doing business on the Web spend large amounts of money to obtain customers. If they do not provide levels of customer service that lead customers to develop trust in and loyalty to the firm, the companies are unlikely to recover the money they spend to attract the customers in the first place, much less earn a profit.

Customer service is a problem for many electronic commerce sites. Recent research indicates that customers rate most retail electronic commerce sites to be average or low in customer service. A common weak spot for many sites is the lack of integration between the companies' call centers and their Web sites. As a result, when a customer calls with a complaint or problem with a Web purchase, the customer service representative does not have information about Web transactions and is unable to resolve the caller's problem.

A number of studies show that the e-mail responsiveness of electronic commerce sites has also been disappointing. Many major companies are slow to respond to e-mail inquiries about product information, order status, or after-sale problems. A significant number of companies in these studies never acknowledged or responded to the e-mail queries.

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. BizRate.com compiles its ratings by conducting surveys of sites' customers. When the customer places an order, a pop-up window appears asking for a rating of various aspects of his or her experience with the site. The customer is offered a chance at a prize in exchange for providing this information.

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.

Experts estimate that average electronic commerce Web sites frustrate up to 70 percent of their customers to the point that they leave without buying anything. Even the best sites lose half of their customers because the sites are confusing or difficult to use. Simple changes in site usability can increase customer satisfaction and sales.

Companies that have done usability tests, such as **Eastman Kodak**, **T. Rowe Price**, and **Maytag**, have found that they can learn a great deal about meeting visitor needs by conducting focus groups and watching how different customers navigate through a series of Web site test designs. Industry analysts agree that the cost of usability testing is so low compared to the total cost of a Web site design or overhaul that it should almost always be included in such projects. Two pioneers of usability testing are Ben Shneiderman and Jakob Nielsen. Dr. Shneiderman founded the **University of Maryland Human-Computer Interaction Lab** and has published a number of books on interface design. Dr. Nielsen's **Alertbox** Web site includes much information about how to conduct usability testing and use its results to improve Web site design and operation.

Customer-Centric Web Site Design

An important part of a successful electronic business operation is a Web site that meets the needs of potential customers. In the list of goals for constructing Web sites that you learned about earlier in the chapter, the focus was on meeting the needs of all site visitors. 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:

- Design the site around how visitors will navigate the links, not around the company's organizational structure.
- Allow visitors to access information quickly.
- Avoid using inflated marketing statements in product or service descriptions.
- Avoid using business jargon and terms that visitors might not understand.
- 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.

Web marketing consultant Kristin Zhivago of **Zhivago Marketing Partners** has a number of recommendations for Web sites that are designed specifically to meet the needs of online customers. She encourages Web designers to create sites focused on the customer's buying process rather than the company's perspective and organization. For example, she suggests that companies examine how much information their Web sites provide and how useful that information is for customers. If the site does not provide substantial "content for your click" to visitors, they will not become customers.

Using these guidelines when you create your site can help make visitors' Web experiences more efficient, effective, and memorable. Usability is an important element of creating an effective Web presence. For an interesting look at Web design issues, you can visit the **Webby Awards** site. The Webby Awards are given to sites that "exemplify the kinds of sites that Internet users should visit every day for information and entertainment," as judged by a panel of Web designers, journalists, and industry leaders.

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.

Some experts distinguish between broadcast media and addressable media. **Addressable media** are advertising efforts directed to a known addressee and include direct mail, telephone calls, and e-mail. Since few users of addressable media actually use address information in their advertising strategies, in this book, we consider addressable media to be mass media. Many businesses use a combination of mass media and personal contact to identify and reach customers. For example, Prudential uses mass media to create and maintain the public's general awareness of its insurance products and reputation, while its salespeople use prospecting techniques to identify potential customers. Once an individual becomes a customer, Prudential maintains contact through a combination of personal contact and mailings.

The Internet is not a mass medium, even though a large number of people now use it and many companies seem to view their Web sites as billboards or broadcasts. Nor is the Internet a personal contact tool, although it can provide individuals the convenience of making personal contacts through e-mail and newsgroups. Jeff Bezos, founder of Amazon.com, described the Web as the ideal tool for reaching what he calls "the hard middle"—markets that are too small to justify a mass media campaign, yet too large to cover using personal contact. Figure 3-16 illustrates the position of the Web as a customer contact medium, between the large markets addressed by mass media and the highly focused markets addressed by personal contact selling and promotion techniques.

