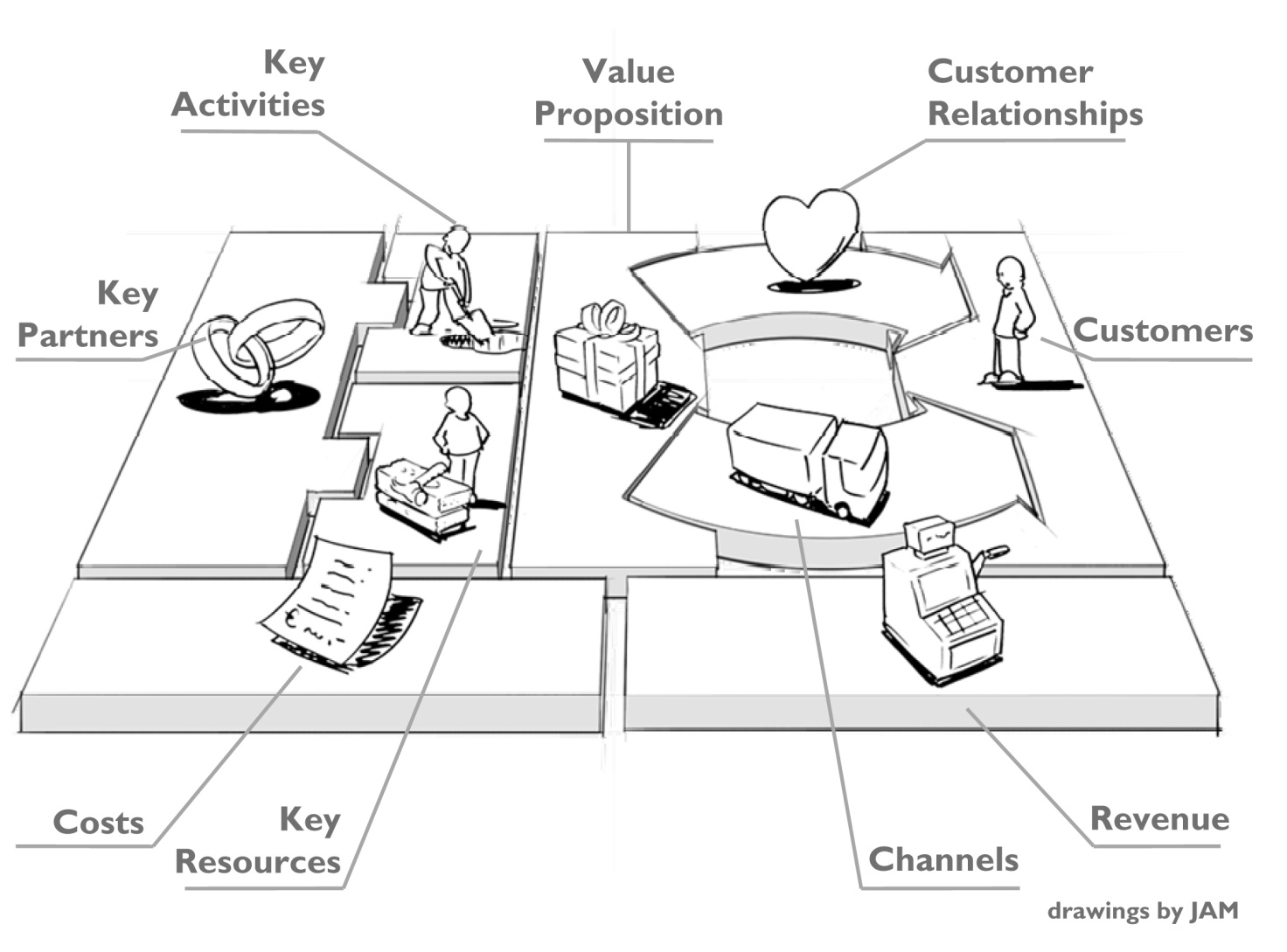
**How to Create a Successful Online Business Model**

* **an Entrepreneurial Perspective**



Anders Teddy Pedersen

Master Thesis

Master of Science in Innovation, Knowledge & Entrepreneurial Dynamics

Aalborg University, January 7, 2014

**Title page**

**No. of characters:** 236,388 (98.49 pages)

**Title: “***How to Create a Successful Online Business Model – an Entrepreneurial Perspective”*

**Hand in date:** 07/01/2014

**Signature**: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Executive Summary**

## Problem Statement:

* *How can entrepreneurs, who want to start an online business, create a successful online business model aimed at customers in the business-to-consumer market?*
* *What is the content of such a business model?*

## Elements of the project:

* Introduction, Methodology, Theory, Business Model Analysis, Conclusion, Reflection, References, and Appendices.

**Methodology**

The Research Strategy of the project will be Inductive and Qualitative. The Research Design is: a Case Study. The data to be collected will be Qualitative Primary Data and Secondary Data. The data will be collected by analyzing already successful online businesses and use them as models for creating a successful online business model.

**Theory**

The purpose of business models is: “To create, deliver and capture value by the use of specific resources, processes and activities in order to make a profit”.

Business models are built on business model frameworks made by academic scholars. One such framework is Osterwalder and Pigneur’s (2010) Business Model Canvas. This framework is suitable for both physical and online businesses.

There are different types of online businesses with different offerings: Virtual Products and Services; Conventional Products and Services; Brokerages; Information, Communication, Entertainment and Gambling; Online Commerce Support Services, Social Media and Networks.

**Business Model Analysis**

To keep the Business Model Analysis from becoming too complex, an online business type must be chosen. The choice in this project is: an E-merchant – which sells Virtual and Conventional Products and Services. The Business Model Analysis will be based on the nine components of The Business Model Canvas: Value Propositions, Customer Segments, Channels, Customer Relationships, Revenue Streams, Key Resources, Key Activities, Key Partnerships, and Cost Structure.

**Conclusion**

Entrepreneurs, who want to start an online business, can create a successful online business model aimed at customers in the business-to-consumer market by: First, choosing a framework on which the business model is built. The Business Model Canvas is a good choice. Second, they have to choose which type of online business they want to start. In the case of an online e-merchant business the key content of an online business model is:

*Value Propositions*

* New Offer, Modified Offer, Identical Offer.

*Customer Segments:*

* Segment Creation with Customer Characteristics used for an Archetype:
  + Geographic, Demographic, and Behavioral
* Segmentation Approaches:
  + Mass Market, Single Market, Differentiated, Diversified, and Multi-sided.

*Channels*

* Distribution = Through a Website; Sales = Through a Website.
* Communication = Awareness and Evaluation = Online Marketing + Through a Website.

*Customer Relationships*

* Customer Service, Trust and Credibility, Reviews and Ratings

*Revenue Streams*

* Traditional Sales of Products and Services, Advertising, Affiliate Marketing, Subscriptions, Consumer Data Sales, Licensing, Renting and Leasing, Usage Rates, and Brokerage Fees.

*Key Resources*

* E-commerce Solution

*Key Activities*

* Online Marketing, Logistics, Website Design

*Key Partnerships*

* Suppliers, Affiliate Websites, Price Comparison Websites, and Investors and Co-founders.

*Cost Structure*

* Budgets:
  + Setup Costs Budget, Operating Costs Budget, Cash Flow Budget, and Sales Budget.

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# 

# 1.0 Introduction

During my entire study career I have always been interested in entrepreneurship and the challenges that this area offers. This interest slowly developed into an interest in business plans and later a profound interest in business models. I am certain that, at some point in my professional career, I want to start my own business. Therefore, it was natural for me to try to combine my interest in business models with my dream of starting a business. Furthermore, I have always found the subject of “online business” interesting but I never knew too much about this niche area. So, based on some of my biggest interests and a desire to acquire new knowledge, I have chosen that the focus of this project will be:

## 1.1 Problem Statement

* **How can entrepreneurs, who want to start an online business, create a successful online business model aimed at customers in the business-to-consumer market?**
  + **What is the content of such a business model?**

With “successful” defined as: the business model enabling the entrepreneur, through his online business, to support himself financially, and the business having potential for growth in size and profitability.

## 1.2 Limitations

Due to page limitations, Social Media Optimization, as an online marketing tool, will not be analyzed in the project. Neither will Public Relations and Viral Marketing in the form of online videos. Tracking and Analytics, of the effect of Marketing, will not be analyzed either – for the same reason.

There will be a description of how to calculate costs in an online business but there will not be made any specified calculations since such calculations are highly individual depending on the concrete business.

Strategy, including competitive strategy, is closely linked to business models but in order to maintain a clear focus on the development of the online business model, strategy/competitive strategy will not be incorporated into the project – It will, however, be mentioned, where necessary, for an understanding of different parts of the project.

# 2.0 Methodology

The purpose of the methodology section is to provide an overview of the research approach of the project. The theory of the methodology is based on Arbnor and Bjerke (1997) and is divided into the following parts:

* Paradigm
* Methodological Approach
* Research Strategy
* Research Design
* Methodics

## 2.1 Paradigm

A paradigm is basically how the researcher behind the project or study views the World. Arbnor and Bjerke (1997) present 6 different paradigms that progress from the 1st paradigm being extremely objective to the 6th paradigm being extremely subjective. Some studies try to explain phenomena by statistics (objective) while other studies try to explain phenomena by understanding the underlying motives of the various actors (subjective). Furthermore, an objective reality is independent in regard to the actors and can be measured no matter what the actors in the reality are doing. A subjective reality is very dependent of the actors and the actors create the reality themselves. A researcher behind a project has to establish how he/she views the World in the light of these 6 paradigms. The researcher of this paper adheres to World View #4:

*Reality as a world of symbolic discourse:*

In this view, the researcher focuses on patterns of symbolic relations and significances that emerge out of human actions and interactions. Reality is an exchange and a question of negotiations. Research is relative and specific to the immediate context (what the content of a successful online business model, serving the B2C-market, is). However, individual definitions and responses may be similar from one case to another; allowing generalized theories to be formulated (choosing a foundational business model framework that can be applied for the analysis of any firm).

## 2.2 Methodological Approach

Arbnor and Bjerke (1997) present 3 Methodological Approaches that the researcher will use as a foundation for his/her study: Analytical Approach, Systems Approach, and Actor’s Approach.

In the Analytical Approach, researchers think that the sum of all parts equals the whole, so identifying each part separately and then adding them together results in an explanation of reality. The most common form of research is quantitative research which can be used for statistical explanations and conclusions.

In the Systems Approach, researchers look at reality as not fully objective but objectively accessible to the observer. Researchers believe that the sum of the parts does not equal the whole because the parts, when combined, *create synergistic effects*. The effects can be positive or negative. So, the knowledge creation is dependent on the specific system.

In the Actor’s Approach, researchers believe that reality is created with intention by the actors and the results differ from each study, so *they cannot be generalized*. The most frequently used research strategy is qualitative research which can clarify motives and feelings toward a certain subject.

In this project, the Systems Approach will be applied. The Systems Approach will be used to analyze which individual elements are necessary, for an entrepreneur, to create a successful online business model and then combine these elements to create *synergistic effects* and a successful online business.

## 2.3 Research Strategy

When analyzing Research Strategy, it is helpful to incorporate three terms: Deductive, Inductive, and Iterative Research. Deductive Research is research that is based on an initial theory and then the researcher tries to prove the theory in practice (formulation of a hypothesis that will be tested in the real world). Inductive Research is research where the researcher starts with surveys or observations and tries to develop a theory based on the results. Iterative Research is a mixture of Deductive and Inductive Research where the researcher shifts between theory and practice.

Research Strategy consists of two major strategies: Quantitative and Qualitative. Quantitative Strategy is objective in its world view and the researcher is external to, and independent of, the actors in the reality. Quantitative Strategy often uses Deductive Research where a theory/hypothesis is tested in practice and the strategy relies on statistics, measurements and calculations. Qualitative Strategy is subjective in its world view and highly dependent of the actors in the reality. It relies on interpretations and understandings, instead of measurements through statistical models. Qualitative Strategy can conduct more detailed research on a subject but cannot collect as many data as Quantitative Strategy.

The Research Strategy of this project will be Inductive because the project starts with research that leads to the formation of a theory: How to create a successful online business model, and Qualitative because the research will be based on detailed analysis of a few successful online businesses and use the findings to determine the content of a successful online business model.

## 2.4 Research Design

When choosing a Research Design (Arbnor and Bjerke, 1997), the researcher can choose between:

* Experimental: Intensive primary data collection
* Cross sectional: Qualitative and Quantitative data collection. Data is collected at a single point in time but with several cases in order to detect patterns between different elements.
* Longitudinal: Data from several studies is collected repeatedly in set time intervals over a specific time period to detect differences between single points in time.
* Case Study: Concentrated analysis of a single unit.
* Comparative: Comparison of two or more cases with focus on various key factors.

The Research Design of this project is a Case Study with focus on one single unit of study = How to create a successful online business model.

## 2.5 Methodics

The purpose of Methodics is to determine what data will be collected for the project and how it will be collected and analyzed.

### 2.5.1 What data will be collected?

The data that will be collected is Qualitative Primary data. The Qualitative Primary data collection is chosen because the project needs data that are specific (Primary): How to create a successful online business model, and detailed (Qualitative): What the content of a successful online business model is. There will also be collected some Secondary data especially from academic articles about business models and business model frameworks, and from books on the subject of online businesses.

### 2.5.2 How will the data be collected and analyzed?

The data will be collected by analyzing the business models of already successful online businesses. The choice of the successful businesses will be based on individual judgments about:

* Their Longevity
* Their Size (Market Span and Employees)
* Their ability to generate Revenue and Profit
* Their Popularity (Alexa Rank or Trustpilot Score)
* Their Professionalism (Prize awards or nominations)

The business model elements of these online businesses will then be used, together with findings from articles and books, to identify the “content of a successful online business model”. The analysis, of the already successful businesses, will be based on a business model framework which will be identified through research of various academic articles on business models and business model frameworks.

The successful online businesses, used as models, are presented in the appendices in chapter 8.0.

# 3.0 Theory

The purpose of this chapter is to provide some background knowledge of what a business model is and how it is used in a business context. This information will serve as a foundation for a full understanding of the in-depth analysis, and the creation, of a successful online business model which will be the main theme of this project starting in chapter 4.0. The background knowledge will be based on the author of this project’s past experiences in working with business models and it will be supplemented with the work of acknowledged, academic scholars within the field of business models. The chapter consists of four sub-chapters: What is a Business Model? Business Model Frameworks; Types of Online Businesses; and Types of Online Business Models.

## 3.1 What is a Business Model?

*“A business model describes the rationale of how an organization creates, delivers, and captures value”.* This definition comes from Osterwalder and Pigneur (2010) and is one of a whole list of definitions of what a business model is. Another one is Johnson et al’s (2008): *“The business model fulfills a potent value proposition in a profitable way using certain key resources and key processes”*. Chesbrough’s (2007) contribution to a definition is: *“a business model performs two important functions: value creation and value capture[…]it defines a series of activities[…]which will yield a new product or service in such a way that there is net value created[…]Second, a business model captures value from a portion of those activities for the firm developing and operating it”.* Teece (2010) formulates it this way: *“The essence of a business model is in defining the manner by which the enterprise delivers value to customers, entices customers to pay for value, and converts those payments to profit[…]It thus reflects management’s hypothesis about what customers want, how they want it, and how the enterprise can organize to best meet those needs, get paid for doing so, and make a profit”.* Shafer’s (2005) definition is: *“[A business model is] a representation of a firm’s underlying core logic and strategic choices for creating and capturing value within a value network”*.

When looking at the definitions above, it is obvious that they are different but still there is a pattern pointing at a common direction. This pattern points toward the keywords:

* Value – Creating, Delivering, and Capturing
* Resources, Processes, and Activities
* Profit

So, a business model is about creating, delivering and capturing value by the use of specific resources, processes and activities in order to make a profit. This definition is not necessarily better or worse than the definitions already presented but it answers the question “what is a business model?” without just regurgitating one of the existing definitions. When deciding on what definition to use, it will depend on the business model framework that is chosen as a basis for further analysis. Business Model Frameworks are presented later in this chapter.

There are other definitions, in other academic papers, than the ones presented but the ones described above comes from five highly acknowledged scholars within the field and there is so much coherence between their definitions that it must be assumed that choosing one of these five definitions – or synthesizing one from them – is a safe starting point for progressive analytical work with business models.

### 3.1.1 Business Models in a Business Context

Now we know what a business model is but how is it used in a business context? In a company, a business model is a tool used by executives. A business model is not “strategy” in itself but a part of “strategy”. The illustration below roughly shows where a business model fits into a company’s hierarchical setup:

1. Vision, Mission, Objectives (Values and Policies)
2. Strategy (Overall Corporate Strategy, Competitive Strategy, Balanced Scorecard)
3. Business Model (Value Chain Components)

A company has usually defined a Vision, a Mission and some long and short term Objectives. Supplementing these, the company has a set of Values and some company Policies serving as guidelines in the process of reaching the Objectives and fulfilling the Mission. The company’s Strategy is the direction for reaching the Objectives and is comprised of the Overall Corporate Strategy, a Competitive Strategy and, in many cases, the use of a Balanced Scorecard (Kaplan and Norton, 1996) for evaluation of the progression and implementation of the Strategy. A business model is used as a strategic tool for figuring out how to combine the different elements of the complete Value Chain in order to: create, deliver, and capture value, make a profit and meet the Objectives. A good argument supporting that business models is only part of strategy and not strategy itself is that the use of a business model framework as a tool is a conscious choice made by executives on the strategic level in the same way they choose to use a Balanced Scorecard as a tool. In some cases, companies do not consciously decide upon using a business model framework but a company always has a business model. In this case, the use of a business model is a *subconscious* part of strategy.

The short list outlined above is not supposed to serve as a complete picture of how a company is structured nor as a detailed explanation of all the strategic elements of a company. It is merely supposed to give an impression of how a business model is used together with other executive tools in a company’s decision-making process thereby provide a clearer understanding of the use of the content of this paper.

## 3.2 Business Model Frameworks

When looking into the field of “business models” it becomes clear that there is no consensus of one single framework depicting what constitutes a business model. In fact, the definitions mentioned earlier in this chapter are all linked to different frameworks made by the authors of these definitions. These frameworks have different components depending on the world view, field of expertise, past experience etc. of the various scholars. As with the definitions, the frameworks of the five academic sources mentioned earlier (Osterwalder and Pigneur, 2010; Johnson et al, 2008; Chesbrough, 2007; Teece, 2010; Shafer, 2005) is quite coherent in terms of the components that constitute the frameworks. The frameworks are set up in different ways and different weight is put upon the various components. The important thing for a researcher who wants to make use of one of these frameworks is to look at the overall goal of the research, compare it to the different frameworks and see which one fits the research, and the researcher, best. The most important consideration here is perhaps whether to integrate “competition” into the business model. Shafer (2005), Chesbrough (2007) and Teece (2010) make “competition” an integral part of their business model frameworks while Osterwalder and Pigneur (2010) and Johnson et al (2008) leave it out of their frameworks. In fact, Teece (2010) uses Competitive Strategy as the foundation for creating and differentiating and establishing links from competitive advantages to the business model. If a company operates in a business environment characterized by many competitors and fierce competition, it might prove advantageous to integrate “competition” into the business model to make sure that competitive concerns is taken into account in all relevant business model components. If the company’s business environment is less competitor-oriented – e.g. using a Blue Ocean Strategy (Kim and Mauborgne, 2005) – it might not have the need to integrate “competition” into its business model but can rather deal with “competition” as a separate strategy. From an entrepreneurial perspective, the entrepreneur – with an idea for a new venture – might benefit from separating “competition” from the business model initially in order to maintain a clear focus on the development of the business idea. A scenario could be:

* The entrepreneur focuses on developing a sustainable business model and then looks into competition afterwards. The result could be that there are no real competitors – it which case it would have proven unwise to try to incorporate “competition” into the business model – or the result could be that the business model needs configuration because it resembles the competitors’ business models too much.

A second scenario could be:

* The entrepreneur looks at competition first and then tries to configure the business idea until it has reached a level of differentiation that will create a sustainable competitive advantage – in both scenarios “competition” is treated as an element separate from the business model.

### 3.2.1 Existing and New Frameworks

Another consideration, when working with business model frameworks, is whether to use an existing framework, merge different frameworks, or create a new? It might sound tempting to create a new framework suited specifically for the research at hand but unless the researcher is at a highly advanced stage in his/her study of business models he/she should be careful to just start throwing varying components into a mix. The components of the earlier mentioned frameworks are put together in order to create a complete model with a high degree of coherence and synergistic effects. The presented authors are masters within the field and there is a great portion of background knowledge, experience, and constructive criticism, from fellow academic scholars, backing their frameworks. So, before an advanced level of knowledge – in the field of “business models” – is reached, it is advisable to not start creating a completely new business model framework.

What about mixing different frameworks? If one framework has a component that a second framework does not have, it would be possible to merge the component from the first framework into the second framework. The advice here is to keep it simple. Trying to mix two complete frameworks would most likely be too complex and many of the components would be repeated in the merged framework under slightly different names. Again, care must be taken to make sure that coherence and synergy is maintained when merging components and it would be advisable to use one framework as a core framework and keep the merge to only one or a few components.

The last option is to use an already existing framework and this choice is undoubtedly the simplest and safest option. As mentioned earlier, the consideration here is to evaluate which framework suits the research, and the researcher, best.

### 3.3.2 Different Frameworks for Physical and Online Businesses?

It might be natural for a researcher to ask the question: Are there any business model frameworks more suitable than others for analyzing online businesses? When looking at the presented frameworks, they all encompass all the relevant components for creating, capturing and delivering value and make a profit doing so. The frameworks were most likely not made specifically for online businesses but the underlying core concepts of doing business are the same whether it is an online business or a physical business. There are some elements of an online business that is not relevant for a physical business but these elements will be analyzed when the overall analysis of the different components of the business model framework is conducted. The frameworks already presented will therefore all be usable in analyzing both online and physical businesses and it seems that no single framework is better than the others at analyzing online businesses.

## 3.3 Types of Online Businesses

When trying to create a successful online business model, it would be beneficial with an overview of the different kinds of businesses operating on the Internet. It is impossible to list every kind of business in existence on the Internet – with all their variations and individual traits – since this number would amount to hundreds of thousands. Instead, a rough categorization of different, main types of businesses will be presented. The list is not a full comprehensive list covering all types of businesses on the Internet but a guide to the possibilities of conducting business online. The list will primarily concern businesses, and their products and services, in the business-to-consumer market but some businesses might overlap into the business-to-business market.