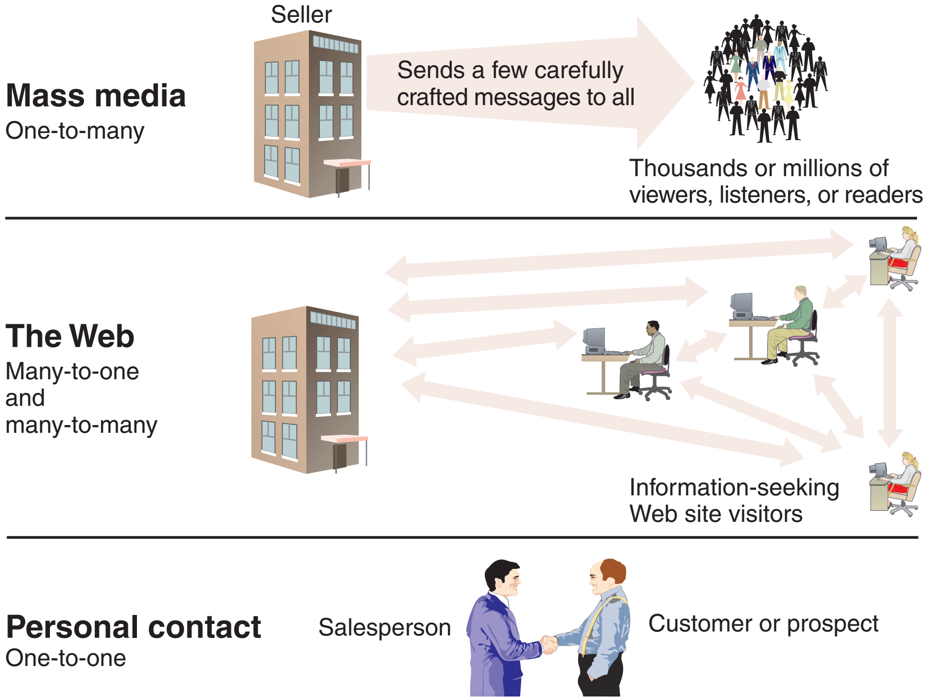

FIGURE 3-16 Business communication modes

To help you better understand the differences shown in Figure 3-16, read the following scenario. The scenario assumes that you have heard about a new book, but would like to learn more about it before buying it. Consider how your information acquisition process would vary, depending on the medium you used to gather the information.

- *Mass media*: You might have been exposed to general promotional messages from book publishers that have created impressions about quality associated with particular book brands. If your existing knowledge includes a brand identity for the book's publisher, these messages may influence your perceptions of the book. You may have been exposed to an ad for the title on television or radio, or in print. You might have heard the book's author interviewed on a radio program or read a review of the book in a publication such as *The New York Times Book Review* or *Booklist* magazine. Notice that most of these process elements involve you as a passive recipient of information. This communication channel is labeled "Mass media" and appears at the top of Figure 3-16. Communication in this model flows from one advertiser to many potential buyers and thus is called a **one-to-many communication model**. The defining characteristic of the mass media promotion process is that the seller is active and the buyer is passive.
- *Personal contact*: Small-value items are not frequently sold through this medium because the costs of devoting a salesperson's efforts to a small sale are prohibitive. However, in the case of books, local bookshop owners and employees often devote considerable time and resources to developing close relationships with

their customers. Although each individual book sale is a small-value transaction, people who frequent local bookshops tend to buy large numbers of books over time. Thus, the bookseller's investment in developing personal contacts is often rewarded. In this scenario, you may visit your local bookshop and strike up a conversation with a knowledgeable bookseller. In the personal contact model, this would most likely be a bookseller with whom you have already established a relationship. The bookseller would offer an opinion on the book based on having read that book, books by the same author, or reviews of the book. This opinion would be expressed as part of a two-way conversational interchange. This interchange usually includes a number of conversational elements, such as discussions about the weather, local sports, or politics, that are not directly related to the transaction you are considering. These other interchanges are part of the trust-building and trust-maintaining activities that businesses undertake to develop the relationship element of the personal contact model. The underlying **one-to-one communication model** appears at the bottom of Figure 3-16 and is labeled "Personal contact." The defining characteristic of information gathering in the personal contact model is the wide-ranging interchange that occurs within the framework of an existing trust relationship. Both the buyer and the seller (or the seller's representative) actively participate in this exchange of information.

- *The Web*: To obtain information about a book on the Web, you could search for Web site references to the book, the author, or the subject of the book. You would likely identify a number of Web sites that offer such information. These sites might include those of the book's publisher, firms that sell books on the Web, independent book reviews, or discussion groups focused on the book's author or genre. ***The New York Review of Books*** and ***Booklist*** magazine, both staples of mass media book promotion, now have online Web editions. Book review sites that did not originate in a print edition, such as ***BookBrowser***, also appear on the Web. Most Web-based booksellers maintain searchable space on their sites for readers to post reviews and comments about specific titles. If the author of the book is famous, there might even be independent Web fan sites devoted to him or her. If the book is about a notable person, incident, or time period, you might find Web sites devoted to those notable topics that include reviews of books related to the topic. You could examine any number of these resources to any extent you desired. You might encounter some advertising material created by the publisher while searching the Web. However, if you choose not to view the publisher's ads, you will find it as easy to click the Back button on your Web browser as it is to surf television channels with your remote control. The Web affords you many communication channels. Figure 3-16 shows only one of the communication models that can occur when using the Web to search for product information. The model labeled "The Web" in Figure 3-16 is the **many-to-one communication model**. The Web gives you the flexibility to use a one-to-one model (as in the personal contact model) in which you communicate over the Web with an individual working for the seller, or engage in **many-to-many communications** with other potential buyers. The defining characteristic of a product information search on the Web is that the buyer actively participates in the search and controls the length, depth, and scope of the search.

Summary

In this chapter, you learned that businesses are using six main approaches to generate revenue on the Web: the Web catalog, digital content sales, advertising-supported, advertising-subscription mixed, fee-for-transaction, and fee-for-service models. You learned how these models work and what kinds of businesses use which models. You also learned that some companies have changed models as they learned more about their customers and the business environment in which their Web sites operate.

Companies sometimes face the challenges of channel conflict and cannibalization either within their own organizations or with the companies that have traditionally provided sales distribution to consumers for them. In accordance with the network model of organization that you learned about in Chapter 1, companies undertaking electronic commerce initiatives sometimes form strategic alliances with other companies or contract with channel distribution managers to obtain their skills in Web site operation or their product category knowledge. You learned that business-to-consumer mobile commerce has not yet been widely successful; however, increasing bandwidth could make it possible for new services to emerge that will be successful.

By understanding how the Web differs from other media and by designing a Web site to capitalize on those differences, companies can create an effective Web presence that delivers value to visitors. Every organization must realize that visitors to its Web site arrive with a variety of expectations, prior knowledge, and skill levels, and are connected to the Internet through different technologies. Knowing how these factors can affect the visitor's ability to navigate the site and extract information from the site can help organizations design better, more usable Web sites. Enlisting the help of users when building test versions of the Web site is also a good way to create a Web site that represents the organization well.

Firms must understand the nature of communication on the Web so they can use it to identify and reach the largest possible number of customers and qualified prospects. Using a many-to-one communications model enables Web sites to effectively reach potential customers.

Key Terms

Account aggregation
Addressable media
Advertising-subscription mixed revenue model
Advertising-supported revenue model
Bill presentment
Cannibalization
Catalog model
Category managers
Channel conflict
Channel cooperation
Channel distribution managers
Communication modes
Customer-centric
Demographic information
Disintermediation
E-zine
Fee-for-service revenue model
Fee-for-transaction revenue model
Fulfillment managers
Mail order model
Many-to-many communications
Many-to-one communication model
Mass media
One-to-many communication model
One-to-one communication model
Personal contact

Personal shopper
Portal (Web portal)
Presence
Prospecting
Reintermediation
Stakeholders
Stickiness
Sticky
Usability testing
Virtual model
Web catalog revenue model
Web directory

Review Questions

RQ1. Write a paragraph in which you describe the conditions under which a Web site could become profitable by relying exclusively on advertising revenue. In a second paragraph, provide an example of a company not mentioned in the chapter that is using the advertising-supported model and that is likely to be successful in the long run. Explain why you think it will succeed.

RQ2. Describe two possible service-for-fee offerings that might become available to users of Internet-enabled wireless devices (such as PDAs or mobile phones) in the near future. Write one paragraph for each service in which you outline the profit potential and risk of losses for each.

RQ3. In two paragraphs, explain why a customer-centric Web site design is so important, yet is so difficult to accomplish.

RQ4. In one paragraph, define the term "presence." Write an additional paragraph in which you explain why firms that do business on the Web should be more concerned about presence than firms that operate only in the physical world.

RQ5. Many real estate agents today have Web sites that list the properties they have for sale. These agents also advertise the properties in classified newspaper ads and sometimes in television ads. However, most real estate agents today would tell you that personal contact provides their most important connections with clients, potential clients, and client referral sources. Write three paragraphs in which you briefly describe the things that real estate agents can best accomplish through (1) their Web sites, (2) mass media advertising, and (3) personal contact.

RQ6. Promoting products on the Web is different from using mass media promotion or personal contact. Assume that you want to explain these differences to a person who is planning to open a Web site that will sell snowboarding vacation packages. Write one paragraph about each approach (mass media, personal contact, the Web). In each paragraph, explain the advantages and disadvantages of the approach for the snowboarding vacation package Web business.