### 3.3.1 Virtual Products and Services

These businesses offer products and services with some sort of digital content that is used exclusively via digital technology from the customers’ home computers. Below is a list of products and services in this category:

*Virtual Products:*

* E-books (scribd.com and ebook.com), Audio Books, Instructional Videos (Yoga), Software (mcAfee.com), Music (Spotify.com), Games (World of Warcraft), Streaming Television (TV2 Play), Movies and TV Series (Netflix), Information Storage (Adrive), Communication (Skype), eCourses (Rosetta Stone).

E-books and Audio Books are offered by individual authors, through their websites or their blogs, but also through websites like scribd.com and ebook.com. Scribd.com is a commercial online library that offers the possibility of reading, for free, a large selection of e-books and documents on their website while charging a monthly fee for downloading the books and for access to best-selling books, new releases and premium documents. E-books.com offers customers a variety of e-books at low prices for instant downloading. Instructional Videos could be yoga classes or martial arts training that can be accessed by the customer, on the business’ website, upon paying a fee. Software can be all sorts of computer software that is paid for and downloaded. McAfee.com offers computer security products e.g. antivirus and antispyware. The software is downloaded instantly and customers pay an annual fee for complete computer protection. Spotify.com offers access to a huge library of digital music and customers can choose to access the music for free or choose to subscribe in order to avoid advertisements and being able to download and play the music on different kinds of media. Online Games are huge games with thousands, or hundreds of thousands, participants from all over the World. The players typically pay a subscription fee for playing the game. World of Warcraft is probably the best known of these games. Streaming television is an alternative to traditional TV packages. TV2 Play offers customers – who pay a monthly fee – access to all the TV station’s live channels on the customers’ home computers instead of using a traditional TV. Netflix.com also offers streaming but instead of offering live TV, from various stations, it offers unlimited access to a large selection of TV series and movies for which it charges a monthly fee. At adrive.com customers can store large amounts of data and for a monthly fee they get access to even more storage space and some advanced functions. Skype.com offers online communication with other Skype users and for a monthly fee customers gain access to low prices on land line calls and mobile calls all over the World plus some other features. E-courses are courses that are taken digitally. An example is The Rosetta Stone which is a language course system that is downloaded and then the customer is guided through a large variety of language exercises.

*Virtual Services:*

* Coaching (Lifestyle Coach), Consulting (Dating Skills), Teaching (Guitar Lessons), Education (Distance Learning Programme, coachcademy.com), Speaking (Personal Development), Webinars (Presentations, Workshops), Freelancing (Text Writing, Graphic Design).

Coaching is offered to customers that need advice and guidance in their lives. It could be coaching in how to develop a better lifestyle or how to reach certain goals. The coaching happens online via video chats and email. Consulting is oriented at providing customers with specific skills. Love Systems.com offers customers, mostly men, advice and guidance on how to be better with women and how to create an interesting dating life. The communication happens by video chats and e-mail and can be supplemented with telephone calls. Teaching is quite similar to consulting but there is usually some kind of practical demonstration involved when teaching whereas consulting is more verbally oriented. Guitar lessons could be an example of online teaching. Online Education is basically an education taken online instead of going to a physical class. Coachacademy.dk offers coach educations which are conducted exclusively online. Students read material, take tests, and go to exams on the Internet – and when they pass they get a diploma or certification. The difference between these four Services (Coaching, Consulting, Teaching, and Education) and the eCourses mentioned above is that these Services has an interactive element where customers get to ask questions or ask for elaboration on a subject whereas eCourses have a fixed content and no possibility for interaction with anybody. Speaking can be about every subject of interest to customers and Webinars can be presentations, workshops etc. done online instead of in conference room. Speaking and Webinars might, in some instances, require the speaker to have access to some physical facilities (whiteboard, projector + canvas etc) moving the business a bit away from being purely digital. Freelancers are individuals that do ad hoc assignments e.g. text writing for ads and commercials or graphic designs for different campaigns. Freelancers have their own websites or can be reached through a website such as freelancers.com which charges commission if a contract is setup between the customer and the freelancer.

### 3.3.2 Conventional Products and Services

The businesses in this category offer conventional products that are traditionally offered by physical businesses. The products are offered online and then sent to customers upon ordering. The services are traditional services that are possible to conduct online instead of IRL – plumbing, massaging and childcare, for example, are not suitable as online services.

*Products:*

* Physical Merchandise
  + Books, Electronics, Clothes, Flowers, Groceries, Pizza + Delivery, Tools, Makeup, Pharmaceuticals etc.

Practically, all types of physical products, which are suitable for sending by mail or for personal delivery – considering delivery costs – belong in this category. Even perishable products, such as flowers and food, can be ordered online because of same-day deliveries. Products of very low value, in very low quantities (e.g. a pack of cheap toothpicks), are not suitable for online trade since delivery costs would surpass the costs of the products. Products with relatively low value and high weight – e.g. stone bricks – are probably not suitable either as pure online products because of the high delivery costs charged by the courier.

*Services:*

* Financial Services
  + Online Banking, Insurance Evaluation, Real Estate Selling (robinhus.dk), Financial Investment (nordnet.dk), Tax Preparation etc.
* Other
  + Travels, Legal Counseling, Ticket Ordering, Translation, Mobile Subscription etc.

Many financial services can be carried out online. Online Banking has almost replaced the need for physical visits to a bank – perhaps with the exception of the need of a physical signature when signing a contract or participating in an important meeting. Insurance companies do complete insurance analyzes, and offer customized insurance packages, on the Internet and the process of buying or selling a house can also – to a large degree – be done online. Financial Investment is a 100 % online activity and Tax Preparation can also be performed exclusively on the Internet.

The remaining services in this category are basically all kinds of traditional services that are suitable for offering online. The list above is not exhaustive and the dividing line between whether a particular service is a traditional service or virtual service might be floating.

### 3.3.3 Brokerages

The most basic description of Brokerages is that they are businesses that somehow bring buyers and sellers together and help facilitate transactions. The examples below are some very common types of online brokerages. Actually, financial investment, e.g. stock brokers, and online buying and selling of real estate as described above, are also brokerages but there will always be some kind of overlap when creating categories and in order to maintain an overview, the businesses will not be listed twice.

* Online Auctions
  + Ebay.com, lauritz.com
* Virtual Marketplaces
  + Amazon.com, yahoo.com, ebay.com, groupon.com
* Online Trading Communities
  + Dba.dk, pensum.dk
* Price & Product Comparison
  + Pricerunner.com

The first types of businesses are Online Auctions. An online auction invites sellers of a product, or service, to use the business’ website as a platform for displaying the sellers’ products and set a price and then buyers have the opportunity to place bids in order to acquire the products. There are different models of how the auction is structured e.g. English Auction, Dutch Auction, First-Price Sealed-Bid etc. Ebay.com is one of the World’s biggest online companies[[1]](#footnote-1) and its core business is online auction. It makes profit by taking a percentage of the final agreed price of the product when each individual auction is done. Online auctions are generally consumer-to-consumer platforms but can still be categorized as business-to-consumer businesses because they involve consumers and there is a profit to be made.

Virtual Marketplaces are online marketplaces where a high variety of different businesses are gathered in one place – the equivalent of a mall IRL. An example of a virtual marketplace is amazon.com. Amazon is the World’s largest online retailer[[2]](#footnote-2) which started selling books online but has since expanded its business immensely. Amazon, among other things, offers merchants to have their products displayed on amazon.com where there is a huge amount of consumer traffic. Amazon charges the merchants a fee for being listed on its website. Groupon.com is a slightly different form of virtual marketplace. Groupon offers daily deals with large discounts to customers. The deals are based on agreements with different merchants and in return for the discount the merchants receive payments from e.g. 300 customers in one sale instead of one customer at a time. The merchants and Groupon then splits the profit.

Online Trading Communities are online trading platforms where buyers and sellers can conduct transactions in an organized manner – the equivalent of a flea market in the real world. Online trading communities are consumer-to-consumer markets but businesses can make profits from providing the platform and then charging a fee, usually from buyers, for immediate access to contact information of the sellers. In contrast to online auctions, the prices on online trading platforms are usually fixed and are only changed by negotiation and not public bidding – and there are no percentages of the sales prices for the businesses that provide the platforms.

Price & Product Comparison websites help consumers compare prices on the same products, or compare different products, from different merchants. These websites are generally not business-to-consumer websites, in terms of profit generation, since it is free for consumers to use the services. Instead, these websites make profits from merchants listed on the site – either by a fixed monthly fee or a fee every time consumers click on a link to the merchants’ websites. Still, the websites serve consumer needs, even though their profits come from other businesses, and are therefore listed in this category.

### 3.3.4 Information, Communication, Entertainment and Gambling

The businesses in this category aim at providing consumers some kind of information, the ability to communicate, or some kind of casual entertainment or gambling.

* Information:
  + Search Engines, Blogs, Content Websites, Review Sites, Forums
* Communication:
  + Email Services, Real Time Communication (Skype, Yahoo Messenger)
* Casual Entertainment:
  + Porn Sites, Dating Sites, Online Games, Casual Chat Rooms, Videos (failblog.com), Pictures (9Gag.com), Celebrity Gossip etc.
* Gambling:
  + Online Casinos, Poker Sites, Bookmaking

Consumers on the Internet are, to a high degree, used to accessing most Information on the internet for free. Therefore, it is very difficult to directly profit from information in the business-to-consumer market. A possibility for making a profit from information – although in an indirect way – is to create a Content Website with information that attracts a good amount of readers and then charge other businesses for advertising of their products or links to their websites. The profit then comes from other businesses but the audience is still consumers.

Entertainment on the Internet is also often based on advertising for profit generation. Porn sites, for example, usually allow users access to small samples of their movies and then charge consumers if they want to see the whole movie. Subscriptions to the porn sites’ content are also a way of making profit – so is advertising and linking. Dating Sites make profits from subscription mixed with advertising. Websites with free games, videos and pictures usually make profit from advertising and linking and sometimes charge a fee for access to “premium content”.

Gambling Sites have a more direct way of creating profit. Online Casinos create a profit the same way traditional casinos do: Ensuring a “house edge” so that the long term odds are in the casinos’ favor. Poker Sites take a tiny percentage on the prize pool of each card game and Bookmakers set their odds slightly lower than their true value and are, hence, ensured a long term profit.

### 3.3.5 Online Commerce Support Services

Businesses in this category offer services that help facilitate electronic commerce. The major part of these services belong the realm of the business-to-business market but a few of them belong to the business-to-consumer market. The consumer Commerce Support Services have typically something to do with payment and money transactions.

* Paypal.com, alipay.com, Western Union, Money Gram.

Paypal.com is a payment service that offers consumers a safe and reliable way of transferring money – either from one consumer to another or from a consumer to an online business. PayPal offers a secure platform and a system where customers can transfer money without revealing their bank accounts or their credit card information. PayPal also offers buyer protection and seller protection so that the buyers receive their products – or get their money back – and the sellers receive their money if the product is sent.

**3.3.6 Social Media and Networks**

The businesses in this category usually provide a peer-to-peer platform and earn their profits from advertising, linking or selling consumer info to other online businesses.

* Facebook, Twitter, LinkedIn, Pinterest, Tumblr, Instagram, Flickr, Youtube.

As an example, Facebook.com offers its users interaction, file sharing, photo sharing, activity updates, chat etc. with other users from all over the World and all functions are free of charge. The way it earns money is through highly customized advertising, sale of different applications, and by selling user data to other online businesses or marketing bureaus. Most of the other social media sites are niche variants of the Facebook model. Twitter.com is a site where users can post what they are doing here and now. Linkedin.com is about business affiliations, Pinterest.com is about making virtual pin boards that can be shared with other users, Youtube.com is video sharing site and Instagram.com and Flickr.com is about photo sharing between users.

There may be even more categories of online businesses than the ones listed but the above categorizations provide a good starting point for understanding various online business options.

## 3.4 Online Business Models

There exist a great number of – successful and unsuccessful – business models and it is not the intention of this section to provide an exhaustive list of every business model in use. The intention is to present some of the most well-known and successful online business models used by business-to-consumer businesses in 2014 as identified by various academic scholars. Some of the business models presented might also be applicable to physical businesses.

### 3.4.1 Multi-sided Platforms

Multisided Platforms (Eisenmann et al, 2006) are basically online platforms that link two different groups of customers together. Value is created by facilitating some kind of interaction between the two groups. The customer groups are interdependent meaning that both groups are needed in order to create value via the platform. A crucial dilemma for multi-sided platforms is that the value of one customer group is usually decided by the number of customers in the other customer group. An example of a multi-sided platform business model is online auctions e.g. eBay. Ebay.com is an online platform where buyers and sellers, of various products, can interact and conduct sales transactions. However, if eBay wants to attract any sellers to its website, it must be able to connect the sellers with potential buyers and preferably a good amount of buyers – since it is an auction with a competitive buying element. On the other hand, eBay has to have a good amount of products i.e. sellers to offer to the buyers – otherwise the buyers will not be interested in visiting the website. This dilemma is always present with multi-sided platforms. One way to solve this dilemma is to attract one of the customer segments with a low-cost or free value proposition and then the revenue generated from the other segment helps subsidize the first segment. In the example of eBay, buyers can use the platform for free and there is no auction fee or other costs. Sellers, however, pay eBay a listing fee for the products they wish to sell and a final sales fee when a closing price has been reached. In this way, sellers subsidize buyers’ free access to the platform since there are costs associated with running and maintaining the platform both concerning the sellers and the buyers.

Another example of a multi-sided platform is PayPal. PayPal offers buyers and sellers of a product a secure way of conducting payments and money transfers. However, in order to convince buyers to use PayPal there has to be enough sellers that also use the service – otherwise the transaction cannot happen. PayPal has, however, found a way to make profits from both sides of the platform – buyers and sellers – by charging both a transaction fee and offer a value proposition of “secure transactions”.

BT is a very popular newspaper in Denmark which also operates with an online version of the newspaper. Its website bt.dk is also a multi-sided platform. BT charges its readers a monthly subscription fee (users) and charges companies an advertising fee for having advertisements displayed to the readers.

Generally, all brokerages, as described earlier, are multi-sided platforms because of their core business of bringing buyers and sellers together. Also, dating sites charge members a monthly subscription fee and is dependent on a group of male customers and a group of female customers.

Some important assessments to make, for a business deciding on whether to create a multi-sided platform, are to analyze whether it is possible to attract enough customer to each side of the platform and to judge whether one customer group should be subsidized by another. And, if that is the case, if the revenues of the first customer group can cover the subsidizing costs of the other customer group.

### 3.4.2 Free Business Models

Free Business Models (Anderson, 2008) can be divided into three different sub-models: Advertising, Freemium, and Bait & Hook. Free business models offer one or more customer segments the possibility of using various services or products for free. The free offer directed at one customer segment is financed by another customer segment. The trick with free business models is to figure out how to make free offers and still generate sustainable revenue.

#### 3.4.2.1 Advertising

Is a business model based on a specific type of Multi-sided Platform. The idea is to offer a form of platform, for free, to one customer segment – usually consumers – and then charge the other customer segment – usually businesses – for advertising space on the platform. The purpose is to generate a high degree of consumer traffic to the platform since the higher this traffic is the more interesting the platform is for advertisers and the more advertising fees the business owning the platform can charge. This business model is especially useful for online businesses since the marginal costs of letting one more customer use the platform are typically very low. The characteristic of a Multi-sided Platform based on the Free, Advertising concept compared to Multisided Platforms in general is that a Free Advertising platform invites one customer segment to use the platform free of charge – while the other customer segment pays – whereas on Multi-sided Platforms in general, both customer segments can, but not always will, be charged and generate revenue.

One of the most successful online businesses, Google, uses an Advertising business model. Google offers its users the possibility of using its search engine platform to find relevant websites on the Internet. This offer is completely free of charge. The fact that the offer is free, and that Google has a very distinct algorithm that makes its search engine superior to other companies’ search engines, results in very high user traffic. This high degree of user traffic means that companies are very interested in promoting their website, brand etc. on Google’s website because of the high level of exposure and, in turn, it means that Google can charge companies relatively high advertising fees. Google charges companies by selling different keywords to the highest bidder = AdWords. When a user then types that keyword into the search field, the company’s website will be listed at the very top on page one on Google’s search result page. Since it is crucial for Google’s business model to have a huge pool of users, the company continually develops new ways of attracting users to its website. They do this by offering numerous services for free: e-mail (Gmail), maps (Google Maps), translation (Google Translate), photo sharing (Picasa), web browser (Google Chrome), social networking (Google+), mobile apps (Google+ Mobile App) etc.

Practically all of the major social media & network sites use the advertising business model. Facebook, Twitter, MySpace, YouTube, Pinterest, Google +, LinkedIn etc. While advertising is usually the core revenue source on these platforms, many of the businesses are stretching beyond advertising and incorporating new revenue sources. Facebook, for example, sells consumer data to marketers, and LinkedIn has experimented with using their platform for business-to-business research and offering sponsored updates for users who want more heavy exposure on the platform.

Websites containing various kind of interesting information usually offer this information to readers for free and instead charge advertisers for advertisements relevant to the content on the website. Entertainment websites, with free offers, also generates revenue from advertising. The same is true with most blogs and niche sites that have a fair amount of user traffic.

#### 3.4.2.2 Freemium

The Freemium[[3]](#footnote-3) business model is similar to the Advertising model in that a large group of users have free access to a website and most of its services. Besides the large group of non-paying customers, there is also a small group of paying customers. This group has chosen to pay for access to premium content on the website and the revenue from this group must cover the costs of serving all customers using the website – both paying and non-paying. The model is particularly suitable for online businesses since the marginal costs of letting one more customer use the website services, or letting one more customer download a digital product, for free are, usually, very low. The important questions when applying a Freemium business model are: What are the average costs of serving non-paying customers? And: How many percentages of the, initially, non-paying customers convert to paying customers? These answers can be used in determining whether the relatively small amount of paying customers can cover the costs of non-paying customers, paying customers, and create a profit.

Many online businesses offering computer software have applied the Freemium business model. An example is Avast which offers customers computer protection in the form of antivirus, antispyware, firewall etc. Avast gives customers the opportunity to download a basic antivirus package for free but if customers want more protection, than the free package can provide, they can choose to buy various premium packages with more advanced protection and higher prices depending on the content in the packages.

Flickr is an example of an online platform that uses a Freemium business model. Flickr is a mix between a photo sharing site and a social network. Users have free access to a limited amount of storage space and uploads and if they need more than these basic features they can subscribe to a premium account and receive unlimited storage space and uploads for the photos. This could be relevant for semi-professional photographers, freelancers etc.

Adult entertainment websites are very often based on a Freemium business model. They provide a small part of their videos for free and then customers can choose to subscribe to gain access to the websites’ full library of videos.

Smaller online games also use a Freemium model. Users are granted free access to play the games but have to subscribe if they want to play multi-player, gain access to more levels, have their high-scores displayed etc.

A slightly different variation of the Freemium business model is open software such as Linux. Open software is free to use for everybody but if professional users are to apply it in their organizations, they could be concerned about the functionality and the need for expert help in case something went wrong with the software. Redhat is an online business that has specialized in offering a guaranteed stable version of various kinds of open software and in providing customer service and expert help in case the user experiences problems. Instead of selling or licensing the software – which is free – Redhat charges a subscription fee for their professional services, software maintenance and updates.

A final example of a Freemium business model is the online communication platform Skype. Skype offers users national and international voice and video calls to other users with a Skype account. These calls are completely free of charge. If customers want to call mobile phones or landlines, at a very low rate, through their Skype account, they have to subscribe to a premium account which also gives access to others features such as phone conferences, and multiple-person video calls.

#### 3.4.2.3 Bait & Hook

Bait & Hook[[4]](#footnote-4) is a business model without as many characteristics for online application as the Advertising and the Freemium model. The way the model works is that the business offers an initial product (bait), either free of charge or at a very low price, and then makes a profit from the sales, or subscriptions, of subsequent products or services (hook). The best know example of this model is probably Gillette (Razor and Blades business model) which offers its popular shaving handles at a very discounted price – i.e. it does not make a profit on selling the handles – and then it makes its profit from selling disposable razor blades, for the handles, with a high margin.

An online example of the Bait and Hook business model is online telecommunication businesses. These businesses usually offer mobile phones for free, or at a very low price, and then they make a profit from the subsequent subscription fees, for calls and data traffic, that customers are obligated to pay for a certain amount of time – usually six months as a minimum. The businesses then hope that the customers will continue their subscriptions after the mandatory subscription period has ended.

### 3.4.3 Long Tail Business Models

A Long Tail business model (Anderson, 2006) is based on a principle of offering a large variety of niche products that sell on a relatively infrequent basis instead of offering a smaller variety of highly successful products that sell in great numbers. The compounded value of the sales of the niche products can exceed the value created by the sales of the few popular products. IT and the Internet have greatly contributed to the emergence of this business model because they allow online businesses to have a very large selection of products without the same large inventory costs – this is especially true for digital products. The Internet has also provided buyers and sellers of niche products and services a free means of connecting with one another by the use of various search engines, forums, social networks, recommendation sites etc.

The online DVD rental and streaming business, Netflix, employs a Long Tail business model. The DVD rental part of its business offer customers the possibility of having DVD’s delivered in their mailboxes for a monthly subscription. The customers can watch and unlimited amount of DVD’s but they can only have 1-3 DVD’s in their possession at any given time. The DVD selection is based on some blockbuster movies which are in popular demand but also a huge variety of niche movies which are in lower demand. However, the selection of the lower demand niche DVD’s provides Netflix’s customers access to movies that competitors – such as Blockbuster – cannot offer and, in turn, generates compounded revenue for Netflix.

Ebay.com, as mentioned earlier, uses a Multi-Sided Platform business model but it also uses a Long Tail business model. Instead of picking popular products for its auction, eBay allows almost all kinds of niche products to be sold on its website. These products might not be in high demand but there are still customers out there interested in buying them. eBay then makes a profit from auction fees on these niche products.

YouTube also offers its users a huge amount of niche products. Some videos on youtube.com are watched hundreds of millions of times while others are watched under a hundred times. Youtube.com does not charge anything for watching the videos but the concept, with niche content and few views, is still a Long Tail.

## 3.5 Context-Dependent Business Model Analysis

Before conducting an in-depth analysis of how to create a successful online business model, it is important to look at the context in which the analysis will take place. The following contextual questions can help clarify the direction of the analysis: On what level will the business model be analyzed? What type of business is the subject of analysis? And: What framework will be used? The answers to these questions will help the researcher maintain a clear focus and the two following sections will provide these answers.

### 3.5.1 Level of Analysis and Business Type

When performing an analysis of a successful online business model, a decision about the level of analysis has to be made. Will the analysis be based on one specific business idea – e.g. a case on how to start an online wine store – or will it be based on application to businesses in general? While it may be possible to provide more concrete results if the analysis is based on a specific business idea, it may also result in an analysis that is difficult to apply to another business idea because the analysis is too specific. The idea with this paper is to present an analysis that is applicable to businesses in general and it will therefore not be based on a specific business idea.