Exercises

E1. Page 149 includes a list of things that Web sites can do to meet the needs of visitors. Create a table in which the first column is a list of the five needs of Web site visitors. Find three Web sites that meet three or more of the needs. Create a column for each Web site next to the first column (columns two through four) and rate how well each site meets each need in the first column. You may want to use the **Webby Awards** site as a starting point in your search, but do not use any of the award nominees or winners in your table.

E2. Evaluate the usability of two Web sites that sell large-screen televisions. A list of links to companies that sell this product is included in the Online Companion for this exercise, but you may use other sites if you wish. In your evaluation, compare the sites on how easy it is to learn about the product and purchase the product. Your report should include a section of about 200 words in which you describe the criteria you used in your evaluation, a section of about 300 words that summarizes your findings, and a section of about 100 words in which you present your conclusion.

E3. You have been employed by Bob Drudge, the owner of **refdesk.com**, to explore revenue-generating alternatives. Currently, the site is using an advertising-supported revenue model. Bob wants you to consider each of the other revenue models and the potential of strategic alliances that might make sense for his site. Write a report of about 400 words in which you summarize your research and state your recommendations. Your instructor might assign you to a group to complete this exercise and might also ask you to present your recommendations in class.

E4. High-end jewelry retailers such as **Harry Winston** and **Tiffany & Co.** often use Macromedia's Flash software to create their Web sites. Present three arguments for and three arguments against the use of Flash animations in sites such as these. Consider the retailers' objectives, the characteristics of the products being sold, and the type of customers who visit these sites. Limit your answer to 400 words.

Cases

C1. Lonely Planet

In 1972, Tony and Maureen Wheeler were newlyweds who decided to have one last adventure travel experience before settling down. Their trip was an overland trek from London to Australia through Asia. So many other travelers asked them about their experiences that they sat down at their kitchen table and wrote a book titled *Across Asia on the Cheap*. They published the book themselves and were surprised by how many copies they sold. Three decades and 60 million books later, their publishing enterprise has turned out to be one of the most successful in history.

The Wheelers' publishing company, Lonely Planet, has grown rapidly, with typical annual sales increases of 20 percent or more. The company is privately held and does not release sales figures, but industry analysts estimate current annual revenues to be $50 million. Lonely Planet publishes more than 650 titles in 17 languages and holds a 13 percent share of the travel guide market. The company has more than 400 employees in its U.K., U.S., French, and Australian offices who perform editorial, production, graphic design, and marketing tasks. Travel guide content is written by a network of more than 150 contract authors in 20 countries. These authors are knowledgeable about everything from visa regulations to hotel prices to the names of the hottest new entertainment spots. The combined expertise of the in-house staff and the in-country authors has kept Lonely Planet ahead of its competitors for many years.

In recent years, Lonely Planet has expanded its business beyond the publication of travel guides. The company offers travel services that include a phonecard, hotel and hostel room-booking, airplane tickets, European rail travel reservations and tickets, package tours, and travel insurance. These services are offered by telephone and on the Lonely Planet Web site.

The Web site has won numerous awards, including the Society of American Travel Writers 2003 Silver Award and a spot on *Time* magazine's 2003 "Fifty Best Web Sites" list. It has also won the best travel site Webby three times, most recently in 2004. The site was launched in 1994 and includes an online store in which Lonely Planet publications are sold. However, the site's main draws are its comprehensive collection of information about travel destinations and its online bulletin board, the Thorn Tree, which has more than 220,000 registered users and more than 400,000 message posts each year. Another section of the Web site, Lonely Planet Images, includes 250,000 digital photos and other graphics and is used by more than 25,000 registered users.

Lonely Planet is always looking for ways to expand its market and brand image through new technologies. For example, it has formed a joint venture with Nokia to provide city guides on mobile telephones in more than 40 cities worldwide. The company has also sold its content for use on portal sites such as Yahoo! and has created a B2B division that provides customized content to large corporate customers for their internal use.

Despite its excellent Web site and its use of new technologies, most of Lonely Planet's revenues are still generated by book sales. The typical production cycle of a travel guide is about eight months long. This is the time it takes to commission authors, conduct research, work through several drafts of writing and editing, select photos, create the physical book, and print it. This production cycle causes new books to be almost a year out of date by the time they are published. Only the most popular titles are revised annually. Other titles are on two-, three-, or four-year revision cycles. The time delay in publication means that many details in the guides are outdated or wrong; restaurants and hotels close (or move), exchange rates and visa regulations change, and once-hot night spots are abandoned by fickle clientele.

Lonely Planet publications are well researched and of high quality, but the writers do not work continually because the books are not published continually. The Web site often has information that is more current than the published travel guides. Lonely Planet has adopted new technologies, but has not used them to revise its revenue model or to make basic changes in the production of its main product, the travel guides.

Required:

1. Prepare a report in which you analyze the marketing channel conflicts and cannibalization issues that Lonely Planet faces as it is currently operating. Suggest solutions that might reduce the revenue losses or operational frictions that result from these issues.
2. Prepare a list of new products that Lonely Planet might introduce to take advantage of Internet technologies (including wireless technologies) and address customers' concerns about the timeliness and currency of information in the printed travel guides. Briefly describe any problems that Lonely Planet will face as it introduces these new products.

3. Many loyal Lonely Planet customers carry their travel guides (which can be several hundred pages thick) with them as they travel around the world. In many cases, these customers do not use large portions of the travel guides. Also, Internet access can be a problem for many of these customers while they are traveling. Describe a product (or products) that might address this customer concern and also yield additional revenue for Lonely Planet. Your answer here may build on ideas that you developed in your solution to part 2.

Note: Your instructor might assign you to a group to complete this case and might ask you to prepare a formal presentation of your results to your class.

C2. Association for the Study of International Business

The Association for the Study of International Business (ASIB) is an organization of researchers, professors, and business executives interested in the study, analysis, and promotion of business activities beyond domestic borders. Mario DiPonetti, ASIB's executive director, hires you as a consultant to help him map out a future Web revenue strategy for the association.

The ASIB has about 3000 members located in countries throughout the world; however, about half of its members are in the United States. Each member pays an annual membership fee of $100, so ASIB's dues revenue totals about $300,000 per year. ASIB sponsors several conferences each year; it also publishes a monthly newsletter and two journals. The conferences break even; that is, the conference and exhibitor fees cover the costs of running the conference, but they do not yield any profit that can be applied to other ASIB operating costs.

One of the journals, *Annals of International Business*, has an academic focus and is read by researchers interested in international business topics. All ASIB members receive a copy of this journal and ASIB sells about 600 subscriptions to the journal at $300 per year. Most of the subscribers are university libraries. This journal is published four times each year. The second journal, *International Business Today*, is written for business executives. It includes articles and features that report on current trends in international business. All ASIB members receive a copy of this journal and ASIB sells about 1000 subscriptions to the journal at $60 per year. Most of the subscribers are business executives. This journal is published 12 times each year. The total subscription revenue from the two journals is $240,000 per year. The business journal also sells advertising that yields about $20,000 per year. ASIB uses that total revenue of $260,000 to cover the costs of producing and mailing both journals. The cost of producing one issue of either journal, which includes proofreading, editing, and typesetting costs, is about $5000. The printing and mailing costs, which have been increasing rapidly over the past several years, average about $2 per journal (the mailing costs to some members are much higher than others because they are located in distant countries). Each year, ASIB produces 16 issues (four of the academic journal and 12 of the business journal) and mails 62,400 journals (14,400 of the academic journal and 48,000 of the business journal) to members and subscribers at a total cost of $204,800 (16 × $5000 plus 62,400 × $2). Thus, ASIB's current journal operations yield a net profit of $55,200 ($260,000 – $204,800) that can help support other ASIB activities.

ASIB has a Web site that it constructed at a cost of $56,000 three years ago. One of ASIB's staff members spends approximately half of her time managing the site. One-half of her salary along with other recurring expenses, such as software licenses and computer upgrades for the Web site, total about $35,000 per year. Mario explains to you that one of the ASIB's greatest cost reduction successes was last year's decision to offer the newsletter by e-mail. About half of the members chose to receive the newsletter by e-mail. The paper newsletters cost 50 cents each to print and mail, but creating and sending the e-mails took less than $50 worth of staff members' time. Thus, ASIB realized an immediate savings of about $700 each month. The newsletters are also placed on the Web site so that members can check there if they happen to miss the e-mailed newsletter. This success prompted Mario to think about ways to reduce the cost of distributing the journals. He wants to make sure, however, that ASIB continues to receive as much of the journal revenue as possible under any new revenue model.

One of the companies you learned about in the chapter, EBSCO, approached Mario with an offer to handle electronic distribution of the academic journal. EBSCO will take a copy of the journal when it is published, scan each article into Adobe Portable Document Format (PDF) and into HTML format, index the articles, and place them into several of EBSCO's databases. Many university and research libraries subscribe to EBSCO databases. The EBSCO representative explained to Mario that most of the libraries would continue their print subscriptions to the journal, but that about 30 percent of the libraries would stop subscribing and rely on their electronic access to the journal through the EBSCO database. Mario called some of his friends who are executive directors of other associations and confirmed that this percentage was correct in their experience. EBSCO would pay ASIB $10,000 per year for access to the journal plus $50 per year for every library that subscribed to an EBSCO database that included the journal. The EBSCO representative estimated that the number of subscribing libraries would be about 1000.