After the initial theoretic analysis here in chapter 3.0, and especially the definitions of various business types, it is clear that the creation of a single business model, that will cover all types of businesses, is an extremely difficult task. The success factors for an online business selling products and services are markedly different from the success factors for an online business that focuses on brokerage, an online business focusing on information or entertainment, or a business based on a social network. A business selling products and services will have to focus heavily on how to attract customers to its website, how to convert the visiting customers into paying customers, customer service, how to deliver the products etc. An information or entertainment business – which often offers content for free – has to be more focused on the content of the website and how to create a huge amount of user traffic. A business based on a social network has to focus intensively on the platform itself and all its features. While it, theoretically, would be possible to incorporate all major types of businesses into an analysis of how to create a successful online business model, the complexity of such an analysis will most likely be of such heights that confusion, rather than clarification, will be the dominant element. For that reason, a choice of business type will have to be made. The business type that the business model analysis in this project will be based upon is an:

* E-merchant = an online business that sells products and services, whether they be physical or digital, to consumers via the Internet.

### 3.5.2 Choice of Business Model Framework

In order to perform an analysis on how to create a successful online business model, a business model framework has to be chosen to serve as a foundation of the analysis. Five business models were presented earlier in this chapter: Osterwalder and Pigneur (2010), Johnson et al (2008), Chesbrough (2007), Teece (2007), and Shafer (2005). These business model frameworks are quite similar in their definitions and their components so the decision about which framework to choose might be relatively arbitrary. The framework that will be used in this project is:

* Osterwalder and Pigneur (2010)

The main reasons for this choice are, first, the fact that the authors separate competition from the business model creation – which can be an advantage e.g. if there is no competition for the business about to be started – and, second, the thorough explanations of the different components in the business model framework, and the synergy between them, that Osterwalder and Pigneur (2010) provide. Their framework is simple to understand, seems simple to employ, and there is consistency between the interrelations of the 9 parts of the framework. The framework is depicted below:

Figure : The Business Model Canvas

### http://www.zebramc.com/wp-content/uploads/2012/02/bmcanvas-basic-model3.jpg

Source: Osterwalder and Pigneur (2010)

Figure 1 shows Osterwalder and Pigneur’s (2010) business model framework which is called The Business Model Canvas. The framework is divided into 9 parts:

* Customer Segments
* Value Propositions
* Channels (Distribution, Sales, Communication)
* Customer Relationships
* Revenue Streams
* Key Resources
* Key Activities
* Key Partnerships
* Cost Structure

These nine components cover the four main areas of a business:

* Customers (Customer Segments, Channels, Customer Relationships)
* The Offer (Value Propositions)
* Infrastructure (Key Resources, Key Activities, Key Partnerships)
* Financial Viability (Revenue Sources, Cost Structure)

The nine components will be explained individually when each component is analyzed in chapter 4.0. The Business Model Canvas can be divided into a “right” and “left” part. The right part of the Canvas are the downstream activities of the value chain = the “selling” part. The left side of the Canvas are the upstream activities of the value chain = the “creating/production” part. Osterwalder and Pigneur (2010) suggest the following mode of progression when working with the Canvas:

First we have to figure out what Customer Segments we want to serve. Then we have to establish the Value Propositions that we want to offer to the Customer Segments. After that we need to examine which Channels we want to use to reach the Customer Segments. Then we have to look into what kind of Customer Relationships we want to build with our Customer Segments. Next, we want to figure out what our Revenue Streams are and how we can create a profit from the Value Propositions. Then we need to examine what Key Resources we need – to perform the Key Activities necessary to create the Value Propositions and deliver them to the Customer Segments. After that we want to look at what Key Partnerships have to be established to acquire the Key Resources, perform the Key Activities, create the Value Propositions, and serve the Customer Segments. Finally, we have to analyze the Cost Structure of all the other components to see if the business model is financially sustainable.

While the suggestion above is reasonable, there might be times where Value Propositions are decided *before* establishing precisely which Customer Segments the Value Propositions are aimed at. Hence, it could – sometimes – be more optimal to analyze the Value Propositions first and then the Customer Segments. It depends on the degree of development, and the initial focus, of the underlying business idea.

# 4.0 Business Model Analysis

This chapter contains the in-depth analysis of how to create a successful online business model and, to clarify one more time, the main focus of the analysis is:

* How *entrepreneurs*, who want to start an *online e-merchant business*, can create a *successful online business model* aimed at *customers in the business-to-consumer market*.
* What the *content* of such a business model is.

The section below will depict the overall structure of the analysis.

## 4.1 Structure of Analysis

The following analysis will be built upon Osterwalder and Pigneur’s (2010) Business Model Canvas. The nine components of the Canvas will be analyzed individually in order to determine the key success factors which an entrepreneur needs to focus on when starting an online e-merchant business. The analysis will take its point of reference in the Value Propositions component instead of the Customer Segments component. The reason for this choice is that the Value Propositions component – in this analysis – will contain material on how an entrepreneur can generate a completely new business idea based on thoughts about Value Propositions; the logic being that if the entrepreneur has absolutely no idea about the kind of business he wants to start, he will most likely not know precisely which Customer Segments to serve either. The Value Propositions component still has customers as its focal point by trying to fulfill a customer need.

Each of the nine components will contain the most important elements necessary for a successful, online e-merchant business model and will be derived from academic articles, books and online sources. The elements will also be based on modeling the practice of existing, successful online businesses and, where suitable, some of these businesses will be used as examples.

## 4.2 Value Propositions

A Value Proposition is the value offered to a specific Customer Segment. The Value Proposition consists of a certain mix of products and/or services that fulfill the needs of the Customer Segment. The Value Proposition is a deciding factor when customers choose a particular online business over another. In order for an online business entrepreneur to understand and define exactly what the core of his Value Proposition is, the following two guiding questions are very helpful:

1. What problem do I solve?
2. How do I solve the problem?

The first question: “What problem do I solve?” helps the entrepreneur identify what exactly it is that he is doing for the customer; what need he is fulfilling. An example: Google solves its users’ problems of, in an easy and effective manner, finding specific websites on the Internet.

The second question: “How do I solve the problem?” helps the entrepreneur recognize *how* the identified problem is to be solved. The link between the two questions is important since the entrepreneur might have a great idea – a great problem he is solving – but has not thought thoroughly about exactly how he will go about solving it. The way Google solves its users’ problem is by offering a search engine platform, based on an advanced algorithm, where the users can type in a keyword or sentence and a search result with various websites pop up. That is Google’s Value Proposition for their consumer Customer Segment. By the way, whether the question asked is “What problem do I solve?” or “What need do I fulfill?” the result should be the same since a need that needs to be fulfilled is also a problem to be solved. It *can* be argued that sometimes there is no identifiably need, no problem to solve. This can have two causes: First, there is simply not a problem to be solved – e.g. the entrepreneur wants to address the customers’ need of standing on a spinning disc every morning when they brush their teeth to get more ready for work. Second, the need/problem to be solved is not yet recognized by the customers. When cell phones first hit the market years back, most people did not see the need for bringing their phone with them. But that perception changed dramatically… Two alternative questions to ask, if the Value Proposition seems promising and no immediate need/problem can be identified, are:

1. What need am I creating?
2. How do I create the need?

The instances, where a completely new need is created, will be rare but it happens now and again. However, the two questions presented first will be sufficient in most cases.

An online business can have several Value Propositions aimed at different Customer Segments. In the example of Google, the first Value Proposition is the free search engine for its users while its second Value Proposition is advertising on the platform (Adwords) for other businesses as part of their marketing strategy. Google’s third Value Proposition is the possibility for businesses to allow Google to direct advertising through their websites and be financially compensated each time customers click on the ads (Adsense).

### 4.2.1 Types of Value Propositions

The Value Proposition usually defines what type of business the entrepreneur will have to start. But since it is already decided – to keep complexity at a reasonable level – that the business will be an online e-merchant serving the business-to-consumer market, the Value Proposition will have to be created within these boundaries. So, which types of Value Propositions exist and how can an entrepreneur create them?

There are generally three main types of Value Propositions and three ways of creating them – “Types” does not indicate all kinds of different Value Propositions, with their disperse content, but three basic and overall types.

#### 4.2.1.1 The New Offer

A completely new offer is perhaps the strongest Value Proposition of them all. It is a completely novel idea for a product, a service, a process etc. that is innovative, and sometimes disruptive, in its field. These Value Propositions often arise from the “What need am I creating?” and “How do I create the need?” questions mentioned earlier. Before the explosion in popularity of social media and communities, people were content with being able to communicate and interact over distance by e-mail, SMS, and phone conversations but a hidden need was discovered with the creation of websites like facebook.com, twitter.com and youtube.com.

The way an entrepreneur can create these novel Value Propositions is through Creativity. There are two approaches: Pop-up Ideas and Systematic Creative Processes. The Pop-up Ideas happen when a novel idea for a Value Proposition suddenly strikes the entrepreneur. It can be something that is connected to actual activities performed in daily life, or in conversations with people, or it can be an idea originating when the entrepreneur is in a relaxed, creative state of mind. This approach is not practically useful for an entrepreneur seeking to create a new Value Proposition since it is based on coincidental thoughts and therefore not immediately applicable. The entrepreneur does not know when the idea strikes or if it strikes at all. Systematic Creative Processes, on the other hand, are active ways of trying to foster novel Value Propositions by pacing the creative imagination of the human brain. Creativity, as a field of study, could fill a whole project by itself but an example of such a process is The Creative Platform (Byrge & Hansen, 2009) developed by two scientists from Aalborg University. The Creative Platform is a method for generating creativity, new thought processes, and better co-operation. The method can be used by entrepreneurs to deploy some of the techniques, of the method, of creativity and of generating new ideas and use these to try to create a novel Value Proposition. The Creative Platform can be deployed in group settings, which is its original format, but some of the techniques are also usable on an individual basis.

Other ways of heightening creativity, to create a new Value Proposition, could be through relaxation and vivid visualization exercises with free associations. In his bestselling book “Psycho Cybernetics” Dr. Maltz (1960) explains how relaxation techniques and vivid visualizations can help reduce anxiety and stress and thereby raise creativity among other things. Scientific studies (Krampen, 1997) have later supported this claim.

In their book Blue Ocean Strategy, Kim and Mauborgne (2005) present the idea that instead of directly competing with competitors, businesses should focus on *“creating a new demand in an uncontested market space, or a Blue Ocean, rather than compete head-to-head with other suppliers in an existing industry”.* The book comprises a whole organizational strategy but some of the concepts and frameworks of the book could be usable for an entrepreneur trying to create a novel Value Proposition.

#### 4.2.1.2 The Modified Offer

A Modified Offer is a Value Proposition based on Differentiation. The Value Proposition already exists but the entrepreneur modifies some key elements of the existing Value Proposition that will distinguish it enough to create some new value – and a new Value Proposition – for the customers. Differentiation of the Value Proposition can either be Quantitative or Qualitative. Quantitative Differentiation could be: lower price, better performance and speed of the product/service, cost reduction for customers etc. Qualitative Differentiation could be: enhanced customer service, customization and co-creation, design, risk reduction for the customer, enhanced social status, access to the product/service, convenience etc. When online mobile phone operator Fullrate sells its “mobile subscription packages” cheaper than other operators’, even though the content is more or less the same, they are deploying Quantitative Differentiation in its Value Proposition. And, when Dell offers its customers customized personal computers, at the same price level as standard computers, it is deploying Qualitative Differentiation.

The way entrepreneurs can create a Value Proposition based on Differentiation is to some degree competitor-oriented. The entrepreneur can analyze the Value Propositions of various competitors, by studying their websites, and try to identify elements of the Value Propositions that can somehow be enhanced. The enhanced Value Propositions can then be analyzed with the components of The Business Model Canvas (Osterwalder and Pigneur, 2010) to see if it is sustainable. In fact, the whole business model of a competitor can be analyzed in this fashion: Identify the competitor’s business model with the 9 components of The Business Model Canvas, to spot potential areas for improvements, and then start a new business based on the enhanced Model. This latter approach can be a starting point for entrepreneurs who do not have a clear idea about what kind of online business they want to start. Identifying a Value Proposition – or a whole business model – that can be improved can turn out to be a very valuable way to start a business. The non-optimal Value Proposition/Business Model will often not yield as much profit as desired which may mean that the entrepreneur who owns the website are willing to sell his online business at a heavy discounted price. And if the new entrepreneur that buys the website can create a profitable business model by making a few key modifications then he has made an investment with a potentially high profitability.

#### 4.2.1.3 The Identical Offer

An Identical Offer is a Value Proposition that is more or less the same as many other online businesses have. There is no distinct Differentiation. It is the weakest Value Proposition of the three mentioned since it is very hard for the entrepreneur to convince customers to choose his website/Value Propositions over competitors’. It is generally not advisable to start an online business with an Identical Offer unless the whole business model supports the offer. Online telecommunications businesses offer more or less the same generic product: the possibility of sending texts, make phone calls, and access the Internet, and if the entrepreneur can offer these services at a lower price than the competitors then it makes sense. Indeed, it will often be “price” that is the competing factor with an Identical Offer and price wars are normally not preferable for a new entrepreneurial business with limited financial resources.

The way to “create” an Identical Offer is simply to look at the Value Propositions of competitors and then copy one of them or by starting an online business from a banal, spontaneous idea without analyzing the level of competition within the field – e.g. an online business selling children’s clothing which is a market with fierce competition.

## 4.3 Customer Segments

Customer Segments help the entrepreneur clarify which customer groups his online business should target with its Value Proposition(s). A business can target one or several Customer Segments with either one or several Value Propositions and the Customer Segments can be small as well as large. As with the Value Propositions, there are some questions that will help the entrepreneur create the Customer Segments. The questions are linked to the two questions asked when defining the Value Propositions:

1. Who do I solve the problem for?
2. Who are my most important customers?

These questions help the entrepreneur ensure that he knows exactly whom to target the Value Propositions at and whether there are Customer Segments that are more important than others so that he can choose which Segments to target intensively and which to target with lower intensity or possibly ignore. The Customer Segments are based on customer needs and are closely linked with the formation of the Value Propositions.

### 4.3.1 Segment Creation

When creating the Customer Segments, the entrepreneur has to decide whether he serves the business-to-consumer market or the business-to-business market – or perhaps the business-to-government market. It is already decided that the focus of this business model analysis is an e-merchant serving customers in the business-to-consumer market.

#### 4.3.1.1 Customer Characteristics

The entrepreneur must establish some characteristics of the customers in each Customer Segment. These characteristics help separate the Segments and can be based on various selection criteria:

* Geographic:
  + Country, Region, Urban/Sub-urban
* Demographic:
  + Gender, Age, Family and Love Life, Profession, Income
* Behavioral:
  + Lifestyle, Values, Attitudes, Opinions, Social Status, Personality

There are probably more criteria than the ones listed above and it is up to the entrepreneur to evaluate which criteria are important for a specific Value Proposition and which criteria can be ignored. For example, an online business that delivers fresh groceries in a given local area will not have to be concerned about which countries it wants to serve.

#### 4.3.1.2 Archetypes

A helpful tool when forming the Customer Segments is what Li et al (2003) call “Archetypes”. An Archetype is a stereotypical representative of a specific Customer Segment. The Archetype will be a concrete, but fictive, person with a name and basic personal characteristics such as the criteria, or at least some of the criteria, presented above. An example:

Getbig.dk is an online business that sells fitness-related products such as protein powder and workout gear etc. and it is also an online article database and forum with articles and information about fitness. Getbig.dk’s primary Customer Segment is probably: people who workout and especially men that work out. Men interested in working out are typically in the age range 17-35. An archetype for this Customer Segment could therefore be:

* Name: Thomas
* Age: 25
* Income: 300.000 – 350.000 DKK
* Love life: Single
* Interests: Fitness, Girls, Sports, Partying

“Thomas” can now be used as a representative of the Customer Segment that getbig.dk wishes to serve (men in the age range 17-35 who work out). Each time an adjustment has to be made in some of the other components of the business model the entrepreneur can ask himself: “Will Thomas like this?” or: “Will this choice attract Thomas to my website?” Such an Archetype can be made for each distinct Customer Segment. The Archetype can be visualized with a drawing and displayed together with pictures of some of his/hers favorite products and interests. The creation of an Archetype helps maintain focus on customers and their needs.

### 4.3.2 Segmentation Approaches

The entrepreneur can choose between different Segmentation Approaches when he creates his Customer Segments. These approaches should not confine the development, or the scope, of the Customer Segments, and the needs of the customers should always have priority. They can, however, provide the entrepreneur with ideas for how the Segments can be structured.

#### 4.3.2.1 Mass Market Approach

An online business can choose to serve a Mass Market. This approach is actually a non-segmentation approach since the business does not distinguish between various Segments but instead treats all its customers as one big Customer Segment. Wupti.com is an online business that sells consumer electronics and white goods. Wupti.com sells everything from washing machines and refrigerators, vacuum cleaners and electrical shavers, computers, cameras, TV’s, light therapy, blood pressure measurers, mobile phones, game consoles, watches and toys and fitness equipment etc. Its potential customers range from: older children, teenagers, men, women, to elderly people and many more. By offering such a huge variety of products to so many various customers, Wupti.com is adopting a Mass Market Segmentation Approach.

#### 4.3.2.1 Single Market Approach

When utilizing a Single Market Approach, the entrepreneur evaluates which Customer Segment would be most viable – e.g. in terms of financial growth or business development – and then focuses all his resources on this single Segment. This approach can be effective when the entrepreneur is unsure about which Customer Segment to serve and it helps avoid the pitfall of trying to be everything to everybody. Rustfribolte.dk is an online business that sells tools and screws and bolts for the do-it-yourself people – primarily men. The website focuses exclusively on this one Customer Segment, and nothing else, and is therefore employing a Single Market Approach.

A variation of the Single Market Approach is the Niche Market Approach. The focus is still on one Segment but it is a specialized niche segment which usually requires a specialized Value Proposition. An example of a Niche Market Approach could be an online business that updates or repairs smart phones and has chosen to focus solely on updating/repairing iPhones.

#### 4.3.2.2 Differentiated Approach

A Differentiated Approach can be applied when the entrepreneur wishes to serve several Customer Segments that are relatively similar but have slightly different needs. Selfdefence.com is an online business selling a variety of weapons, clothing, tools etc. related to self defense and security. One of the business’ Customer Segments is ordinary people who want something to use for self defense: pepper sprays, stun guns, batons, knives etc. Another Customer Segment is police officers, bodyguards, and security guards in need of special clothing, firearm holsters, flashlights, and various forms of security-related accessories. The two Customer Segments are similar in their basic needs but with slightly different variations and targeting both, with slightly different Value Propositions, is a Differentiated Segmentation Approach.

#### 4.3.2.3 Diversified Approach

An online business that employs a Diversified Approach also focuses on several Customer Segments but instead of the Segments being similar with slight variations, they are, more or less, unrelated and have different needs and expectations. Amazon’s traditional Customer Segments were consumers that want to buy books and, later in the development, all kinds of various merchandise. At one point, though, Amazon started to offer businesses online storage space and access to server usage. This new Customer Segment had very different needs and required a completely new Value Proposition, and with two such diverse Customer Segments, Amazon has utilized a Diversified Approach in their segmentation strategy.

#### 4.3.2.4 Multi-sided Approach

The Multi-sided Approach is based on Multi-sided Platforms. Like the Diversified Approach, it also serves relatively unrelated Customer Segments with different needs and Value Propositions but the difference is, with the Multi-sided Approach, that the two Customer Segments are interdependent – both are needed – in order for the business model to be profitable. Facebook needs a large user base for its social network platform but it also needs advertisers to be able to make a profit. Without users no one will advertise, and without advertisers the platform is not financially feasible.

## 4.4 Channels

Channels define how the entrepreneur communicates with the Customer Segments and how he delivers the Value Propositions to them. Channels are divided into three parts:

* Distribution Channels
* Sales Channels
* Communication Channels

### 4.4.1 Distribution Channels

Distribution Channels cover the way the online business’ Value Propositions reach the Customer Segments. These Channels traditionally include considerations about the relationship between: Producers, (Agents), Wholesalers/Importers, and Retailers and which of these actors have to be involved in order to reach the Customer Segments. It is, however, already decided that the focus of this analysis is: An e-merchant serving the business-to-consumer market, so the Distribution Channel is: a website.

With the rise of the Internet, the traditional: Producer🡪(Agent)🡪Wholesaler🡪Retailer🡪Consumer model has been altered. When starting an online business, Customer Segments are reached directly through the website. Depending on the Value Proposition, the online business either acts as an intermediary – a Retailer – in a Producer-to-Retailer-to-Customer model. Or, in some instances, as the “Producer” in a: Producer-to-Customer model selling directly to the Customer Segments, via the website, with Value Propositions that are not acquired from outside sources. Stylelife.com is an online business that offer a variety of products aimed at helping men improve their skills in meeting women. The products comprise: books, DVD’s, audio recordings, and online dating consulting. The products are all produced in-house and offered to customers through stylelife.com without any producer or intermediary involved. When the online business can “produce” its own Value Propositions, whether they are digital or physical, it fosters the potential for a business model with very high profit margins.

A question that will help the entrepreneur clarify the Distribution Channels is:

1. How do I most effectively and efficiently bring my Value Propositions to the Customer Segments?

The question aids the entrepreneur in the process of evaluating which Distribution Channels would be the best choice for a particular Value Proposition in reaching a particular Customer Segment.

### 4.4.2 Sales Channels

Sales Channels are different Channels through which the entrepreneur, in the most profitable way, sells the Value Propositions to the Customer Segments. According to Osterwalder and Pigneur (2010) Sales Channels consist of the following Types:

* Sales Force, Web Sales, Own Retail Stores, Partner Retail Stores, Partner Websites, and Wholesaler.

The authors further divide the Channels into: Own Channels and Partner Channels. Own Channels are: Sales Force, Web Sales and Own Retail Stores. Partner Channels are: Partner Retail Stores, Partner Websites and Wholesaler.

As with the Distribution Channels, it is already decided that the focus of analysis will be an e-merchant, with online sales, so the Sales Channel is determined to be: Web Sales = a website). A question helping deciding upon which Sales Channel(s) to choose is:

1. How can I, in the most profitable way, sell the Value Propositions to the Customer Segments?

The question helps the entrepreneur analyze which Distribution Channels are the most profitable and which to avoid.

### 4.4.3 Communication Channels

Communication Channels decide how the entrepreneur communicates the Value Propositions to the Customer Segments. The following list provides some different Communication Channels but is not a completely exhaustive list:

*Offline Marketing*

* Traditional Advertising
  + Print
    - Advertisement in a newspaper or magazine, Handouts, Flyers, Brochures, Posters, Billboards, Advertisement Boards etc.
  + Video and Audio
    - TV Commercials, Radio Spots, Cinema Commercials
* Public Relations
  + Press Releases, Interviews, Lobbyism
* Direct Marketing
  + Direct Mail (Catalogues, Coupons etc), Telemarketing, TV Shopping, Street Approaches
* Personal Communication
  + Sales Presentations, Fairs, Exhibitions, Product Handouts
* Sponsoring
  + Sports Teams
* Events
  + Product-oriented happenings

*Online Marketing*

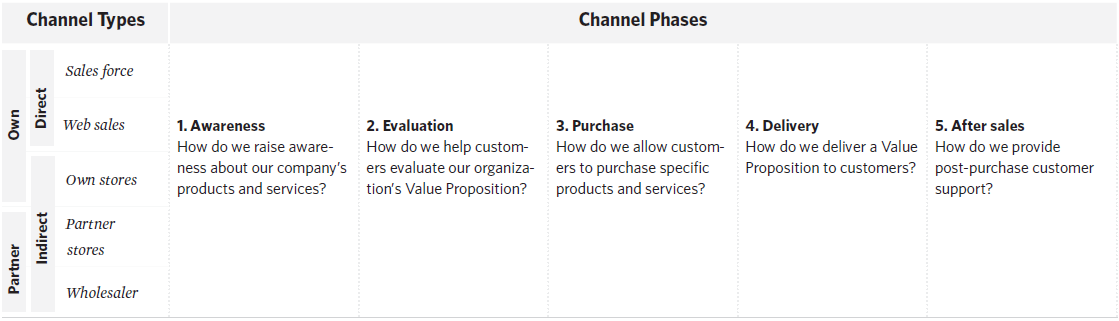
* + Google Adwords, Google Adsense, Search Engine Optimization, Social Media Optimization, Viral Videos, newsletters etc.

Communication Channels also encompass the way the entrepreneur communicates with the Customer Segments before the sale, during the sale, and after the sale of the Value Propositions. The entrepreneur can ask the following question when deciding upon which Communication Channels to use:

1. How do I communicate most effectively to, and with, the Customer Segments?

Osterwalder and Pigneur (2010) have a model that they call “Channel Phases”. This figure has 5 different phases which merge Distribution Channels, Sales Channels, and Communication Channels. The model looks like this:

Figure 2: Channel Phases



Source: Osterwalder and Pigneur (2010)

The first phase, Awareness, is a part of the Communication Channels. An online business can create Awareness of its Value Propositions through marketing. Marketing is analyzed more deeply in the Key Activities component in subchapter 4.8.

The second phase, Evaluation, is also a part of the Communication Channels and helps Customer Segments evaluate the business’ Value Propositions before they purchase them. For an online business, Evaluation happens through the website, which will be analyzed more intensely in the Key Resources component in subchapter 4.7, and through various Reviews and Ratings which will be analyzed in the Customer Relationships component in subchapter 4.5.

The third phase is Purchase which is connected to the Sales Channels. Sales happen through the online business’ website which will be analyzed in the Key Resources component in subchapter 4.7.

Fourth phase, Delivery, is part of the Distribution Channels and will be analyzed as part of Logistics in the Key Activities component in subchapter 4.8.

The fifth, and last phase, is After Sales. After Sales is linked to the Communication Channels and will be analyzed in the Customer Relationships component as part of Customer Service in subchapter 4.5.

The entrepreneur must make a decision about which Channels to focus on in terms of the costs of using the Channels and the effectiveness in reaching its audience and attracting them to the online business’ website and convincing them to make a purchase. While the Distribution Channel and Sales Channel, in this analysis, are pretty much set, a decision about the Communication Channels – especially the marketing strategy – has to be made. The main choice is whether to use offline marketing, online marketing, or a mix of both. The fundamental concern with using offline marketing to create online sales is the fact the customers are usually not online and ready to buy when they are exposed to offline marketing. This means that the message and Value Proposition has to: be perceived, stored in the memory, and then be brought to consciousness when the customers are eventually on the Internet looking to buy something that is similar to the marketed Value Proposition. In order for this to happen, the business must bombard the customers with these offline messages until they are branded into the mind of the customers. Such an approach may be realistic if the marketing budget is several millions and even then, the customers are still not online when exposed to the message, so if another competing business has a more efficient online marketing strategy, the customers might be directed to the competitor’s website anyway. Most entrepreneurs do not have the kind of funds required for such massive offline marketing campaigns. In the event that the customers acknowledge that they have a need for the Value Proposition that is marketed offline – e.g. they see a TV commercial for a HD television and initiates an online search – it is likely that they will search for the name of the television, e.g. Samsung T45, rather than the name of the online business offering the Value Proposition and will end up on a competitor’s website instead. This problem is more pronounced with online businesses than with physical businesses since a new website is only a click away – in the real world, customers rarely end up in a Fona store when they meant to go to Bilka to look at an offer.

With online marketing, the customers are already online and most likely searching for the type of Value Proposition that is marketed. This makes it much more likely that the customers can be directed to the online business’ website where the Value Proposition is offered. Even though the customers are not searching for the particular kind of Value Proposition, that is marketed, they are still only a click away from the website offering it which makes it more likely that they will visit the website – compared to when they are not online and are exposed to offline marketing. Some of the World’s most successful online companies: Google, eBay, Amazon, Facebook, Yahoo!, Twitter, Alibaba, YouTube, PayPal and MSN (Microsoft) do not use offline marketing which is a good indication of what works and what does not work when promoting an online business. Another problem with offline marketing is that it is very hard to measure the effects of a marketing campaign. Whereas, with online marketing, it is possible for an online business to track: where customers were before arriving at its website, if they have clicked on a sponsored link on Google, if they were directed from an affiliate’s website/blog etc. Furthermore, the costs of online marketing are generally a fraction of the costs of offline marketing. As a result, the marketing that will be focused on in this business model analysis is Online Marketing which will be presented in the Key Activities component in subchapter 4.8.

## 4.5 Customer Relationships

Customer Relationships are the relationships the entrepreneur wishes to establish with the Customer Segments. For an online business, the most important ways of building Customer Relationships are through: Customer Service, by building Trust and Credibility, and by letting customers evaluate the Value Propositions through Ratings and Reviews. The entrepreneur can ask the following questions to help determine how to build the Customer Relationships:

1. Which kind of relationships will create the strongest connections to the Customer Segments?
2. How can I best maintain these relationships?

### 4.5.1 Customer Service

Customer Service is about giving the Customer Segments what they expect – and a little more. The online business should aim at surprising the Customer Segments in a positive way. A quick handling of orders, delivery on time and polite communication is what has to be expected from an online business. It is the small extra things that really create a positive customer experience. It could be a small present, or a low-cost complimentary product, that is sent with the original order, a discount coupon code for future purchases, or a sweet or funny little note or remark. Or it could be a personal follow-up mail on an order thanking the customers for the purchase and offer immediate assistance if they encounter any problems or have any questions. Kamilleshop.dk is a health and beauty business that offers its customer a 10 % discount on future orders and, depending on the order, it puts extras like: incense sticks, small candles, and various kinds of samples with the main order. It could also be giving the customers a few more articles than they originally ordered, if the order is based on quantity. These extras can, obviously, not be too expensive because then they would eat away all the profit. The most important function of this extra service is the viral effect it has. Happy customers, which have been positively surprised, gladly share their experiences with other potential customers on online forums and review sites – especially if they have had an extraordinary and positive experience – and thereby attract new customers to the online business as well as becoming returning customers themselves. There is also a great deal of Customer Service involved in the Delivery of products to the customers but all subjects related to Delivery are analyzed in the Key Activities section under Logistics in subchapter 4.8. Good Customer Service is also about supporting the customers in the best way possible which is the subject of the following section.

#### 4.5.1.1 Customer Support

Customer Support is about helping the customers solve their problems and answering their questions. There are generally two categories of Customer Support that an online business can provide: Interaction (customers get in contact with a business representative) and Self-Help (customers help themselves, or each other, solve their problems). Interaction involves Email Support, Chat Support, and Telephone Support. Self-Help involves Frequently Asked Questions (FAQ) and Help Forums.

##### 4.5.1.1.1 Email Support

If customers have a question they contact the online business by email to get an answer. The most crucial factor with email support is that the customers get their emails answered as quickly as possible – preferably within hours or the same day the email is sent or, at the latest, within 24 hours. The quick answer is very important since many customers write the online business simply to see if they will get an answer and to evaluate whether it is a serious business. If the customers receive an answer three days, or more, after they send their email, they have probably already found a new place to shop and three days is not a serious response time for an online business. If an immediate answer is not possible, a good alternative can be to use an email robot which is an email that is sent automatically when the customers’ email is received. The content of the email could be an affirmation that the online business has received the customers’ email and that and a return mail, with an answer, will be sent as quickly as possible and at the latest within 24 hours. Such an email assures the customers that their cases are being handled and diminishes customers’ doubt about when they will receive an answer. A good way, for an online business, to deepen the personal relationships with the Customer Segments is to, as spamfighter.dk does, place a picture of the supporter, who is providing the support, in the return mail to customers. The picture humanizes the interaction and brings the online business a little closer to its Customer Segments.

While it would be optimal for an online business to be able to answer all customer emails immediately or within a very limited time frame, it would also require a dedicated customer support staff. For an entrepreneur, with limited resources, such a staff might not be possible to acquire in the initial startup phase and therefore he would have to answer the emails himself – which is perfectly possible but maybe not immediately or within a very limited time frame. In such a case a “same day” or “24 hour” time window is acceptable. The most important thing is that the online business keeps the promise, about the time frame of an expected support answer, that the online business has made – whether it is “support within 30 minutes”, “same day support”, or “support within 24 hours”. If the promised time frame is exceeded, the online business will lose a great deal of credibility and may lose the customer.

##### 4.5.1.1.2 Chat Support

Chat Support reminds of Email Support in that the customers contact the online business, through a chat on the business’ website, with a written question and receive a written answer in return. The major difference is that Chat Support requires a support team since the questions asked have to be answered immediately. This task is almost impossible for the entrepreneur do himself since it would require him to sit by a computer all the time the Chat Support is open for customers. If the entrepreneur were to operate the Chat Support himself, it could be possible to set daily time intervals in which customers could use the chat but then customers would have to come back later that day, or wait until the next day, before they could get to ask their questions, which is not optimal. So, if the entrepreneur cannot employ a support team to operate the Chat Support he should focus on Email Support instead. As with the Email Support, a picture of the supporter could help personalize the interaction and build better Customer Relationships.

##### 4.5.1.1.3 Telephone Support

Telephone Support is probably the most effective form of Customer Support. Telephone Support is the support form with the least chance of communication bias – in the form of misunderstood written formulations in customer questions and business answers. It is also the support form that establishes the strongest Customer Relationships because customers get to talk, directly, with a real person. As with the Email Support, many customers call the business simply to see if the phone is picked up and whether the business is serious. If nobody calls back, or the phone is not picked up after several calls, the customer will most likely find another online business. The disadvantage of Telephone Support is that it can be very time consuming for the entrepreneur if he does not have a support team to handle the calls. If the entrepreneur has to handle the calls himself, he could find himself constantly interrupted – depending on how many customers who call – in whatever work he is doing. One solution to this problem is to limit the Telephone Support to a daily time interval, e.g. 10-12 pm, each day and otherwise refer the customers to Email Support. That may not be the most satisfying solution since the entrepreneur will have to be available in this time period every day, even if there are no customers calling, and it might be frustrating for customers to arrive at the website at 13 pm and have to wait until the next day to be able to make the call. A second solution could be to use a call center service. The call center, which is a business specializing in performing secretary services, will pick up the phone when customers call, take their questions, and promise to get back to the customers within a given time frame. The call center will then send the entrepreneur an email, or leave a voice mail on his phone, with the question and then the entrepreneur can send the call center a return email with an answer and the call center will then deliver the answer to the customer – or the entrepreneur can call the customer himself at a later point. Similar to the principle of a call center is a voice mail where customers can leave their questions and then the entrepreneur can return with an answer later. However, it can be quite frustrating for customers to reach a voice mail if they had hoped to talk to a person and many times they might just hang up when it happens. A call center solution is more personal and assures that the customers will leave their questions so they can be answered. It is, however, also more expensive because of the costs of using the service. A third solution is a dedicated support team that handles all the customer calls. This solution is the most effective and efficient but also the most expensive because of salaries for the supporters. No matter the solution, it is important that customers who call are not met by a “busy” tone. To combat this, the online business could make use of a phone system that will put the customers in queue and inform about the customers queue number. If it is assumed that the waiting time in such a queue will be too long then the alternative is a voice mail.

If the online business is international, and it offers telephone support, then it is necessary with a support team since the phone must have 24 hour service because of different time zones depending on where the customers call from. The same is true with a Chat Support.

It is also an option for the online business to not offer Telephone Support and focus exclusively on Email Support and some of the Self-Help options below. It will most likely mean that some customers find another place to conduct their business but it could be a solution until a support team can be afforded.

##### 4.5.1.1.4 FAQ

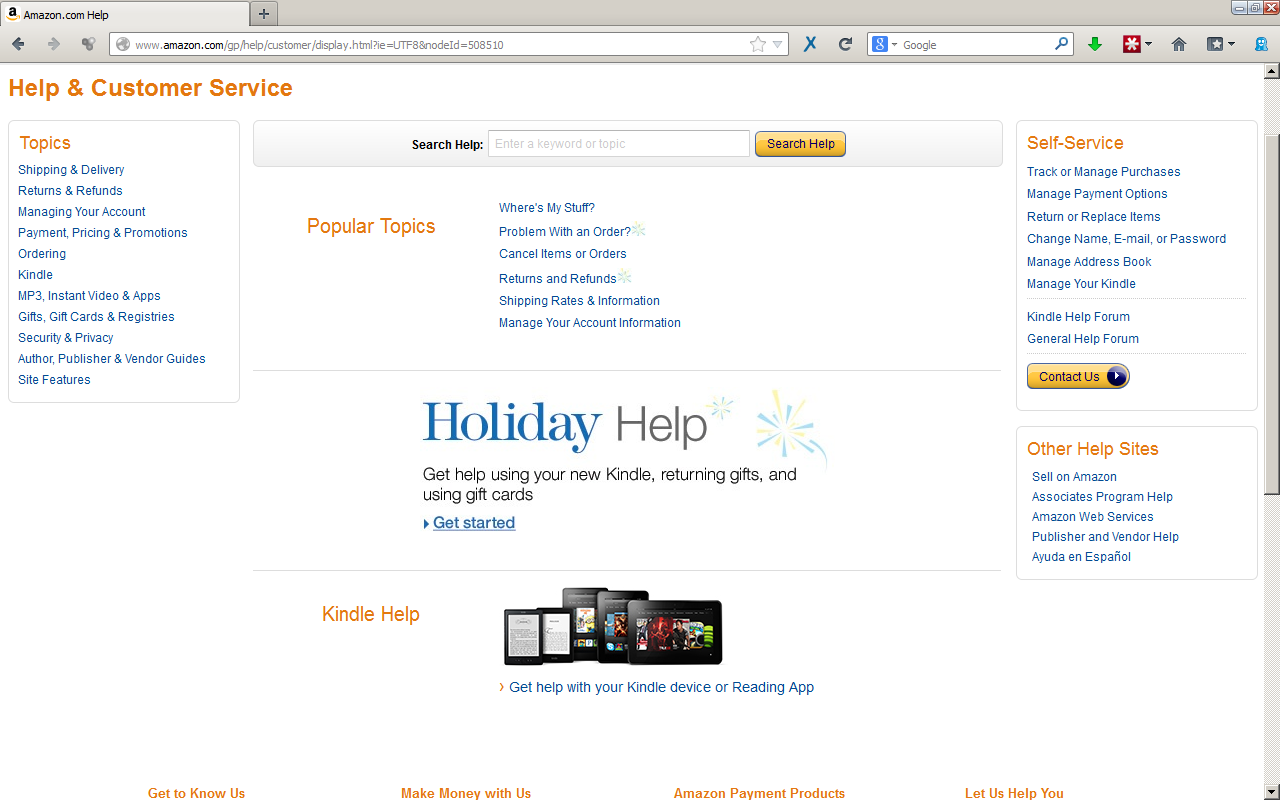
A FAQ (Frequently Asked Questions) is a dedicated online guide where customers, on their own, can find answers for many of the questions they may have. The FAQ contains answers and guides to the most common questions and problems that arise in Email, Chat and Telephone conversations with customer, and many of these questions are repetitions. A well-designed FAQ can save the online business a lot of support resources because a certain percentage of customers can help themselves instead of sending an email or calling. The FAQ should be divided into some overall topics – which cover the most frequent problems customers have – and provide guidelines and answers on how to solve these problems. Most online businesses have a website search engine – to search for onsite information – but a specific FAQ search engine, for searching in the FAQ itself, is a great way for customers to find solutions to their problems in an efficient way. Another reason for having a well-designed FAQ is that the way in which questions and answers, in the FAQ, are formulated is often the way in which customers formulate their sentences on the big search engines such as Google. The result is that customers will sometimes end directly in the online business’ FAQ and, thus, the FAQ have to be well-designed and updated.

##### 4.5.1.1.5 Help Forum

A Help Forum is a forum on the online business’ website where customers can help each other answer questions and solve various problems they may have in relation to products, delivery etc.. It is a form of “interactive FAQ” that can solve customer problems, without tapping support resources. The Help Forum can be divided into topics and the questions and answers can be saved or it can be without topics and list the questions in the order they are asked – or a mix of both. As with the FAQ, a search tool is also recommended for the Help Forum to ease the customers’ problem solving process.

An example of perfect Customer Support is Amazon’s support function. Amazon’s Customer Support is called “Help” and contains a: Search Engine to search the “topics” section (which is the FAQ), a link to a Help Forum (where customers can help each other), a “contact us” link where customers can choose between Email, Chat, or Telephone Support depending on the on the overall character of the problem they have. Such a support function is the ideal for any online business but it requires that business has the resources to employ a full-time dedicated Customer Support team.

Figure 3: Amazon’s Customer Service Page



Source: Amazon.com

#### 4.5.1.2 Bad Customer Service

The importance of good Customer Service, for an online business, cannot be stressed enough. The Internet has provided unsatisfied customers with a whole new arsenal of weapons for attacking an online business that has “mistreated” them. One of these weapons is the ability of customers to set up a simple website that contains the domain name of the online business in question and write their negative opinions of the online business. The customer website will usually be listed on Google just below the business’ website – because it contains the business’ exact name – and other potential customers can therefore see a very negative review, in the link on page 1 on Google, of the business right before they are about to enter its website. Such a customer website can be devastating for the sales of a new online business. Unhappy customers can also write bad reviews on various review sites. The best way to avoid unhappy customers is to offer a Customer Service that lives up to the minimum standards of what can be expected of an online business, be excellent where possible, and treat all customers with respect and pose a friendly front not matter how outrageous they may have behaved. Friendliness will often disarm mad customers whereas confrontation may lead to escalation and “revengeful actions” as the one mentioned above.

### 4.5.2 Trust and Credibility

It is extremely important for an online business to build trust and credibility with its Customer Segments. Customers generally have a limited amount of trust in online businesses – at least in the beginning. With physical stores, customers can enter them, they can interact with real people, and they can see and feel the products. The initial investment, when starting a physical store, is normally quite substantial with a high mortgage, inventory, furniture etc. and this investment indicates a certain degree of seriousness. With an online business it is different. Everyone can start an online store for only a minor domain fee every month, so the number of new online startups is considerably bigger than the number of physical startups. Some of these online startups are serious businesses with a sincere business foundation. Others are amateur stores started by people who want to try their luck on the Internet but have no idea what they are doing and others, still, are scam businesses with the only purpose of cheating customers. Online customers are very aware of the problem with scam businesses and amateurs who are incompetent and the customers will, consequently, search for signs that reveal these two types when the customers enter a website for the first time. It could be things like: blurred pictures, spelling errors, poor language or bad translations, non-functional links, un-relevant pop-ups, no return answers when email or phone contact is initiated etc. – basically all kinds of things that confirm customers in their suspicions about “foul play”. The entrepreneur must handle this initial suspicion and he can do that in two ways: First, he can make sure that the website is well constructed and free of basic errors. This subject will be analyzed in the Key Activities component in subchapter 4.8. Second, he can do things that actively raise trust and credibility in the eyes of customers. These things are presented below.

#### 4.5.2.1 Elaborate Business Information

To raise trust, the entrepreneur can display elaborate information about the online business as many places as reasonably possible on the business’ website. It is preferable to display the information on numerous pages since the entrepreneur does not know on which pages customers will end up when arriving at the website. This information should include:

* Contact Information
  + Phone Number, Email, and Address
* Basic Data
  + Business Registration Number (CVR Number in Denmark)
  + Bank, Bank Account Number, SWIFT and IBAN code

The Contact Information ensures the customers that the business is actually real and has a physical location and can be reached by phone just like a physical business.

The Business Data convinces the customers that the business is properly registered and has a bank account linked to its business operations.

#### 4.5.2.2 Quality and Trust Seals

Another way for the entrepreneur to create trust is to place various forms of Quality and Trust Seals on the business’ website. In Denmark there is a seal called “e-mærket”. The seal is a cooperative effort of the most important trade organizations, and is supported by relevant government agencies, regarding online trade and it is a guarantee that the online business lives up to certain standards, laws and regulations concerning online trade. The online business can attain such a seal by living up to its requirements and paying an annual fee of around 5.000 DKK. When customers, at least in Denmark, see this seal they know that the online business is serious and legitimate. The EU Parliament is in the process of creating a seal similar to “e-mærket” that will cover the entire EU region[[5]](#footnote-5) but it has not yet been fully developed. An EU seal will be relevant to adopt for an online business that serves Customer Segments in countries within the EU area.

The entrepreneur can also use another form of “seal” to create trust with its customers: well-known corporate brands. These brands can be brands from suppliers, partners, media, and even customers. An online software business that displays a Gold Certified Partner seal from Microsoft will gain a lot of credibility in the eyes of customers because of the strong brand that Microsoft is – and if Microsoft has chosen to cooperate with the business then the business must, most likely, be serious. An online business that offers personal development courses will raise its credibility if it can place logos from respected newspapers, which has written about or reviewed the courses, on its website. An online pharmacy that has Novo Nordisk, Pfizer, and GlaxoSmithKline on its list of suppliers will be more trustworthy than an online pharmacy that sells unknown generic drugs.