Mario outlined an alternative to the EBSCO contract. In this alternative, ASIB would itself scan the journals into PDF files and make them available on the ASIB Web site for a subscription fee. Mario estimated that it would cost about $1000 to create the PDF files for one issue and place them on the Web site. He also estimated that managing the accounts and passwords would consume about $500 per month of staff time and costs.

EBSCO was not interested in purchasing access to the business journal, but Mario is considering ways to make some or all of the content from that journal available on the ASIB Web site. He is considering offering reduced rate "Web access only" subscriptions to business executives. He is also thinking about offering some of the best stories from the print edition on the Web and including ads offering full subscriptions on each page. He is even considering placing the first part of the best stories on the Web site and offering readers a chance to subscribe so they can read the rest of the story.

Several companies that sell products and services to businesses that sell internationally currently run ads in the business journal. These companies expressed an interest in placing banner ads on ASIB Web pages that contain content (such as stories from the business journal). Mario estimates that ASIB could earn between $3000 and $9000 per month from these banner ads, but he is concerned that having the best content from the business journal on the Web site might convince some business executives to drop their subscriptions to the print edition.

Required:

Prepare a comprehensive report for Mario in which you outline and analyze the possible revenue models that ASIB might use for its Web site. You should address the two journals as separate issues. Your report should provide the basis for a presentation to the ASIB executive board and should include specific recommendations where possible.

Note: Your instructor might assign you to a group to complete this case and might ask you to prepare a formal presentation of your results to your class.

For Further Study and Research

Anthes, G. 2002. "What Lies Ahead for Web Merchants? Advanced Search, 3-D Images, Real-Time Inventory—and Credibility," *Computerworld*, June 16, 26.

Berchtold, J., J. Grass, B. Johnson, and E. Stephenson. 2002. "Can Broadband Save Internet Media?" *The McKinsey Quarterly*, June. (http://www.mckinseyquarterly.com/article_page.asp?ar=1189&L2=17&L3=104)

Brown, S., A. Tilton, and D. Woodside. 2002. "The Case for Online Communities," *The McKinsey Quarterly*, January. (http://www.mckinseyquarterly.com/article_page.asp?ar=1143&L2=24&L3=45)

Buckman, R. 1999. "Wall Street Is Rocked by Merrill's Online Plans," *The Wall Street Journal*, June 2, C1.

Carr, D. 2003. "Slate Sets a Web Magazine First: Making Money," *The New York Times*, April 28, C1.

Chan, S. 2001. "Usability Guru Philosophizes on Web Subjects," *The Seattle Times*, April 7, E1.

Christensen, C. and M. Overdorf. 2000. "Meeting the Challenge of Disruptive Change," *Harvard Business Review*, 78(2), March-April, 66–75.

Coursaris, C. and K. Hassanein. 2002. "Understanding M-Commerce," *Quarterly Journal of Electronic Commerce*, 3(3), 247–271.

Cox, B. 2003. "Bluefly Gets Another Cash Infusion," *Internet News*, January 29. (http://www.internetnews.com/ec-news/article.php/1576331)

Crawford, W. 2004. "Keeping the Faith: Playing Fair with Your Visitors," *EContent*, 27(4), September, 42–43.

Cuneo, A. 2005. "Third Screen Shouts for Upfront Attention: Cell Phone," *Advertising Age*, May 9, S22.

Dahm, T. 2001. "Five Steps to Accessible Web Sites," *E-Commerce News*, June 29. (http://www.zdnet.com/ecommerce/stories/main/0,10475,2781418,00.html)

Daly, J. 2000. "Sage Advice: Interview with Peter Drucker," *Business 2.0*, August 22, 134–144.

Dano, M. 2003. "U.S. Still Largely Left Out of M-Commerce," *RCR Wireless News*, 22(38), September 22, 8–9.

Dayal, S., T. French, and V. Sankaran. 2002. "The E-Tailer's Secret Weapon: Category Management," *The McKinsey Quarterly*, June, 72–79.

Doonar, J. 2004. "It's Not Such a Lonely Planet," *Brand Strategy*, January, 24–25.

Duff, A. 2003. "Lonely at the Top," *Director*, 57(3), October, 78–82.

Eisenmann, T. 2002. *Internet Business Models*. New York: McGraw-Hill.