Source: e-handelsfonden.dk

Figure 4: E-mærket

Figure 5: Corporate Brands



Source: blog.socialmaximizer.com

As with the business information and data, these seals should be placed as many places as possible on the website – without it being absurd –and especially on intro pages and pages that concerns downloading and ordering of products since these processes are typically associated with risk, in the minds of the customers.

#### 4.5.2.3 Legal Information

The entrepreneur can also heighten trust in his online business by displaying Legal Information on the website. This information can include the Terms of Trade, including mandatory legal requirements and voluntary extra services, under which the online business operates – e.g. right of return and refund. This information creates trust because customers know what their rights are and it gives an impression of a serious business that knows what the rules are and has given them some consideration. An explicitly formulated privacy policy, with assurances that the customers’ personal data, credit card information, emails, and phone numbers will not be used in other contexts or sold to third parties, will also create trust between the customers and the online business.

#### 4.5.2.4 Transaction Security

Transaction Security is also about trust but the trust concerns not so much the online business itself but rather the transaction between the customers and the business. The customers provide the business with personal information and credit card information and are often worried whether this information can be snatched by hackers or computer programs and used for malicious activities such as: identity theft, misuse of credit cards, and withdrawals from bank accounts. The online business can ease these customer worries by using transaction encryption software and systems. Examples of such software are: Verified by Visa, MasterCard Secure Code and American SafeKey which have the same underlying protocol (3D-Secure) applied to different credit cards. The software encrypts communication, and credit card transactions, between customers and the online business. TLS is another of these systems. Verisign, an American company, and DIBS, a Danish company, offer online businesses complete transaction security packages where everything regarding payment, transactions, communication etc. is taken care of. These packages could be a good starting point for new online business. The value in these security systems is, obviously, that they facilitate secure transactions but also that a seal from one of these solutions, on the final ordering page, will help diminish most customer anxieties about data theft and help close the sale.

#### 4.5.2.5 Other Things

Another way for an entrepreneur to create trust is to put a small personal presentation of himself, with a greeting, a picture and a signature, on the front page of his business’ website. Such a presentation will deepen the connection with customers and associate the website with a real person. The presentation might be more or less suitable depending on the type of Value Proposition that is offered and an individual judgment will have to be made in each case. Value Propositions that in one way or another involve the entrepreneur personally will generally benefit from personal presentations.

Trust and credibility can also be built by openly admitting a minor weakness on the online business’ website. If this weakness is then followed by some highlighted strengths then the strengths will seem much more credible to customers. The psychology of this is that: the weakness is perceived as an honest statement and if the first statement is honest the next statements are very likely to be perceived as “honest” as well. This approach is especially relevant if the admitted weakness is difficult to hide – e.g. the business has no telephone support. While it can be effective to disclose a weakness, care must also be taken, when applying the approach, in order to avoid publicizing a weakness so severe that it inhibits sales or has a negative effect on customer trust.

Related to Personal Presentations is Storytelling – either about the entrepreneur or about the business. Storytelling is a very powerful tool for building relationships and trust with customers since a good story can make the customers feel as if they know the entrepreneur, or the business, on an intimate level and associate him and the business with strong, positive emotions. Such emotions foster a high degree of customer loyalty and make customers return. A story could be about the motivation for why the entrepreneur has chosen to start his business, besides making money, and it could involve some past experiences and examples from his own life it they are somehow related to the Value Propositions that are offered. The stories should not be too grandiose or too emotional and they should be relevant to the customers’ problems and the Value Propositions. A good story, besides creating strong relationships, can also convince the customers that a Value Proposition is the right choice for them and can help them solve their problems.

An additional method, for building trust and credibility, is testimonials. Testimonials are positive comments and recommendations from previous, satisfied customers who have already bought the Value Propositions. These testimonials can concern the business itself or the Value Propositions it offers and they are placed on various pages on the website. The main effect of testimonials is that potential new customers can relate to ordinary people, in the same situation as them, who give their honest opinions about the online business or the Value Propositions that are offered. To personalize this relation even more, a picture of the customers, who have written the testimonials, can be added to enhance the trust-building effect. The use of testimonials should not be overdone. If the testimonials are overly praising or placed everywhere they might create an air of untrustworthiness and thereby having an opposite effect than the one intended.

Finally, an easy way for the entrepreneur to build trust with his customers is to, whenever possible, disclose the full cost of the transaction about to be undertaken. If the full cost is presented upfront – including shipping costs, Value Added Taxes, tariffs, and all other minor costs – the customers will not get any unpleasant financial surprises which can very well lead to a situation with angry customers that will never return to the online business for future purchases.

### 4.5.3 Reviews and Ratings

Reviews and Ratings remind of testimonials. Reviews are comments and evaluations linked to certain Value Propositions – or to the online business itself. The main difference between testimonials and Reviews is that testimonials are controlled by the entrepreneur himself. Testimonials are positive customer comments and evaluations that are specifically picked by the entrepreneur and placed on his business’ website. Reviews on the other hand are uncontrolled. They can be both positive and negative and the entrepreneur has no influence on the content. Ratings are simple systems that give customers the opportunity to rate a Value Proposition on a predefined scale – e.g. a five-star rating system or a 7-phase scale ranging from “really bad” to “excellent”. The first type of Reviews and Ratings are external and are made at other websites and online communities and are basically out of the online business’ control. Its options with these Reviews and Ratings are simply to offer good Value Propositions and provide good customer service and hope that it will lead to positive reviews and ratings. A more active approach, with these external Reviews and Ratings, is to partner up with a review-platform business such as Trustpilot.com. Trustpilot collects reviews from customers on all kinds of different online businesses and their Value Propositions. The online business can then subscribe to a service where it gets to use the reviews and ratings, from Trustpilot, on its website – which is especially interesting if they are good. Trustpilot-reviews functions as a consumer-to-consumer trust seal and the seal can therefore be valuable for an online business to help build customer trust.

The second type of Reviews and Ratings are those that are written on the online business’ website. These Reviews and Ratings can be presented together with the products/services – that are offered on the website – or they can be collected in an onsite community, similar to a Help Forum, where customers can share their product experiences with each other. The important thing to bear in mind, is that the Reviews and Ratings are uncontrolled so many bad Reviews can have fatal outcomes on sales of the Value Propositions involved. The entrepreneur will have to make a judgment about whether he wants to allow customers to write reviews or not. This choice will be dependent on the type of Value Proposition that is offered. If the Value Proposition is “online streaming of computer games”, from external game developers, then the entrepreneur will not have a problem with some bad reviews on some of the games the online business is offering since the games are not directly linked to the business – it has a relatively neutral role. On the other hand, if the online business offers, for example, “personal coaching” as a Value Proposition, then bad reviews on these courses could be very devastating for its future sales. In the first example – computer games – the bad reviews are actually a customer service. In the second example – personal coaching – the bad reviews are potentially disruptive for the entrepreneur’s business. If the entrepreneur is worried about bad reviews and their effect on his Value Propositions then Testimonials could be an alternative. Conversely, if the entrepreneur is totally confident in his business and its Value Propositions then he can openly invite customers to write reviews on both Value Propositions and the business itself e.g. its Customer Service. The entrepreneur must make an individual assessment in each case. Bad reviews, especially on the business itself and “personal coaching”-style Value Propositions, can help the entrepreneur acknowledge weaknesses and make improvements to become better. If, however, the entrepreneur is not interested in having these reviews publicized, he can ask customers to write private reviews on email or in a dedicated section on the business’ website. That will give him the benefit of the feedback from the reviews without the potentially devastating effects on future sales.

Billigvvs.dk is a good example of an online business that focuses on building customer trust and utilizes Ratings and Reviews. The business sells various kinds of articles for do-it-yourself customers.

Figure 5: Front page of billigvvs.dk



Source: Billigvvs.dk

On the front page, customers are met with the “e-mærket” seal and a seal from, and a link to, Trustpilot.com with different Reviews of Billigvvs.dk. In the “About us” section on the website, there is a little story about the business and the entrepreneur behind it. Customer Support, in the form of Email, Chat, and Telephone support, is displayed on the front page, and when customers click on one of those the customers are directed to a page with Contact Information and Basic Data as well as access to the three support functions. Contact Information and Basic Data is also displayed directly on the front page. The Full Cost of the transaction, when customers have put something in the virtual shopping cart, is also displayed on the front page and when customers go through the payment process they presented with links to the Terms of Trade and various seals for secure payment.

## 4.6 Revenue Streams

Revenue Streams are the ways in which an online business generates cash from its Customer Segments. The online business can have different Revenue Streams for different Customer Segments and some Customer Segments might not generate any revenue at all but are subsidized by other Customer Segments. The use of a Freemium business model, as mentioned in chapter 3.0, is an example of an online e-merchant business with a large Customer Segment of non-paying customers and a small Customer Segment of paying customers.

When deciding upon which Value Propositions to offer to the Customer Segments, the first question was: “What problem do I solve?” Regarding the Revenue Streams, the entrepreneur can ask himself the following questions:

1. How do I make money by solving the problem?
2. What value is each Customer Segment willing to pay for and what value does it expect to get for free?

The first question helps the entrepreneur identify how he will generate cash by offering the Value Propositions to the Customer Segments. Sometimes it might be obvious how to generate cash, other times it might be more complex. In some instances, the entrepreneur may even come to the conclusion that it is not possible to generate any cash from the Customer Segments even though the Value Propositions are novel and innovative – e.g. Value Propositions that include some kind of charity or social entrepreneurship. The second question helps the entrepreneur identify two things: First – if there are multiple Customer Segments – which Customer Segments will pay for value and which Customers Segments expect to receive value for free. Second, what part of each Value Proposition the – paying – Customer Segment(s) are willing to pay for. With these two questions answered, the entrepreneur can choose some suitable types of Revenue Streams for each Customer Segment. The following sections present these types of Revenue Streams:

### 4.6.1 Traditional Sales of Products and Services

This Revenue Stream is based on good old-fashioned commerce: selling a product – whether it is physical or digital – to the Customer Segments at a higher price than the total costs of acquiring and delivering it and thereby making a profit. Or, charging a price for a service that is higher than the total costs of executing the service. This Revenue Stream is often the fundamental Revenue Stream for e-merchant businesses. Smartguy.dk is an online business that sells clothing and accessories to men. It generates revenue by selling and delivering its clothing products to its customers.

### 4.6.2 Advertising

Advertising is a way of generating revenue by offering the advertisers exposure to potential customers in exchange for a fixed fee or a fee based on numbers of clicks on advertising links. In order for the advertisers to be interested in advertising, the website, where they advertise, must typically have a decent amount of user traffic. Advertising can be the only revenue source of a business – e.g. an information website – or it can be combined with some of the other revenue sources mentioned in this section – e.g. an online merchant with Traditional Sales. The advertising can be in the form of banner ads, or links, on a website, or keyword advertising on Google as explained in chapter 3.0. Or it could be advertising bundled with another product – for example java.com that bundles its free downloadable software with an “Ask” toolbar developed by another company and receives a fixed fee plus a fee every time the toolbar is installed. Advertising will be analyzed more deeply in the Key Activities component under Online Marketing in subchapter 4.8.

### 4.6.3 Affiliate Marketing

With Affiliate Marketing, revenue is generated by redirecting customer from one website to another website. Revenue is created each time one of the redirected customers, from the first website, make a purchase on the second website or when the customers simply click on a link to the second website – it depends on the concrete agreement among the two websites. The affiliation can be between two e-merchants or it can be between an e-merchant and a blog, or a niche content website, that recommends, and redirects, the customers visiting its site to the e-merchant’s website. Wizardofodds.com is an information website about most areas of gambling: the type of games, the rules, how to best play the games, betting systems, odds, expert advice etc. The website has advertising banners from only one online casino and this is the only casino that is linked to and the one highest recommended for online gambling. The website is an example of Affiliate Marketing.

### 4.6.4 Subscriptions

Online businesses benefitting from Subscriptions, as a revenue source, charge their customers a periodic fee – usually monthly or annually – and provide the customers access to various services, products or a platform. Netflix.com charges its customers a monthly fee and in turn customers get unlimited access to a variety of online movies and TV series which can be streamed directly from Netflix’ movie library. Online Dating sites also charge a monthly subscription fee for access to various dating profiles. Software, text, audio, as well as video content can all be made into a Subscription Revenue Stream depending on the Value Proposition.

### 4.6.5 Consumer Data Sales

Consumer Data can generate revenue when the businesses that collect the data sell it to other businesses or to marketing companies. Consumer Data is data about consumer habits on the Internet: what they search for, which sites they visit a, what kind of products and activities they like, what they purchase, how old they are, what they do for a living etc. This data can then be sold to other businesses, or marketers, who will use the data for targeted advertising in their marketing campaigns. Facebook has a huge amount of information about user habits, preferences, demographics etc. that marketers are very interested in buying and this is therefore a good revenue source for Facebook. Google also knows very much about consumer behavior on the Internet and can likewise sell this information to other interested businesses. Consumer Data Sales are typically tied to Multi-sided Platforms as mentioned in chapter 3.0 but most kind of businesses, that possess large amounts of consumer data, could generate revenue from selling that data.

### 4.6.6 Licensing

Licensing very much resembles online Subscriptions in that, in both cases, the customers pay a fee for the right to use the product/service but do not own it. Microsoft’s Windows is an example of a product where the customers buy a license to use the product but they do not own it so they do not have the rights to alter it or distribute it.

### 4.6.6 Renting and Leasing

Renting and Leasing gives customers access to use a product for a fixed time period in return for a fee. Like Subscriptions, Renting and Leasing can provide the online business with recurring revenues but the difference is that, with Renting and Leasing, the time period is usually fixed and agreed upon in advance. Renting and Leasing are common with products such as: cars, machinery, electronics and DVD’s, but the tendency on the Internet is to instead use Subscriptions as a Revenue Stream. Blockbuster, which is not a pure online company, offers customers the possibility of renting and watching online, on-demand movies without signing up for a Subscription.

### 4.6.7 Usage Rates

Usage Rates are a Revenue Stream on the opposite spectrum of Subscriptions and are based on the actual usage of the product or service offered – Subscriptions are fixed fees no matter how much the product/service is used. CBB is an online telecommunications business that offers a basic mobile package where customers only pay for the actual minutes they talk and the actual data they send. The cost per minute and per MB data is more expensive than with Subscriptions but there is no fixed monthly or annual cost.

### 4.6.8 Brokerage Fees

The revenue from this Revenue Stream is mostly generated by bringing buyers and sellers together. It can be through an online auction or through an online marketplace platform such as ebay.com or amazon.com. It can be an online investment broker that charges a fee for facilitating the transaction or it can be a real estate agent. Nordnet.dk is an online financial broker that offers a trading platform and customer accounts and facilitates the customers’ financial investment transactions for a fee – which is usually a percentage of the total value of the sale of stocks, bonds etc.

The entrepreneur must evaluate which Revenue Streams are the best to use with each of the Value Propositions, offered by his online business, and what value Customer Segments are willing to pay for. It is perfectly possible to employ several Revenue Streams as long as they are coherent with the Value Propositions. However, the Revenue Streams most relevant for an online e-merchant business are: Traditional Sales, Subscriptions, Renting and Leasing, and Usage Rates.

## 4.7 Key Resources

Key Resources are the most important resources needed by the online business in order to make the whole business model functional. It is the resources needed to create the Value Propositions, reach the Customer Segments – through the Channels, build the Customer Relationships, and generate revenue through the Revenue Streams. Osterwalder and Pigneur (2010) have identified four different categories of Key Resources: Physical, Intellectual, Human, and Financial. Physical Resources are physical assets such as: manufacturing facilities, buildings, vehicles, machines, IT equipment, systems, distribution networks, inventory etc. Intellectual Resources are: brands, proprietary knowledge, patents, copyrights, various partnerships, customer databases etc. Human Resources are the people that are needed to make the business model work. An online coaching business, for example, relies on Human Resources to perform the coaching sessions. Financial Resources are cash, lines of credit, guarantees etc. While it can be argued that practically all kinds of businesses need Financial Resources, the meaning of Financial Resources as “key” resources is that the resources are a key component to make a specific business model work. For example, an online bank, an online stock broker, an insurance company, or a company offering express loans all have Financial Resources at the core of their business models. An online business selling electronics might need some Financial Resources to set up or expand the business but it is the electronic goods and warehouse facilities that are the Key Resources. The entrepreneur can ask himself the following questions to help him identify the Key Resources he needs:

1. What Key Resources do I need to create and maintain my:
   1. Value Propositions?
   2. Channels?
   3. Customer Relationships?
   4. Revenue Streams?

The Key Resources needed by an e-merchant business can differ vastly depending on the type of e-merchant and the business model. An e-merchant that sells clothes will need a stock and some warehouse facilities. An e-merchant that sells digital products will need server space. An e-merchant that offers coaching lessons will need some coaches and an e-merchant that repairs watches will need some special tools. These resources are context-dependent and the entrepreneur has to make an individual assessment about which resources are needed for the concrete business model. There is, however, one overall Key Resource that every online e-merchant needs and which is the foundation of the business, and that is the E-Commerce Solution = the website. This Key Resource will be analyzed below.

### 4.7.1 The E-commerce Solution

The E-commerce Solution is the foundation of every online business. It is where the customers are directed from the search engines, are presented to the Value Propositions, can evaluate them and can choose to purchase them, and it is where customers can get help and interact with the business. The E-commerce Solution can roughly be divided into: technical aspects and design aspects. The technical aspects are all the “background” functions that are needed make the Solution work and the design aspects concern all the functions that are visible, and usable, to the customer. Design aspects will be analyzed in the Key Activities component under Website Design. This section – The E-commerce Solution – will focus on the technical aspects. These aspects are presented separately in the following sections.

#### 4.7.1.1 Domain Name

The domain name is the online name of the business e.g. www.google.com. When deciding upon a domain name for his online business, the entrepreneur can choose a generic name, a trade-related name, or a non-generic name for his business. Generic names could be: theonlineshop.com, webmall.com, shopping.com etc. The advantage of these names is that the can cover most Value Propositions and the online business can start selling different products/services, than originally intended, without compromising coherence between the domain name and the content of the website. The major disadvantage is that the name will most likely drown in the big pool of online businesses that already have such generic names and it will be very difficult to imprint the name into the consciousness of customers.

Trade-related domain names are names that relate to the Value Propositions that are offered. The advantage of these names is that customers know, just by seeing the name, if the website offers relevant Value Propositions that can help them solve their problems. The, major, disadvantage is that if the online business later expands it scope of products and services the name will indicate that the business only have the original offerings and some customers will thus bypass the website in their search for solutions to their problems. Billigvvs.dk – which is translated into “cheap plumbing and heating” – has this problem. The business does sell plumbing and heating articles but have since expanded their scope of offerings to also include: professional vacuum and damp cleaners, electricity and lighting items, tools, hardware, and alarm systems. Many customers will think that the business only has plumbing and heating articles and will go elsewhere to find tools, hardware, etc.

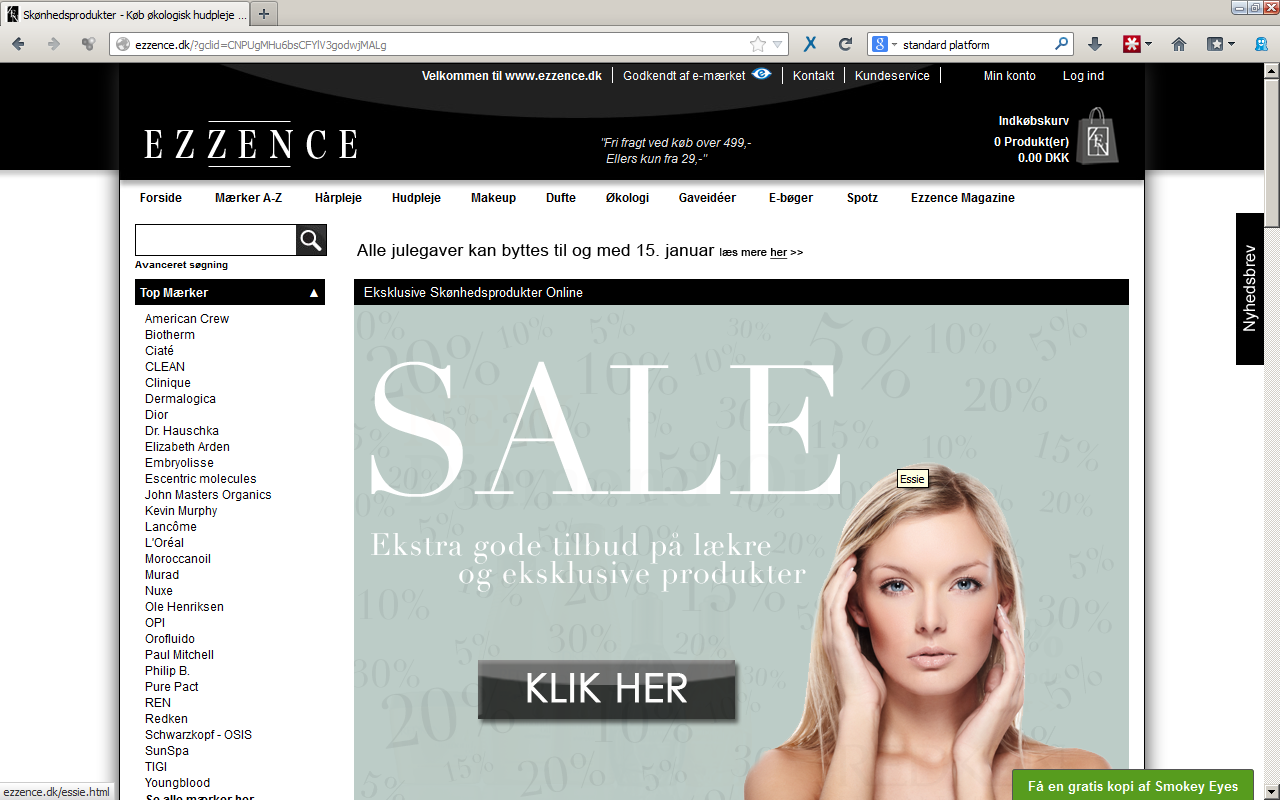
Non-generic domain names are names that have nothing to do with being an online business and do not precisely define, or rather “confine”, what is offered on its website. Amazon.com, wupti.com, google.com, yahoo.com, microsoft.com and twitter.com are examples of non-generic domain names. The major advantage of these names is that they are distinct and fairly easy to remember once they have been imprinted in the customers’ consciousness and they can cover practically all kinds of Value Propositions.

An important consideration regarding domain names is whether the online business serves a national market or multi-national markets. If the business only serves Danish Customer Segments a “.dk” domain is sufficient. If the business serves an international market a “.com” domain is necessary. The domain “.eu” covers the EU area. If the website is translated into multiple languages a national domain is needed for each language/country e.g. “.de” for Deutschland/Germany.

#### 4.7.1.2 The E-trade Platform

The E-trade Platform is the skeleton of the online business. It is the foundation upon which all of the website functions, and the design, are built. The entrepreneur can choose between two categories of E-trade Platform solutions: Standard and Customized. The Standard Platforms are pre-made solutions offered by various online businesses such as Dandomain, Scannet, and Magento. These businesses usually also offer Domains and “hosting services” such as: server space, updates, payment gateways, and support. The main advantages of Standard Platforms are: time and price. Since Standard solutions are pre-made the entrepreneur does not have to develop a completely new Platform – which can be extremely time-consuming. Standard solutions are, as well, significantly cheaper than Customized solutions and will save the entrepreneur a great deal of initial funds in setup costs (costs will be analyzed in the Cost Structure component in subchapter 4.10). The main disadvantages of Standard Platforms are: inflexibility and foundational appearance. Standard Platforms come with some pre-defined functionalities that cannot be changed, so the entrepreneur has to decide whether they fit with his ideas and his business model – otherwise he will need a Customized solution. A Standard Platform can also prove insufficient if the entrepreneur, sometime in the future, wants to expand his business with completely new Value Propositions, new Customer Segments, Revenue Streams etc. The result would be that the entrepreneur will have to acquire a whole new Platform. Also, the foundational structure of the Standard Platform is pre-made so the entrepreneur’s website will have the same structure as other online businesses that also use these Platforms. This issue can be partly fixed by having a special design made but, still, a design will not alter the overall, functional foundation of the Platform – only its visual presentation. Many Standard Platform solutions offer extra modules that can be assimilated with the Platform – e.g. multiple language systems and integrated accounting systems – and these can help the entrepreneur some of the way in his potential expansion plans depending on their scope. Figure 6 shows an example of a Standard Platform:

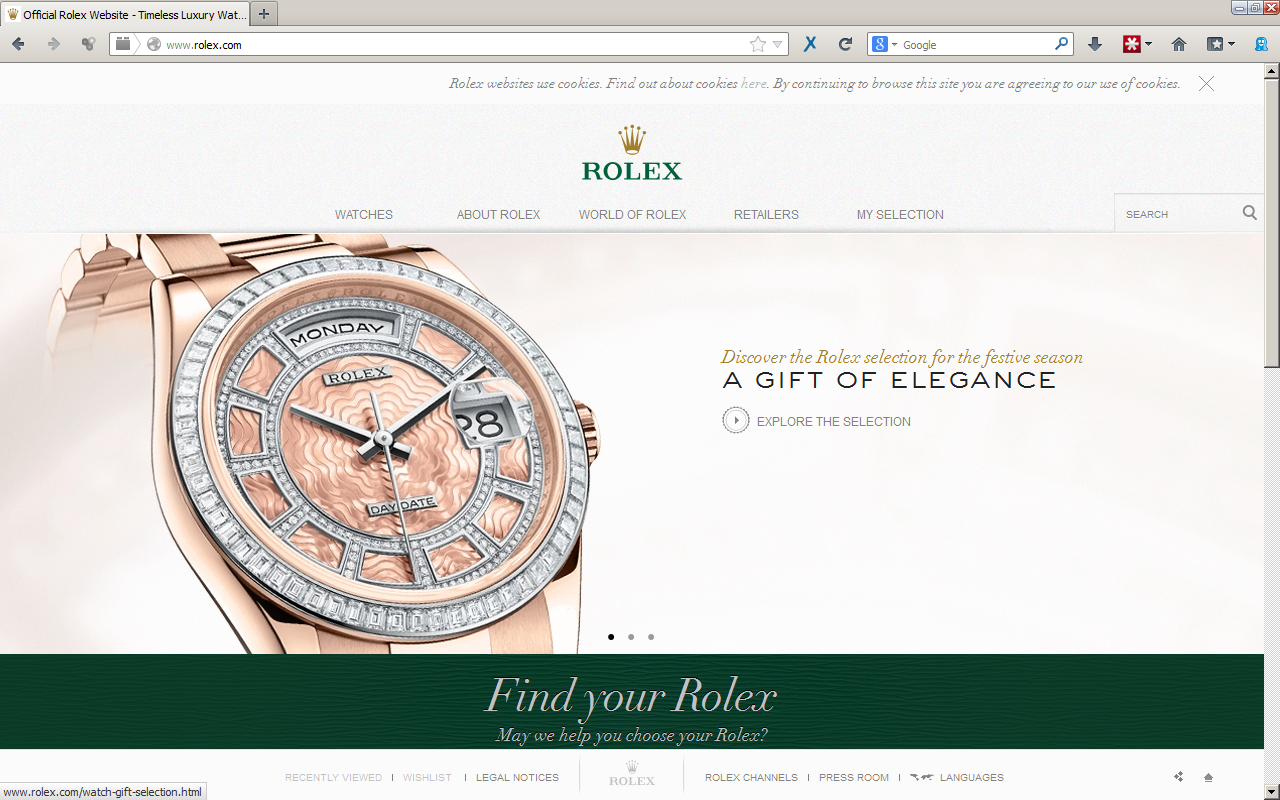
Figure 6: Ezzence.dk – Standard Platform



Source: ezzence.dk

With a Customized Platform, the entrepreneur can have it constructed precisely as he wants. One of the main advantages of a Customized Platform is its flexibility. It can be developed in such a way that the entrepreneur can change the underlying structure of the Platform to fit with whatever new features he might need, and it can be made adaptable to future plans of expansion of the business. Another major advantage is: uniqueness. The Platform can have a foundational structure and design that no other businesses have and can be suited to the particular business model of the online business. The main disadvantages of a Customized Platform are the high costs of programming, design, and maintenance – which will be substantially higher than those of a Standard Platform – and the time it takes to develop a Platform completely from the beginning. Figure 7 shows a Customized Platform:

Figure 7: Rolex.com – Customized Platform



Source: rolex.com

An alternative to the Standard and Customized Platforms is osCommerce which is an open source, and free, pre-made Platform with the possibility of Customization. This solution brings with it the benefit of a Standard Platform = low price, and the benefit of a Customized Platform = flexibility. The entrepreneur will still need a programmer for the customization but since the platform is already made these jobs are minor and the costs will be substantially lower than with a Customized Platform. osCommerce can be a good solution for entrepreneurs whose business models require a flexible E-trade Platform and who cannot attain the funds required for a Customized Platform.

When evaluating which Standard Platform to choose, the following points can be used as a guide:

1. Is the Platform fully Search Engine Optimized? Search engines, and optimal use of them, are one of the key success factors of an online business and while the entrepreneur can conduct Search Engine Optimization (SEO) in general, in terms of high search rankings and marketing activities, the Platform itself must also be constructed in such a way that it is fully ready for integration with the search engines. If the Platform is not optimized for search engines it can be nearly impossible to change at a later point when the Platform is complete with design, extra modules etc. SEO is analyzed more deeply in the Key Activities component in subchapter 4.8.
2. Is the navigation, and buying/payment procedure, of the Platform simple and user friendly? If not, the entrepreneur might miss out on sales because customers get confused in the process.
3. Can the Platform handle multiple languages and currencies? This is crucial for an online business that wishes to serve Customer Segments in multiple countries.
4. Is it possible to integrate the Platform with Financial and Inventory Systems? Otherwise, the entrepreneur might have to change the whole Platform if he, at a later point in time, decides to invest in these systems.

When deciding upon a Customized Platform the following points are important:

1. SEO is integrated in all parts of the Platform. Experienced programmers will usually be aware of the importance of Platform SEO in the creation process but if they are not, and the Platform structure is not optimized for search engines, it can be very difficult to change once the Platform is complete.
2. The Platform is made in a way that new Value Propositions, new markets, new languages, new systems, a new design etc. can be easily integrated into the Platform structure if the entrepreneur wants to expand his business.

#### 4.7.1.3 Payment Solutions

In order to receive payment from customers, two elements are needed: An agreement with the company that offers the payment service – in Denmark called Nets/PBS – and a payment gateway which is a program that validates the customers’ payment cards through a secure connection to Nets. The gateway is typically included in Standard E-trade Platforms. With Customized Platforms secure gateways can be acquired from providers such as the Danish company DIBS. While an agreement and a gateway are mandatory elements for the business to be operational, the entrepreneur must make a decision about which kinds of payment he wants to accept from customers. If the online business serves Customer Segments primarily in the Danish market, the business should definitely accept Dankort – over four million people own a Dankort and 90 % of all payments in Danish online business is conducted with this card[[6]](#footnote-6). If the online business also serves international markets it should also accept international payment cards and different currencies. Nets have an “international payment package” solution where the online business will be able to accept: MasterCard, Maestro, Visa, Visa Electron, VPay, JCB, Union Pay, and American Express, and various forms of currencies. Such a package will cover most international payments with payment cards. Other international payment cards could be: Diners and Eurocard. PayPal is also a payment option. PayPal is an online business that offers to mediate between buyers and sellers and it charges a percentage fee of the total amount transferred. PayPal is often used in consumer-to-consumer transactions but can also be used for business-to-consumer transactions. Danish Customer Segments can also be offered: Danske and Nordea Netbetaling, eDankort, and eWire. Danske and Nordea Netbetaling are secured payments from online bank accounts in Danske Bank and Nordea Bank (the two largest banks in Denmark). eDankort is secure payments from online bank accounts in most smaller Danish banks, and eWire is the Scandinavian variant of PayPal. While it is optimal for an online business to be able to accept as many kinds of payment as possible, it must also be aware that the more payment options it wants to offer its customers, the higher the total costs. These costs concern fixed annual subscription fees and fixed, and percentage, fees on every transaction. The transaction fees are substantially higher for international cards than for Dankort, but if the online business wants to serve international markets it has to accept these cards. Regular money transfers from customer bank accounts to business bank accounts are also an option but since these transfers bear relatively high risk for the customers – the online business can simply choose not to send the products – this form of payment is not verified by “e-mærket”, as mentioned in the Customer Relationships section, and it is therefore not possible for online businesses to acquire this trust seal if it accepts this form of payment.

The entrepreneur has to make an individual judgment in each case about which payment options are necessary, and which might be unnecessary, for his particular business especially concerning the Customer Segments and the markets it serves. The example presented in this section takes it point of reference in an entrepreneur who lives in Denmark. If the entrepreneur lives in another country the national payment service, Nets, will have another name and “Dankort” will have to be substituted with the most widely spread payment card of that particular country.

#### 4.7.1.4 Business Operation Systems

When the entrepreneur has launched his online business with a complete E-commerce Solution, there are some ancillary systems that can aid him tremendously in his day-to-day operations of the business: Financial Management (FM) Systems and Enterprise Resource Planning (ERP) Systems. FM Systems automatically handle most of the financial data of the business and aids with the financial records: accounting, invoices, vouchers, VAT, balance sheets, operating statement, budgets etc. ERP Systems automatically handle most of the online business’ operational activities: purchasing from suppliers, sales to customers, updating inventory, production processes (if any), and employee data (if any) such as salaries and work hours. These systems can save the entrepreneur huge amounts of time because they integrate and automate many of the business processes that the entrepreneur would otherwise have had to conduct manually. In the beginning, the entrepreneur may be able to conduct most processes on a manual basis but when the business starts to grow this work can suddenly become extremely time-consuming. Besides saving time, the systems can help identify exactly which profit margins different products/services have so that the entrepreneur can choose to focus on the products/services that generate high profits and possibly dismiss products/services with very low profit margins. The systems can be quite expensive so an option, for an entrepreneur starting a new business, can be to start out with manual processes and when the business starts to become profitable, he can invest in and FM and ERP System. Microsoft’s Navision and the Danish solution Mamut are two examples of integrated systems with both FM and ERP functions suitable for online businesses.

#### 4.7.1.5 Buying an Existing Online Business

The entrepreneur can short-circuit the entire process of having a total E-commerce Solution made, by acquiring an existing online business. The trick when buying an existing online business is to find one with a business model that has some minor flaws build into it, which result in the business not being as profitable as expected. These flaws could concern the Value Propositions, Customers Segments, Revenue Streams or any other area that could be improved. The flaws should not be so severe that they are non-correctable or extremely costly to correct. Another option is to search for online businesses started by entrepreneurs who did not foresee the huge workload required when owning an online business and now wishes to sell it again without getting too indebted. These two types of businesses – the ones with flawed business models and the ones where entrepreneurs have regretted their upstart – can often be acquired at relatively inexpensive costs compared to the amount of work, and initial money, invested in them. The advantages when buying and existing online business, besides the potential relatively low price, can be:

* Access to an already existing customer database
* An already existing newsletter – which is a very powerful marketing tool – and a mailing list
* Systems, software or technology ready for adoption
* Supplier contracts with favorable agreements
* Employees with specialized knowledge e.g. programmers or designers
* A domain name that is known by the search engines or as a brand
* Potential Public Relations (PR) value when “transforming” one business into another

While it can be a good solution for the entrepreneur to buy an already existing online business there are some possible hidden dangers attached to such an investment. The entrepreneur can ask himself the following questions to help steer him clear of these potential dangers:

* Does the business have a bad reputation?
* Is there a lawsuit pending?
* Are there any problems with patents or copyrights?
* If the E-trade Platform is Customized, is it possible to change and maintain it?
* Are the revenue sustainable long term or does it come from short term, leveraged marketing campaigns?
* Will all customers disappear together with the former owner because they are part of his network?
* Can supplier terms be kept the same?

Amino.dk and match-online.dk are two online marketplaces where entrepreneurs – especially Danish entrepreneurs – can buy and sell online businesses as well as physical businesses.

## 4.8 Key Activities

Key Activities are the most important activities an online business must perform in order to make the business model functional. As with the Key Resources, the Key Activities can differ depending on the type of e-merchant and the underlying business concept. eBay has platform development and maintenance – for its auctions and online trade – as its main Key Activity whereas Dell – which offers customized computers – has supply chain management and computer assembly as its Key Activity. These activities are context-dependent and the entrepreneur must identify which activities are relevant for his specific online business. The entrepreneur can use the following questions to help him identify the Key Activities:

1. What Key Activities do I need to perform, in order to create and maintain my:
   1. Value Propositions?
   2. Channels?
   3. Customer Relationships?
   4. Revenue Streams?

However, as with the Key Resources, there are some Key Activities that are common for most types of e-merchants and these are the ones which will be analyzed in the following sections.

### 4.8.1 Online Marketing

For an online business, marketing – and especially online marketing – is crucial. In contrast to the real world, a new business on the Internet is generally invisible to customers unless it does something to catch their attention and draw them to its website. The different marketing elements presented in this section have various purposes. Some are aimed at attracting customers to the online business’ website, some are aimed at getting customers to make a purchase, some to get customers to return to buy again in the future, some at selling additional items to customers, and some are aimed at getting existing customers to convince other potential customers to visit the website and make purchases. Common for all elements is that they are highly adaptable for an online business. The major advantages of Online Marketing, compared to offline marketing, are:

* Everything is measurable and it is possible to track customer behavior 99 %.
* It is possible to target Customer Segments with extremely high accuracy – because information about what they are searching for, what their preferences are, how they behave, their data etc. are readily available through various statistical online tools.
* Online Marketing is usually based on results rather than exposure. This will be explained in the Search Engine Marketing section below.
* People on the Internet are seldom “window shopping”. If they search for a product, on one of the search engines, it is most likely that they usually have an intention of buying that product. They are not just taking an “online stroll”.
* Online Marketing has the potential of reaching a significantly larger group of potential customers than offline marketing at markedly lower costs.

Since the focus of this analysis is an e-merchant business, the Online Marketing presented in this section will primarily be focused on how to generate sales and income rather than branding of the business.

#### 4.8.1.1 Search Engine Optimization (SEO)

Search Engine Optimization (SEO) is the art of getting the online business as high a ranking as possible on the various search engines. Google will be used as a search engine example in this analysis since the principle is the same with the other search engines, and Google has, by far, the largest amount of user traffic – 90 % of all worldwide, online searches happen via Google (Strandbygaard, 2011). China is the exception. A high ranking on Google means that the online business will be listed on page one, and preferably among the first five search results, when users type in a keyword or sentence to search for a Value Proposition on Google. This ranking is extremely important for online businesses since it is the major way that customers are directed to their websites – 61 % of the World’s online trade happens with the search engines as point of departure (Strandbygaard, 2011) and with Google accounting for 90 % of all searches, app. 55 % of all online trade starts with Google. The users of Google, who search for a product-related keyword, are usually looking to buy that product, and the customer traffic directed from Google, to the online business, is therefore very valuable since the customers have buying intention – compared to customers who are e.g. checking their mails and are presented to some form of link or banner. The way that Google works is basically that it finds the websites that are most relevant for a specific keyword or sentence e.g. “bicycle”. The more relevant a website is the higher it will be ranked in Google’s search results. An important note: Google does not rank whole businesses or whole domains but only individual pages of the business/domain (still, in this section, the term “ranking of the online business” will be used). These pages can be the front page of an online business or it can be a sub-page of the business dependent on the relevancy. So, how does Google determine the relevance of websites and how does an entrepreneur get his online business to rank high in the search results of Google? First, Google looks at “age” = how long it was since the domain was registered. The second thing Google examines is “incoming links” = how many external websites link to the relevant website – and the quality of those links (the same criteria as described here in this paragraph). Third is “outgoing links” to other websites and the quality of these websites. Fourth, Google looks at the relevant website, or rather the specific page, to see if it contains the search keyword and if the content in general is about the keyword and whether the written text is unique or just copied from another source. The fifth thing Google looks at is the other pages of the online business/domain to see if the overall content is also about the keyword and what the quality of these other pages is (Dover, 2011). Google also uses some secret algorithms which are, of course, impossible to take into account.

The way an entrepreneur can get his online business a high ranking on Google is to take point of reference in the five elements above. The first is age = the entrepreneur can look to buy a domain, or a whole online business, in order to have a domain name that has been on the Internet for some time. Related to age is the period for which the online business’ domain has been paid for in advance. A new domain that has been prepaid ten years ahead gets a better ranking that a domain that has been prepaid one year ahead.

Concerning “incoming links”, it is hard for the entrepreneur to control how many other businesses link to his business and which these businesses are. Furthermore, the entrepreneur wants as many to link to his website as possible and at the same time he wants the links to come from sources which are, themselves, high quality. The higher the page rank of those who link to his website the higher the page rank, of his website, will be. The entrepreneur can try to acquire links by examining which websites link to his competitors and then ask those websites if they would mind also linking to his online business since the Value Proposition is similar. Another way for the entrepreneur to acquire more links is to find some websites that relate to the main Value Propositions that is offered by his online business and pay these websites to link to the online business. If the Value Proposition is “designer clothes” then the entrepreneur could contact Internet sources, such as portals, forums, that are somehow related to “designer clothes” and pay them a small amount for the link. The links themselves might generate some customer traffic but it is the Google ranking that is the most important with these links. It is also possible for the entrepreneur to offer customers – who have a website themselves – a percentage discount if they agree to link to the entrepreneur’s online business from their websites. A fourth way to get more incoming links is to trade links with other online businesses or websites. There is, however, a catch with this approach. If two online businesses just exchange mutual links, Google will recognize that it is an agreement and it will therefore not have much weight. If, on the other hand, three businesses can exchange links in a circular fashion the effect will be much more pronounced. I.e.: Business A links to business B which links to Business C which links to business A. The actual text, of the incoming links from other sources, should – whenever possible – relate to some of the keywords on the online business’ website. Example: If the online business sells designer clothes then the link text should be “designer clothes”, or something related, instead of e.g. “click here”. Otherwise, Google will search for the term “click here” on the online business’ website which will most likely not be present and it will thereby reduce overall relevance (Enge et al., 2012). The actual text of the link is also important, in terms of SEO, when the online business links from one internal page to another e.g. if the link is directed to a page with jeans the link text should be “jeans” or something related. This will help increase relevance and consequently page rank on Google. A final way to get more incoming links is to place links, with relevant link texts, in press releases. Press releases will not be covered here but when they are distributed, by various press networks, they can be found by Google and so can the incoming links in them and this will create a higher page rank on Google.

Google’s third relevance criteria, “outgoing links” is more controllable by the entrepreneur. It is simply about linking to other quality websites with relevant links. Outgoing links are not considered nearly as important as incoming links by Google – since it would be easy for any online business to just start linking to 100.000 different websites. But it still holds some value if the outgoing links are relevant.

The fourth relevance criteria is the “specific page” and the fifth criteria is the “whole domain/online business”. As mentioned earlier in the analysis, the SEO regarding the structure of the online business/e-commerce solution, and all its pages, is quite complex so, in most cases, this particular aspect of SEO is best done by using experts. Explained in a very simple way it is about making sure that the search keyword on Google is used in as many strategic places as possible on the different pages of the online business especially the: title and headlines, the body text and the photo texts. There is some coding involved and some other aspects and, as mentioned, it is very recommendable to get help with this particular element of SEO. The main reason that it is recommendable to get help with this particular issue is that the online business has to be signed up at Google – and the other search engines – and the business can only be signed up *one time.* If the e-commerce solution is not Search Engine Optimized the only solution might be to, first, buy a new domain and, second, start over with a new e-commerce solution – with the immense consequences that entails.

One thing the entrepreneur can do – in terms of page and online business SEO – is to make sure that the content on the online business’ website is updated. An online business with a website that is updated every day is considered more relevant by Google than a website that is updated one time each month (Flensted, 2011). A good way of making frequent updates is to have a “news section” with news regarding the business, the industry or other relevant subjects. A news section can be updated on a daily basis without changing content just for the sake of changing it. It is also possible to use small bites of news from other sources and then link to these sources. This will also contribute to an updated website.

Another way of using SEO in terms of the complete online business is to focus on specialized search terms instead of just popular words. If the main Value Proposition is designer clothing then that would be the most optimal search words – but there are most likely a good amount of other businesses that also sells designer clothes and uses these words on their websites. What the entrepreneur can do is to specify the term. Instead of using “designer clothes” all over his website he could use “Danish designer clothes” or “quality Danish designer clothes”. These terms are, with a high likelihood, not used as much as “designer clothes” by other online businesses and it is therefore easier for the entrepreneur’s online business to get a higher ranking with the use of the more specified term. The entrepreneur’s online business as a whole must then be optimized for this term – another good reason for using experts on the e-trade platform aspect of SEO. Finally, the more pages that the online business has the more visitors it will attract. The SEO expert Mikkel DeMib writes on his blog[[7]](#footnote-7) that for every page the online business has, it attracts one or two unique visitors per day. So if the online business has 20.000 pages it will attract significantly more potential customers than if it had 100 pages. If the entrepreneur focuses on continual development of his online business, including more pages, he will continually attract more and more potential customers.