English, J., K. Garret, and S. Pearson. 2001. TravelLite Project. University of California, Berkeley. (http://www.sims.berkeley.edu/courses/final-projects/travelite/index.htm)

ePayNews.com. 2005. "Statistics for Mobile Commerce," (http://www.epaynews.com/statistics/)

Evans, P. and T. Wurster. 1997. "Strategy and the New Economics of Information," *Harvard Business Review*, 75(5), September-October, 71–83.

Garrity, B. 2001. "Amazon, Handleman Plant Seeds In Crowded Field Of Online Fulfillers," *Billboard*, 113(33), August 18, 47.

Gentzkow, M. 2005. "Valuing New Goods in a Model with Complementarities: Online Newspapers," University of Chicago Unpublished Working Paper, May 5. (http://gsbwww.uchicago.edu/fac/matthew.gentzkow/research/)

Grossman, A. 2005. "Truth and Consequences: Online Dating Services," *Salon.com*, June 25. (http://www.salon.com/mwt/feature/2005/06/25/rating_sites/index.html)

Hellweg, E. 2003. "Do Investor-relations Web Sites Work? A New Study Examines Problems with Information Found on Corporate Web Sites," *CNN-Money*, February 25. (http://money.cnn.com/2003/02/25/technology/techinvestor/hellweg/index.htm)

Hill, A. 2001. "Stop Shopping Cart Abandonment: Top Five Reasons Customers Abandon Shopping Carts," *Smart Business*, February 13. (http://www.zdnet.com/smartbusinessmag/stories/all/ 0,6605,2677306,00.html)

Keighley, G. 2003. "The Secrets of Drudge, Inc." *Business 2.0*, April. (http://www.business2.com/articles/mag/0,1640,47762,00.html)

Kemp, T. 2000. "Wal-Mart No Web Mart," *InternetWeek*, October 9, 1–2.

Kooser, A. 2003. "Signs of Life?" *Entrepreneur*, 31(10), October, 28.

Kotha, S., S. Rajgopal, and M. Venkatachalam. 2004. "The Role of Online Buying Experience as a Competitive Advantage: Evidence from Third-Party Ratings for E-Commerce Firms," *Journal of Business*, 77(Supplement), April, S109–S134.

Lais, S. 2002. "How to Stop Web Shopper Flight," *Computerworld*, June 17, 44.

Levine, R., C. Locke, D. Searle, and D. Weinberger. 2000. *The Cluetrain Manifesto: The End of Business as Usual*. Cambridge, MA: Perseus.

Livingston, B. 2002. "Factiva: 8,000 Publications, 1.5 million Subscribers," *InfoWorld*, May 28. (http://www.infoworld.com/articles/op/xml/02/05/30/020530opsecrets.xml)

Locke, C. 2000. "Smart Customers, Dumb Companies," *Harvard Business Review*, 78(6), November–December, 187–191.

Lorek, L. 2001. "Orbitz Takes Off," *Interactive Week*, 8(21), May 28, 16–19.

Luna, L. 2002. "The M-Commerce M-Plosion: Is There Still Hope?" *Telephony*, 243(12), October 14, 48–51.

Magura, B. 2003. "What Hooks M-Commerce Customers?" *MIT Sloan Management Review*, 44(3), Spring, 9–10.

McLaughlin, K. 2001. "Real Makes Gaming Play: Hopes Its Customer Base Will Pay for Online Diversions," *Business 2.0*, March 21. (http://www.business2.com/ebusiness/2001/03/28783.htm)

Merrick, A. 2002. "Sears' Deal to Buy Lands' End Reunites Stores With Big Catalogs," *The Wall Street Journal*, May 14, A1.

Mullaney, T. 2001. "Orbitz Doesn't Soar," *Business Week*, July 9. (http://www.businessweek.com/magazine/ content/01_29_/b3740621.htm)

Neuborne, E. 2001. "Bridging the Loyalty Gap," *Business Week*, January 22, EB10.

Nielsen, J. 1999. *Designing Websites With Authority: Secrets of an Information Architect.* Indianapolis, IN: New Riders.

Nielsen, J. 2000. "End of Web Design," *Alertbox*, July 23. (http://www.useit.com/alertbox/20000723.html)

Nielsen, J. 2000. "Flash: 99% Bad," *Alertbox*, October 29. (http://www.useit.com/alertbox/20001029.html)

Nielsen, J. 2001. "Usability Metrics," *Alertbox*, January 21. (http://www.useit.com/alertbox/20010121.html)

Nielsen, J. and M. Tahir. 2002. *Homepage Usability: 50 Websites Deconstructed*. Indianapolis, IN: New Riders.

Nielsen, J., K. Coyne, and M. Tahir. 2001. "Make It Usable," *PC Magazine*, 20(3), February 6, IPO1–IPO6.

Nunes, P., D. Wilson, and A. Kambil. 2000. "The All-in-One Market," *Harvard Business Review*, 78(3), May-June, 19–20.