Even with all the above elements in place, SEO takes time and there are no magic bullets. New competition is constantly arising and the search engines change their algorithms for how to decide relevance. The best thing the entrepreneur can do is to focus on the elements above and trying to run a business that exudes quality and professionalism and then slowly gain higher and higher search engine rankings.

#### 4.8.1.2 Search Engine Marketing (SEM)

Search Engine Marketing (SEM) is similar to SEO – in that an online business tries to achieve a high page rank on the search engines – but whereas SEO does not involve any direct costs, SEM is a paid service. The focus in this section will be on SEM on Google – for the same reasons as mentioned in the SEO section – but SEM through Yahoo Search Marketing could also be of interest to entrepreneurs conducting online marketing. Google’s SEM is called AdWords and functions through an auction principle where businesses bid on certain keywords and sentences, and the business that generates most profit for Google is ranked the highest in what is called the “sponsored links”. Sponsored links are displayed individually at the top of the search result pages and are not mixed with the generic search results which have not paid anything for their rankings. In other words: Generic search results (websites) are ranked in terms of relevance. Sponsored search results are ranked according to who wants to pay the most for a click. Online businesses only pay Google when potential customers actually click on the advertisements and not – as often seen in the real world – just for the exposure. It is not necessarily the online business that is willing to pay most for a click that get the highest ranking among the sponsored links, it is the one that generates the highest profit – for Google. If one online business pays 5 DKK for each click on its advertisement links, and it gets 1000 clicks, the profit generated is 5000 DKK. If another online business only wants to pay 2 DKK for each click, but gets 3000 clicks, the profit generated is 6000 DKK. In this example, the online business bidding 2 DKK per click gets the highest ranking even though the other online business is willing to pay more than double the amount. An obvious question would be: What is best, to be at the top of the generic or the top of the sponsored search results? Since 90 % of total clicks is on generic and 10 % on sponsored links (Strandbygaard, 2011), a top generic ranking is better than a top sponsored ranking – but also much more time-consuming to obtain as explained in the SEO section. It is possible to be both the top-ranked in the generic results and the sponsored results but since such an approach is perhaps more suitable for online business trying to achieve market dominance and squeeze competitors financially – because competitors would have to pay a relatively high price for the top ranking in the sponsored results.

The important elements of SEM can be divided into three basic elements: The Search Word, The Advertisement Link, and The Landing Page. These three will be presented individually in the following sections.

##### 4.8.1.2.1 The Search Word

When choosing upon which search words to bid on, the entrepreneur should try to focus on words, and sentences, beyond the most obvious ones. If he sells personal development products the most obvious search word(s) would be “personal development”. The problem with this search phrase is that there are, most likely, many other online business which are also interested in using that phrase in their SEM campaigns and the phrase will consequently have many bidders and a high price. If the entrepreneur, instead, tries to focus on personal development in a broader sense he can come up with words and phrases that are not as “popular”. Instead of “personal development” the entrepreneur could use:

* Personal development aimed at anxiety
* Personal development for men
* Personal mastery based on NLP
* Self help material for men
* Etc.

The advantage is that these more specified sentences are, most likely, not as sought after as “personal development” and therefore significantly cheaper per click. Furthermore, there are actually more searches on Google based on sentences that on individual words (Lindbæk, 2008). A way to start the process of identifying the words/phrases is to invite a small group of people, from potential Customer Segments, and ask them to conduct some searches to find, first, the online business and, second, the online business’ Value Propositions. This approach will provide the entrepreneur with valuable information about which words and sentences the customers use in the search for the business and the Value Propositions. The findings can then be supplemented with a free function in Google that comes up with suggestions for other ways to construct and use the search words and phrases. Another way to identify words is to set up a structured search word analysis. In this analysis, the entrepreneur lists every possible word he can think of which is related to his business and his Value Propositions. It can be brands, product types, product group etc. These words can then be combined with various value words like: cheap, fast, luxury, beautiful, effective etc. and then sentences can be formed. The entrepreneur can then use all of these words in a huge variety of different combinations and permutations, and he can exchange key words with various synonyms. It can also be a good idea to buy various spelling errors since these are not likely to be as sought after as the correct versions and thus cheaper. Finding words and sentences is quite comprehensive work, in time and effort, but done well, the result can be very successful words and sentences with many clicks and relatively low costs. Goodman (2009) recommends that even small businesses have at least 5000, and preferably 20.000-50.000, different search words and sentences. With the Google sentence generator tool, and some work, these amounts are quite realistic.

##### 4.8.1.2.2 The Advertisement Link

The most important factors of the advertisement links are: getting potential customers to click on the links and making sure that Google find the links relevant to the search word/sentence which the customers have used. Getting potential customers to click on the advertisement is about constructing a compelling text that focus on sales. If the Value Proposition is “personal development” the text could be: “Be able to live the life of your dreams – at only 50 % of the normal price” instead of “Buy personal development products here” – or whatever suits the specific products or services offered. The focus should be on enticing customers to click, and make a purchase, by offering discount, excellent service etc.

In order for Google to find the advertisement link relevant to the search word, the text of the advertisement text must contain the search word. If the search word is “personal development” and the advertisement link text uses “self help” instead, Google will find the link less relevant and charge a higher price for the advertisement. Conversely, the more relevant the advertisement link is, the more discount the entrepreneur can gain – because Google’s business foundation is based on providing as relevant search results as possible to its users.

##### 4.8.1.2.3 The Landing Page

The landing page is where potential customers end up when they click on the advertisement links. Google is very interested in a landing page that is relevant to its users search words. As with the advertisement text and the search word, the landing page must also contain the words that are used in the advertisement text in order for Google to find the landing page as relevant as possible. If the entrepreneur uses “personal development” in his advertisement text but “self help” on the landing page, Google will raise the price of the search word, or sentence. The entrepreneur is also interested in a landing page that is as relevant, to the search word, as possible since each click incur costs, and a relevant page is also more likely to further a sale. It is important that the landing page does not contain any “tricks” that will annoy Google’s users – such as: pop-ups, forced downloads, automatic accepts of receiving newsletters, browser change etc. since Google will raise the price per click substantially if these irritating elements are present. Also, if the landing page contains a privacy policy and contact information Google will judge the page as more relevant than if these user protection elements are not present. A final consideration, that does not have to do with Google, is to make sure that the landing page is coherent with the advertisement link. If the link concerns a “Samsung RT45 HD TV” then the customers should be directed to the exact page where that TV is presented. Sending the customers to the front page of the online business – where they would have to start searching among hundreds of products – could very well result in frustration and a return to Google to find another business that does direct the customers to the exact product page.

Very much related to Google AdWords is Google’s Content Network. Through Google’s Content Network, also known as AdSense, it is possible for an online business to have advertisement links placed on various websites on the Internet which have made partner agreements with Google. The advertisement links are placed on the various websites and they earn a provision from each click on the links. This approach requires that potential customers are already at a website in the Content Network and then actively click on the advertisement link to the entrepreneur’s online business. Since potential customers can be visiting the websites for other reasons than shopping, the approach is not as effective as advertisement links on Google’s search results. However, Google adjusts the advertisement links with the content of the network websites in order to ensure as high relevance as possible and thereby a higher click probability.

#### 4.8.1.3 Newsletters

Newsletters are emails sent to customers, or potential customers, who have consented to receive them. 29 % of all online trade take its point of departure in newsletters (Strandbygaard, 2011) and they are, therefore, very important in the online marketing strategy for an online business. One of the major advantages of newsletters is the marginal costs of sending one more newsletter to customers. Newsletters are sent via a mail list with customers’ email addresses and whether this list contains 100 email addresses or 100,000 email addresses bears practically the same costs. Strandbygaard (2011) estimates that, with an average newsletter, 0.2 % of receivers end up placing and order and, with a good newsletter, 2-3 % of receivers end up placing an order. So, the more recipients the more profit. With a mail list of e.g. 100,000 recipients and a good newsletter – with 3 % turning into paying customers – an online business can generate 3,000 new sales from one single newsletter, and if the newsletter is sent every 14 days it amounts to 6,000 new sales each month from this single source of marketing.

The two main purposes of newsletters are customer acquisition and customer retention. Customer acquisition is about converting non-paying, potential customers into paying customers. It usually happens when potential customers visit the online business’ website, with buying intentions, but do not make a purchase, but also when customers end up the website by mistake. In these cases, the aim is to make these visitors subscribe to the newsletters before they leave. Customer retention is about having paying customers return at a future point in time to make an additional purchase. With already paying customers, newsletters are effective tools for keeping the online business, and its Value Propositions, fresh in the minds of customers. A well-written newsletter can gain a large group of customer “followers” who look forward to receiving the newsletter every 14 days and this makes it a very effective tool for building customer loyalty and building a strong brand.

##### 4.8.1.3.1 Acquiring Subscribers

When acquiring new subscribers for the newsletters, the entrepreneur must focus on both acquiring subscribers from non-paying visitors and from paying customers. The non-paying visitors can be acquired by placing a sign up area on the front page and on as many pages of the online business as possible – since it is hard to know where these visitors will enter the online business. Concerning the paying customers, these can be enticed to subscribe to the newsletter when they are in the final stages of the payment process, when they give their credit card information, or at the final page when the transaction is completed.

In the process of trying to acquire subscribers it is important to ensure subscribers that they will not receive a load of spam mails and that their email addresses will not be handed over to third parties if they sign up. It is also important that the subscribers can see some potential benefit from signing up. These benefits can be: discounts – either on future orders or discounts for friends, customer points that can be traded into products, or participation in contests with alluring prizes. It is about informing subscribers about how many newsletters they will receive, how often the newsletters will be sent, and what the advantages of receiving the newsletters are. A poor subscription text would be: “Click here to receive our newsletter” whereas: “Click here to get 15 % discount on your next purchase and receive our monthly newsletter with good offers and relevant information about new products” is much more enticing.

Another way of acquiring subscribers is to buy them via advertising networks. Advertising networks have access to a large user database from which they can acquire potential customers who are interested in the online business’ Value Propositions and in receiving newsletters about these Value Propositions. The advertising networks also have access to a large base of affiliates which are online businesses, information websites etc. that get provision for supplying the advertising networks with potential customers who are interested in subscribing to a newsletter. The more appealing the newsletter is – with discounts, gifts, large contest prizes, VIP advantages etc – the lower the price will be for each subscriber. The more information the online business wants about the subscribers the higher the price will be. If the only information needed is name and email address, the price will be lower than if the information shall encompass: name, address, email address, phone number, date of birth, income, number of people in the household etc. An advantage with these subscribers is that they are usually very active in reading and responding to newsletters and is therefore very potential customers. Furthermore, a screening of the subscribers is performed in order to make sure that the same email is not listed twice and that the subscribers have real names, addresses etc. – depending on the depth on the provided information. So, by using advertising networks, the entrepreneur can, within a very limited time frame, expand his newsletter subscriber base with a good amount of subscribers and thereby potentially increase his online business’ profits. An example of an advertising network business is euroads.com.

A third way of acquiring subscribers is to offer potential customers the possibility of participating in contests with attractive prizes in return for a signup to a newsletter. This approach can be used systematically by using various online contest websites were potential customers can participate in various contests with prizes that interest them. Konkurrencesiden.dk is an example of a contest website were users can find contests suited to their preferences and freely participate in contests in exchange for agreeing to receive newsletters – and sometimes text messages and phone calls from the businesses that host the contests. The danger with these contest subscribers is that the subscribers “speculate” in them and have an email that they use only for registration when participating in contests and that they, thus, never read the received newsletters.

##### 4.8.1.3.2 Creating Newsletters

When creating newsletters, the focal point must be the interests and needs of subscribers and what they might be interested in receiving information about. Newsletter must contain a good reason for why it is sent. It can be: a new product, special offers, special occasions, festivals etc. Newsletters also need a good introduction with a striking headline that entices a purchase. A personalized greeting, where the subscriber’s name is used and the entrepreneur’s name is placed with a “goodbye” at the end, can help build a stronger connection between the subscriber and the online business. Newsletters must also contain some information about the products or services offered. High quality pictures and catching product descriptions encourage sales, and direct links to the relevant product pages ease the buying process. Text links generates more clicks than photo links (Eisenberg, 2006) so it is a good idea to have text links together with product photos. Prices must be transparent and visible – especially if there is a special offer in the newsletter. The special offers can be time-limited in order to entice subscribers to act fast. Special offers can also be a free small gift where subscribers only have to pay for shipping. Some of the recipients of the free gifts will most likely choose to also purchase some other products.

The fundamental purpose of newsletters, sent by an e-merchant, is to persuade subscribers to make a purchase. The second purpose is to build loyalty and connection so that subscribers, should they not make a purchase right away, will be more connected to the online business and, hopefully, return to buy something in the future. To further this second purpose, the newsletter can encourage subscribers to participate in contests or supply them with some free, valuable information on the online business’ website. Newsletters can also be used for branding but that is a much more long term approach which will usually not generate immediate profit – which is important for a new online business.

### 4.8.2 Logistics

Logistics concern all the elements necessary for being able to deliver the Value Propositions to customers. For some online businesses, logistics will constitute a rather small part of total business operations. For others, logistics will have much more weight. Online businesses that have digital products as their Value Propositions will basically only need to focus on logistics in regards to making sure that customers can download the products in an easy manner and that the digital products have servers on which they can be stored. Online businesses which have physical products as their Value Propositions face some extra challenges handling these products. The focus of this section will primarily be on these extra challenges.

Note: Logistics is closely linked to geography and can span from a local focus to a global focus. In the following sections the Danish market will be used as the primary example. The principles are the same no matter the national market but the findings – e.g. national postal service etc. – will have to be adjusted according to the specific characteristics of the market in question.

#### 4.8.2.1 Inventory, Packaging and Shipping

The entrepreneur has to consider how he will handle inventory, packaging and shipping. There are some different models of handling these elements and each model has its advantages and disadvantages.

The first model is called Drop Shipping and the essence of this model is that everything regarding inventory, packaging and shipping is carried out by the supplier to the entrepreneur’s online business. If the online business sells bicycles the supplier of the bicycles will store the bicycles at its inventory, and it will package and send the bicycles directly to the customers’ addresses upon ordering. The major advantage of this model is that the entrepreneur does not have to worry about inventory facilities, packaging the orders, having them sent, and receiving return orders. Everything is handled by the supplier. All that is required, of the online business, is a computer system where the ordering process is integrated with the supplier’s inventory system. The major disadvantage is that the entrepreneur is totally dependent on the supplier in the total order handling process. If the packages are poorly packaged, if they arrive too late, if they do not contain the correct products etc. all of this will be linked directly to the entrepreneur’s business and it will have to take full responsibility for everything. So, it can be quite a risk to let a supplier handle the whole packaging and shipping process but it can also save the entrepreneur a significant amount of time and money. While it may be possible to employ drop shipping if the online business only has one or a few suppliers, the application of the model becomes much more difficult if the online business has numerous suppliers and has to make agreements and perform quality control with each of these suppliers. A better solution could then be to use an Inventory Hotel.

Inventory Hotels, as a model, is an approach where inventory, packaging and shipping is still handled by an external partner – an inventory hotel. These hotels are businesses specialized in handling everything related to inventory, packaging and shipping. Inventory hotels typically charge an amount based on the volume of goods in the inventory and an amount for each order that is packaged and shipped. The major advantage of inventory hotels is that the entrepreneur only needs to put a minimal effort into the whole area of Logistics. The only thing the entrepreneur needs to focus on is to order new articles for the inventory, and with an ERP system – for synchronizing orders with inventory – that is connected to the suppliers’ systems, even this aspect can be automated. Another advantage is that the entrepreneur does not need to invest in his own inventory and packaging personnel and that a major part of the costs of using and inventory hotel are variable. In fact, the costs that the entrepreneur can save from not having his own inventory and packaging personnel combined with the inventory hotels’ often very lucrative shipping fees and discount on materials – because of economies of scale – may very well compensate for the total costs of using the inventory hotel; meaning that the entrepreneur can use an inventory hotel at the same costs as if he had handled logistics himself. This is especially true for a small online business. It is also possible to have numerous suppliers when using an inventory hotel since the articles from the various suppliers will be delivered to the inventory hotel which will then take responsibility. The major disadvantage of inventory hotels is the loss of control over the packaging and shipping process. If orders are not packaged correctly or they are late, it is the online business that is the “culprit” in the eyes of customers. However, with clear agreements and contracts and a highly professional inventory hotel this disadvantage can be kept to a minimum.

The third model, of handling inventory, packaging and shipping is to do it all In-house. With this model, the online business has its own inventory and its own personnel who updates the inventory, packs orders and ship them to customers. The major advantage of this model is that the online business has total control over all functions related to logistics. The major disadvantage is that such a setup is very expensive so the sales volume must have a certain level. Also, expenses for store house and staff are fixed no matter how much revenue is generated – if no revenue is generated these costs can be fatal for a new online business. However, when sales and revenue reach a certain volume the model can turn out to be quite cost efficient because the higher the revenue, the relatively lower the total logistical costs will be. For a business which is very dependent on a good reputation regarding logistics – e.g. a business selling antiques, jewelry or very expensive items and which cannot afford to make mistakes – the In-house model might be the only sustainable logistical model – in regards to maintaining a reputation of being an “error free” business.

#### 4.8.2.2 Delivery to Customers

One of the most important considerations when delivering parcels to customers is what the shipping costs, for customers, will be. The shipping costs can be a very important part of generating sales for an online business. The online business has the following options when deciding the price of shipping:

* Free Shipping – With this option, the customers pay nothing for having their parcels sent no matter the size and weight of the product. Free shipping can be a very effective tool to attract customers since they are used to paying for shipping when shopping online. It is, however, also a very costly tool to employ. If the profit margin on the product is relatively low, free shipping can result in negative earnings. It might also be the case that the shipping costs, for the online business, surpasses the total value of the parcel sent. This will often be the case with relatively inexpensive products. Negative earnings are, of course, in no way viable for any business. At the other end of the spectrum, the products can be so big and heavy that, with free shipping, the online business’ shipping costs, to couriers, will diminish the total earnings on the product significantly. The entrepreneur must make an individual assessment of whether the costs of free shipping can be compensated for by the increase in total sales that free shipping will, hopefully, generate. It will depend on the type of products, the average value of each order, and the shipping prices he pays to his couriers.
* Free Shipping depending on the value of the order – This option offers customers free shipping if the total value of their order reaches a certain level e.g. 500 DKK. The idea is to inform customers about the opportunity of free shipping if they purchase one more product. If a customer has bought a pair of shoes for 400 DKK, and can save e.g. 79 DKK in shipping costs if she buys for 100 DKK extra, she might be enticed to find one more product in order to save the 79 DKK and this will in turn generate more revenue for the online business – especially if the extra product has a higher price than 79 DKK. Smartguy.dk which sells fashion clothes to men offers its customers free shipping and free return of goods should the clothes not fit.
* Fixed Shipping Price – With this method, the customers pay a fixed predetermined price no matter the size and the value of the order. Together with free shipping this method is the most manageable for customers. The method, to some degree, help solve the problem with shipping price vs. inexpensive orders with limited profits since most customers will be encouraged to place orders of a certain value in order to avoid paying more in shipping costs than they paid for the entire order.
* Progressive Fixed Shipping Price – With this option, the online business offers customers e.g. two or three different fixed prices – depending on the weight of the parcels sent. Billigvvs.dk, mentioned earlier, has three fixed prices: 49, 79, and 159 DKK depending on the product. If the product is a small tool the price will be in the lower end of the scale and if the product is a bathtub, the price will be in the higher end of the scale. Progressive fixed price is suitable for online businesses selling products which vary greatly in size and weight.
* Variable Shipping Price – When the shipping price is variable it is linked to the price the online business pays to its couriers. The heavier, or difficult to handle, the product is, the higher the price. This method can be very confusing for customers since they do not have a clear overview of the shipping costs before they are ready to pay for the order and it is rarely used in the business-to-consumer market.

Another important delivery consideration is Delivery Spots – where the parcels are delivered to. The first option is the customers’ private addresses. Post Danmark, the Danish national postal service, delivers directly to customers’ private addresses in Denmark. It is also possible to use a “flex delivery” system where the parcel, with the customers’ consent, can be placed anywhere on the premises even though the customers are not at home.

The second option is delivery to the customers’ workplace addresses. This option is usually cheaper than delivering to private addresses since there is almost always someone to receive the parcels at the premises. Parcels delivered to a workplace address can also, in most instances, be bundled with other parcels that have to be delivered to the same address – resulting in lower shipping costs for the online business. GLS and DPD are couriers that deliver to Danish workplace addresses.

The final delivery option is In-store Pickup. With this option, customers can pick up their parcels at various pickup points in their local cities. The pickup points are usually supermarkets or smaller kiosks, 7-Elevens and other businesses with prolonged opening hours. This form of delivery is usually the cheapest since couriers can bundle parcels together and drop them off at the designated pickup points thereby lowering their transport costs. The courier company GLS offers this form of delivery to customers of online businesses.

Delivery time to customers must also be considered. The most optimal for the entrepreneur would be to be able to deliver the same day as the order is placed. This is, however, not always possible as it depends on the time of day the order is placed and when the courier picks up the parcels. On the other hand, the online business can promise customers that they will have the parcel the next day – if it is not a Sunday – but this form of express delivery bears with it additional costs. Standard postal delivery time is one to three days and that is an acceptable level of service for most online businesses. The online business could have express delivery – next day delivery – as an additional option where the customers themselves pay the extra costs incurred. Such an option will be appropriate for businesses with Value Propositions related to special occasions such as: flowers, chocolate, jewelry, gift baskets etc.

### 4.8.3 Website Design

If the e-trade platform is the skeleton of the online business then the website design is the muscles and the skin – the functionality and the visual appearance. Website design is very important for an online business since it is the main source of making a good first impression. First impressions are even more important for an online business than for a physical business. An online business can overcome a poor first impression by an enthusiastic, positive and outgoing owner or sales staff – online businesses do not have this luxury. It is crucial for an online business that customers perceive it as professional, credible and trustworthy from the moment they arrive at the website and until they have placed their orders and left. A well-designed website helps convey these aspects. If the website radiates unprofessionalism and untrustworthiness, the customers are only one click way from the next online business and will disappear without even bothering to search for products since they have other options at their fingertips. The following sections will present the most important elements related to website design.