Oliva, R. 2003. "Going Mobile: Quietly, B2B Marketers Are Finding New Applications for Mobile Platforms," *Marketing Management*, 12(4), July-August, 46–48.

Pegoraro, R. 2005. "Priorities for the Store-Shopping List," *The Washington Post*, August 28, F1.

Rayport, J. and J. Sviokla. 1995. "Exploiting the Virtual Value Chain," *Harvard Business Review*, 73(6), November-December, 75–85.

Rich, M. 2002. "Book 'Em: The Internet Introduced a Middleman to the Hotel Industry—Now Hotels Want That Business Back," *The Wall Street Journal*, June 10, R10.

Roth, A. 2001. "Dimon Kills Wingspan; Cost of Brand Is Cited," *American Banker*, 166(125), June 29, 1–2.

Sanderfoot, A. and C. Jenkins. 2001. "Content Sites Pursue Fee-Based Model," *Folio: The Magazine for Magazine Management*, 30(6), 15–16.

Schneider, I. 2002. "Yodlee Adds Business Intelligence to Aggregation," *Bank Systems & Technology*, May 31. (http://www.banktech.com/story/BSTeNews/BNK20020531S0008)

Schwartz, E. 1997. *Webonomics*. New York: Broadway Books.

Schwartz, E. 1999. *Digital Darwinism*. New York: Broadway Books.

Seelye, K. 2005. "Why Newspapers Are Betting on Audience Participation," *The New York Times*, July 4, C2.

Shneiderman, B. 1997. *Designing the User Interface: Strategies for Effective Human-Computer Interaction*. Reading, MA: Addison-Wesley.

Sklar, J. 2005. *Principles of Web Design,* Third Edition. Boston, MA: Course Technology.

Sliwa, C. 2002. "Traditional Retailers Debate Pulling Plug on E-Commerce," *Computerworld*, February 13. (http://www.computerworld.com/managementtopics/ebusiness/story/0,10801,68278,00.html)

Surmacz, J. 2001. "Big Pipe Dreams: Evian Uses Broadband to Create a Web Site That Fits Its Image," *CIOE-Business Research Center*, January 31. (http://www.cio.com/forums/ec/edit/013101_evian.html)

Tedeschi, B. 2000. "Charitable Groups Discover New Revenue in Retailing Goods via Their Own Web Sites," *The New York Times*, March 27, C11.

Tedeschi, B. 2000. "Retailers Are Letting their Right Hand Know What the Left Hand Is Up To for Better Customer Service," *The New York Times*, July 24, C9.

Tedeschi, B. 2005. "New Era of Ticket Resales: Online and Aboveboard," *The New York Times*, August 29, C4.

Totty, M. 2001. "The Consumers' Choice: Why Do Certain Sites Become Favorites? We Went Straight to the Source," *The Wall Street Journal*, December 10, R6.

Vickery, L. 2001. "Keeping the Cachet: Luxury-Goods Makers Want to Jump into the Chaos of Cyberspace Without Sullying Their Images," *The Wall Street Journal*, April 23, R28.

Waldman, A. 2000. "Vanguard Preps Site Overhaul," *Financial NetNews*, 5(46), November 13, 1–2.

Weinberger, D. 1999. "0:1 Marketing," *Journal of Hyperlinked Organizations*, May 20. (http://www.hyperorg.com/backissues/joho-may20-99.html#01)

Weingarten, M. 2001. "Flash Backlash," *The Industry Standard*, March 5. (http://www.thestandard.com/article/ 0,1902,22330,00.html)

Weiss, T. 2000. “Walmart.com Back Online After Four-Week Overhaul,” *Computerworld*, 34(45), November 6, 24.

Williams, T. 2005. “NYTimes.com to Offer Subscription Service,” *The New York Times*, May 17, C5.

Wood, C. 2001. “Collusion in the Air,” *PC Magazine*, 20(9), May 8, 199.

Yudkin, M. 2001. “The Web’s Pipsqueaks Stand Tall,” *Business 2.0*, May 1. (http://www.business2.com/magazine/ 2001/05/webs_pipsqueaks.htm)

Zabbal, C. 2002. “Playing Games With Broadband,” *The McKinsey Quarterly*, June. (http://www.mckinseyquarterly.com/article_page.asp?ar=1196&L2=17&L3=65)

Zeitchik, S. 2003. “New Worlds at Lonely Planet,” *Publishers Weekly*, 250(25), June 23, 12.

Zimmerman, A. 2000. “Wal-Mart Launches Web Site for a Third Time, This Time Emphasizing Speed and Ease,” *The Wall Street Journal*, October 31, B12.