#### 4.8.3.1 Visual Identity

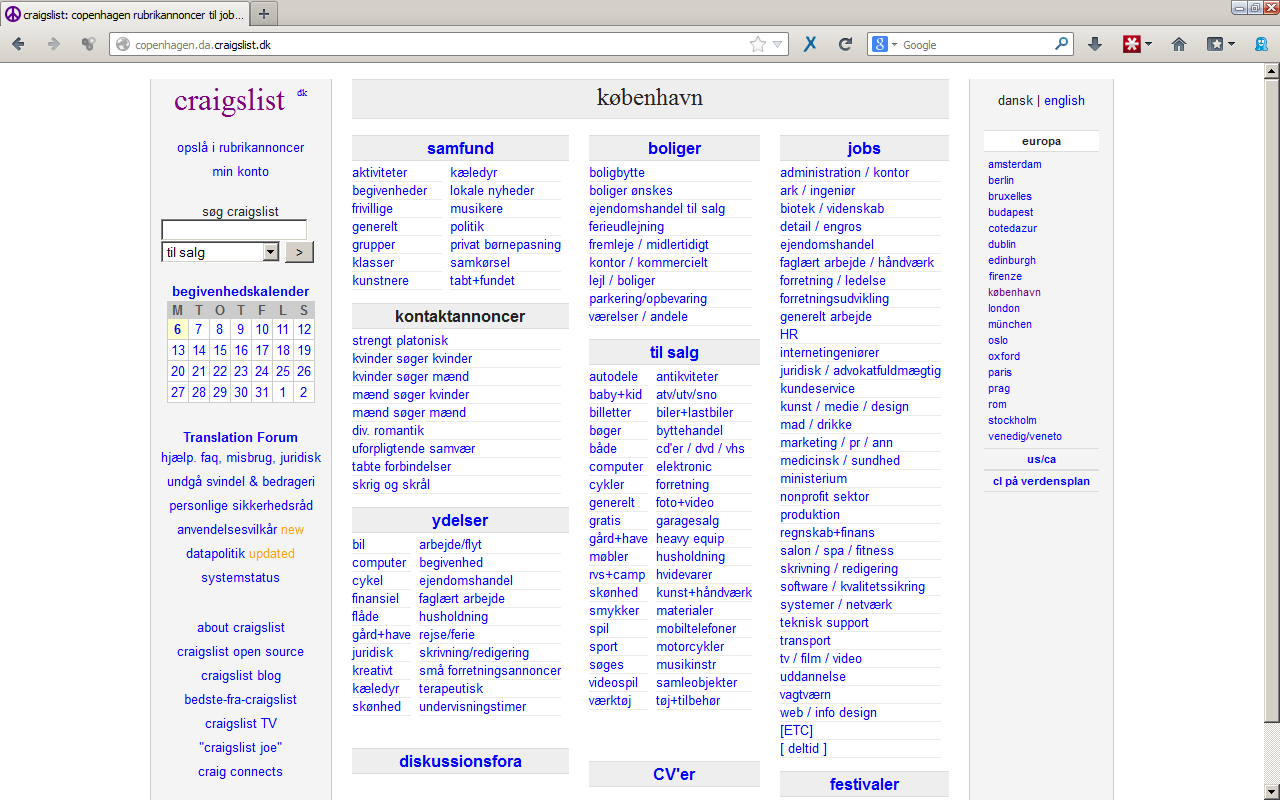
The visual identity is the overall identity the online business wants to convey to its customers and encompass elements such as: colors, logos, graphical icons, buttons etc. The design should appeal to the chosen Customer Segments and try to fulfill their needs and expectations. The design should also be coherent with the Value Propositions. The design needed for an online business selling luxury makeup products will be markedly different from the design needed for a business selling cheap electronic equipment. Design helps build interest in the business, and its products, and it helps to convey the business’ overall values and gives the impression of a consistent business concept. An online business selling ecological personal care products will need a design that conveys an identity and values related to ecology such as green colors and a language that shows respect for nature and refers to natural ingredients – pink and neon colors together with an upbeat hip hop language, for example, will not be the optimal choice for such a business.

The best way for the entrepreneur to create a professional and coherent visual identity is to have a clear overview of the Value Propositions offered and the Customer Segments served, an idea of an overall style, and then have a professional graphic designer help create a customized identity. The area is quite complex and unless the entrepreneur has extensive graphic design skills the online business will most likely get an unprofessional appearance – which will scare potential customers away.

#### 4.8.3.2 Architecture

The architecture of a website is how it is built and presented. There are probably as many ideas as how to design a website as there are designers but the single most important elements, for an e-merchant, is that the website is functional and generates sales. In principle it does not matter how the website looks as long as it generates sales and revenue. Craigslist.org offers classified advertisements on all kinds of subjects varying from jobs, real estate, dating, services etc. in countries in all parts of the World. The website is the 11th most visited site in the US, with over 60 million monthly visitors in the US alone[[8]](#footnote-8). Its design and architecture is so banal, and looks quite unprofessional, that anyone with a minimum knowledge of website design would be able to create it – still the website is one of the most popular in the US. Craigslist.com is shown in Figure 8 below:

Figure 8: The Design of craigslist.com (Danish Section)



Source: craigslist.com

Google’s design is basically a search word field and a box above, which does change from time to time, that says “Google”, and then a simple list that presents search results. Google’s design is shown in Figure 9. Still, Google.com is the World’s most visited website[[9]](#footnote-9). With that said, Craigslist was established in 1995 and by then the standard of websites were quite low. Since then, users have gotten used the look of Craigslist and know it is a professional business so the design and architecture is not an issue anymore. An online business will still do wise in trying to exude professionalism through its website and make it appealing and alluring. This is especially true for a new online business with which customers has to deal directly, which no one know, and which has not yet established any positive references and a good reputation.

Figure 9: Google’s Website Design

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Source: google.com

##### 4.8.3.2.1 The Front Page

While it is good for an online business to have an individualized design and architecture, there are some unwritten rules that customers have gotten used to when shopping on websites. If these basic rules are violated, the customers might be confused about how to use and navigate the website and they might get frustrated and disappear. On the front page, menus are generally placed on a top horizontal bar and on the left on a vertical list. The top bar usually contains: information about the business, contact information, access to customer service, trade terms, shipping, payment etc. and the left list contains different product categories and sub-categories leading to product presentations. The center of the front page usually contains some good offers or a short welcome or presentation of the business.

Besides these standard elements the front page should contain a website search engine so customers can easily find what they are looking for without having to search in-depth in multiple different menus or categories. The website search engine can be placed in a central spot on the front page and should be tolerant to grammar mistakes and spelling errors since many customers are most likely not grammatically perfect.

The front page should also contain an eye-catching newsletter signup area. As mentioned, newsletters are a very important marketing tool for an online business and the goal is to get as many customers as possible to become subscribers. The signup area should be simple: present some customer benefit, an area for name and e-mail address, and a “subscribe” button.If the online business has acquired any quality seals or good reviews (e-mærket or Trustpilot) these too should be presented visibly on the front page. Contact information, information about the business, trade terms, and a FAQ can be placed in separate menus at the bottom of the front page. Payment card icons – indicating which payment cards are accepted – can be placed at the top or the bottom of the website.

Finally, a shopping cart are should be displayed. The shopping cart are should inform about the number of products, the total value of products and the total shipping costs. If shipping costs is a competitive element for the online business it should be highlighted in a noticeable place on the front page. Smartguy.dk, Figure 10, is a good example of a well-designed front page:

Figure 10: The Front Page of smartguy.dk



Source: smartguy.dk

##### 4.8.3.2.2 Sub-pages and Navigation

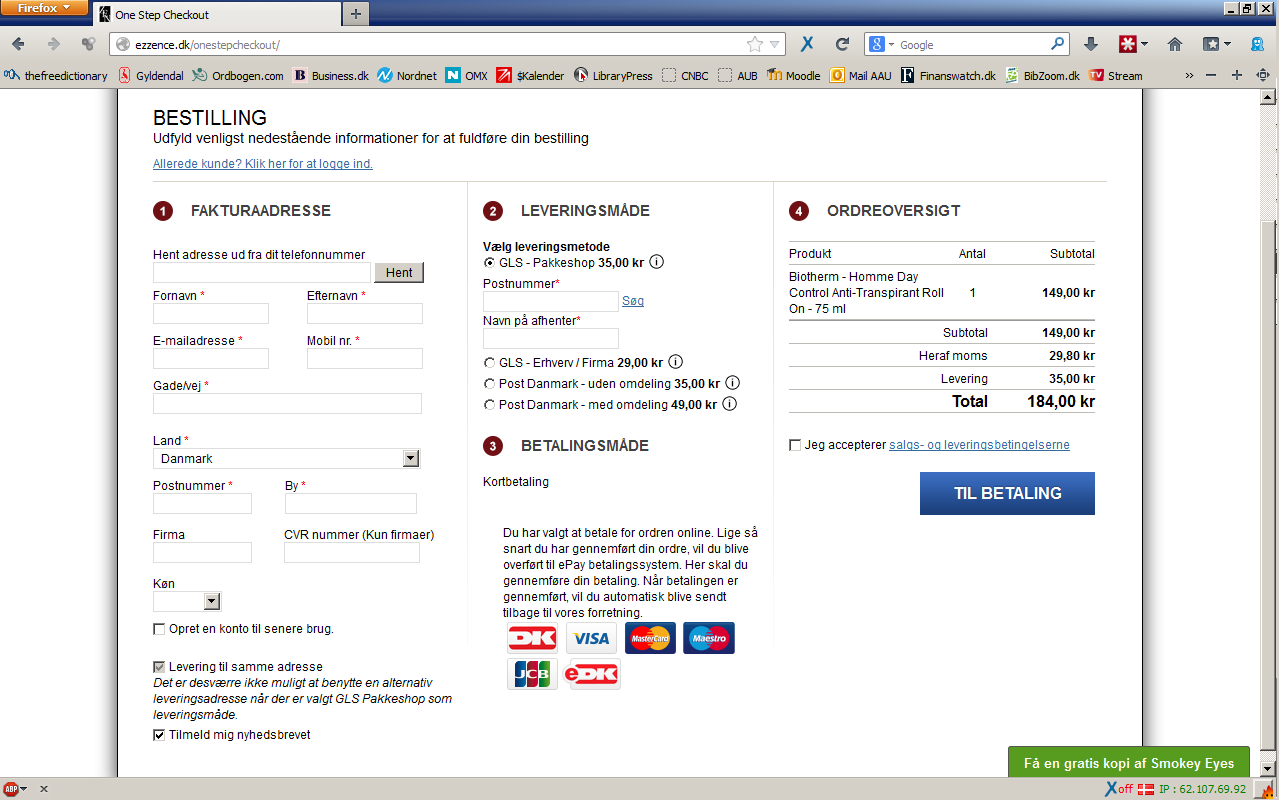
Often, customers will land on subpages instead of on the front page because they use search engines or incoming links. It is therefore crucial that the functionality, and visual appearance, of every subpage is as well-designed as the front page. The customers have to be able to return to the front page in an easy manner and the customers must be able to visually confirm on which level of the website they have landed. This can be done by providing “breadcrumb” graphics which depict where the customers are in terms of menus, sub-categories etc. If there are links leading away from a page, the new page should be opened in a new window. If the customers are directed away from the page that they are on they may never return. It also simplifies navigation if categories, sub-categories links etc. is distinctly colored so that customers can see which categories and pages they have already explored.

For an e-merchant, one of the most important elements of navigation is the checkout flow – including the payment process. A lot of things can go wrong in this final stage and the aim is to make the checkout and payment process as smooth as possible for customers. A simple checkout process can be divided into the following steps:

1. The customer clicks on the virtual shopping basket – or put a product in it at end up there automatically – to see what she has put in it so far and whether she wants to change the amount of products or delete some products. The total price of the products should also be displayed.
2. In this step, the customer enters her name, delivery address and email address.
3. Here, the customer choosing how she will pay and how she want the package delivered (at home, at work, store pickup etc). Shipping costs for each type of delivery must be presented. She then has to approve the trade terms and whether she wants to receive a newsletter.
4. This step is the order confirmation: delivery address, type of delivery, products, shipping costs, and total costs. The customer acknowledges the order.
5. Finally, the customer enters her payment card info and affirms the order. She is then presented with an online receipt which is also sent to her email address.

Figure 11 below shows an effective checkout process where most of these steps are collected on one page:

Figure 11: Ezzence.dk – One-step Checkout



Source: ezzence.dk

There are some things that can help smooth the process of checkout and payment in order to minimize occurrences where customers are lost because they get irritated or confused. First, the “purchase” button – on which customers should click to put the product in the shopping basket – should be very visible and placed together with the product information and it should be clear whether the product is in stock and when the customers can expect to receive it if ordered. Regarding the shopping basket, it is important that the shopping basket link is conspicuous so that the customers know that the products they have chosen are actually in the shopping cart and so that they can easily click on it and see the content. If customers end up at the shopping basket page when they click the “purchase” button, they should be able to continue shopping – e.g. via a “continue shopping” button – without having to use the browsers “back” and “forward” functions – which may result in a basket without the last purchased product. Should the customers, for some reason, leave the website before they have paid it is good customer service to save the basket, with its content, until the customers, hopefully, return to complete the transaction. Whenever possible the total costs of the order should be displayed to customers – including shipping, VAT etc. In some instances this is not possible right away – e.g. with different shipping costs depending on products purchased or type of delivery – but then the total costs must presented as soon as the customers have chosen their products and type of delivery.

It is important to avoid any interruptions in the checkout and payment process. A mistake often made is to ask customers to log in with a username and password before they are able to buy anything. This approach will irritate customers and will most likely result in a lot of lost sales. Log in can ease the customers’ next visit to the shop – because all their data can be stored and they do not have to fill it in again – but the options should be given to customers after they have completed the transaction. Another interruption, that can results in lost sales, is any kind of outgoing links or advertisements anywhere in the checkout and payment process. If customers click on these links, the customers may very well never come back again.

Customers should, at all times, be informed about where in the checkout process they are by a graphical model showing which steps they have completed and at which step they still have to go complete. The possibility for customers to return to a previous step, if they suddenly get in doubt, heightens customer service. Texts and graphics, and clear links and buttons, should guide customers in the whole checkout process so they know exactly what to do, where to click, and how to proceed forward. It is also vital to not ask for any data that is not necessary. Phone number, date of birth, occupation, fax numbers, work address, work phone number etc. These data can scare customers away or confuse them about what to type – the result being that they leave the page without completing the transaction.

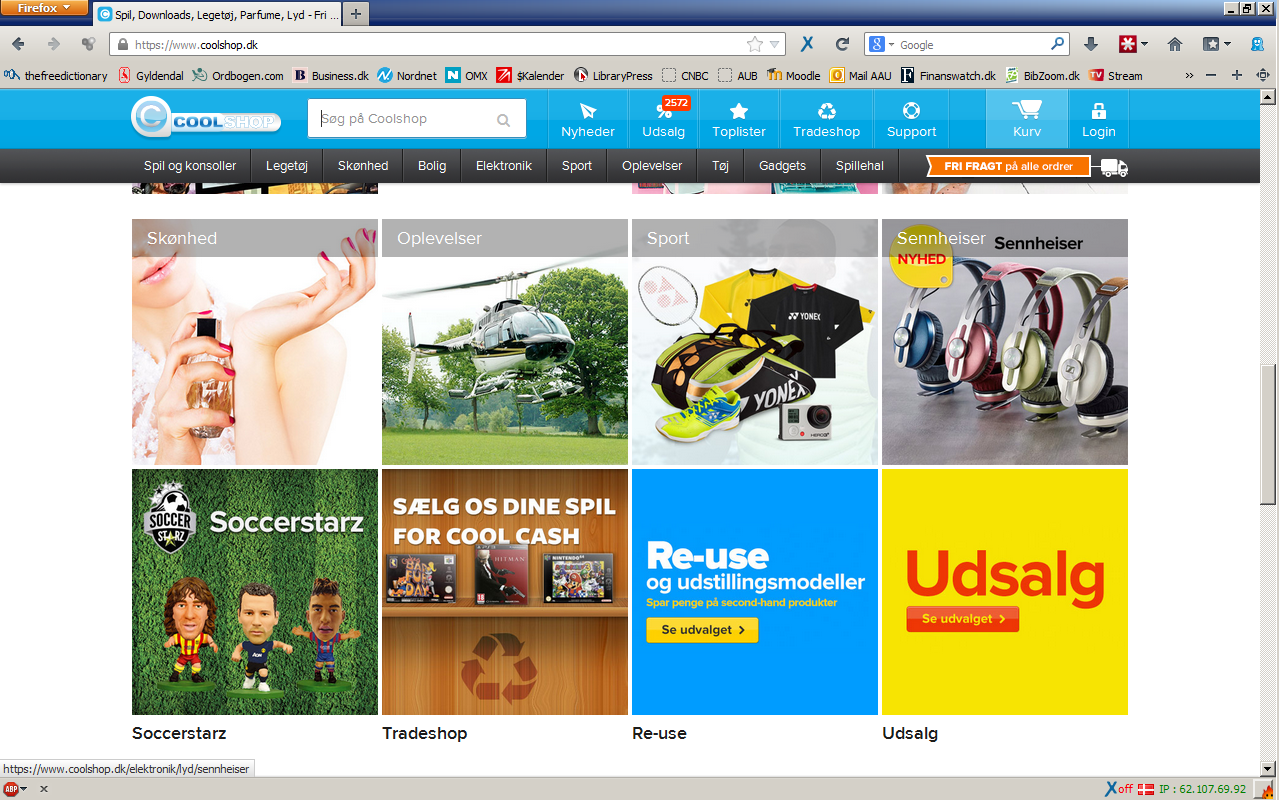
Regarding payment, trust and safety – as explained in the Customer Relationships component – is very important in the final stages when customers have to give up their payment card information. It is also important to offer customers as many options of payment as possible in order to not lose customers because their payment card is not accepted. The payment process should not contain any “pop-up” pages because customers’ web browsers usually have pop-up blockers that prevent these pages from being displayed so that customers cannot complete the transactions.

Finally, if any errors occur, there should be thorough information and guidance about what went wrong, and what the customers can do to correct it, instead of just a message saying “error”.

##### 4.8.3.3 Photos

Photos are, for an online business, exceedingly important since the customers cannot physically see and touch the products. The photos equal the visual appeal of the products and the professional appearance of a salesman in a physical store. Photos are one of the deciding factors when customers judge the overall professionalism of an online business. There are basically three sources through which the entrepreneur can require photos for his online business: suppliers, a photographer, self-made. The advantage of getting photos from suppliers is that they are free and can save the entrepreneur all the costs related to having the photos taken. The disadvantage is that if the supplier also has agreements with other online businesses these business might use the photos as well and it is therefore hard for the entrepreneur to visually differentiate his products. Another aspect is the quality of the supplier photos. Some suppliers find it important to provide high quality photos while others find it sufficient with low quality. If supplier photos are to be used, the entrepreneur must decide whether the quality meets his standards before making any long term agreements. Furthermore, when supplier photos are used, the style of the photos – background, size etc. – must be identical; especially if photos from different suppliers are used. If not, the overall impression of the online business will come off as non-professional. Photo fitting can be done by the entrepreneur himself with a program like Photoshop or it can easily be outsourced to low-salary countries – e.g. India or China.

Figure 12: Professional Website Photos



Source: coolshop.dk

Figure 12 above shows some highly professional photos and the professionalism they exude.

The main advantage of having photos taken by a professional photographer is the high quality and customization of the photos. The entrepreneur can get photos exactly as he wants them and the photographer can create a highly professional, and coherent, style and identity by employing different backgrounds, lighting, angles, shadows etc. The main disadvantage of using a photographer is the relatively high costs associated with having professional photos taken. Using a photographer can be a good option if the Value Propositions require somewhat complex photos e.g. extreme close-ups, difficult angles, or special lighting. An online business selling Swiss watches, or antiques, might want to present customers with very detailed and close-up photos which can be hard to take for an amateur photographer.

The last option is for the entrepreneur to shoot the photos himself. The advantage of this approach is that it allows the entrepreneur to put customized photos on his website without the substantial costs related to using a photographer. The main disadvantage is that if the entrepreneur does not have sufficient photographer skills, the result might be as amateurish as using low quality supplier photos. The entrepreneur would also have to invest in equipment such as: camera, lighting, backgrounds etc. This investment can prove profitable in the long term if the entrepreneur produces good photos but if not, the investment might “lock” the entrepreneur into continue shooting his own photos, instead of deploying a professional, despite a poor outcome. Self-made photos are a possibility for online businesses with Value Propositions that require fairly simple pictures and which have a large selection of products each needing their own photos. Businesses selling home décor, electronics, books etc. could fall into this category.

Besides contributing to professionalism and sales, photos help customers evaluate Value Propositions so it is important, especially with physical products, that there are multiple photos taken from multiple angles, with different colors and styles, and with the ability to see a larger format or zoom in. Finally, it is important that the entrepreneur is aware of the size of the photos. If the photos are too big, the pages of his online business, including the front page, might take too long to load and if customers have to wait too long they may very well find another online business that loads instantly.

## 4.9 Key Partnerships

Key Partnerships involve the partners and suppliers that the online business needs in order to make the business model functional. Osterwalder and Pigneur (2010) recognize four different types of partnerships:

* Strategic Alliances – Between non-competitors
* “Co-opetition” – Cooperation between competitors
* Joint Ventures – Where both partners have a share in the venture
* Buyer-Supplier – Traditional vertical relationships between a business and its supplier(s)

Osterwalder and Pigneur (2010) further define 3 general motivations for establishing partnerships: Optimization and Economies of Scale, Reduction of Risk and Uncertainty, and Acquisition of particular Resources and Activities. Optimization and Economies of scale is about optimizing allocation of resources and activities. The partnerships are often formed to reduce costs and concern outsourcing and sharing of infrastructure. Reduction of Risk and Uncertainty is formed both between competitors and non-competitors and is about reducing the risks associated with a new venture, a new form of research, launching of a product etc. Acquisition of Particular Resources and Activities reminds of Optimization and Economies of Scale but are more focused on bringing external resources, or activities, *in* than on sourcing *out*.

The entrepreneur can ask the following questions to help him identify Key Partnerships:

1. Which key partners do I need in order to:
   * Acquire the Key Resources?
   * Perform the Key Activities?

The sections sub-chapters below will present some of the most relevant Key Partnerships for an online e-merchant business.

### 4.9.1 Suppliers

If the online business has services as its Value Proposition, or “produces” its own products, suppliers are not a big concern. For online businesses selling physical products, which are not self-made, suppliers can be important partners. Supplier agreements range from plain to advantageous to exclusive. Plain agreements include standard terms that other online businesses will also be able to get and are the easiest to obtain. Advantageous agreements have some key benefits, reached through negotiation, which distinguishes them from standard agreements. Exclusive agreements are one-of-kind agreements and can either be extremely beneficial agreements or agreements about the exclusive rights to sell the supplier’s products – also called sole agent agreements. For a new online business it may be difficult to obtain extremely beneficial agreements since it has to prove that the business model is profitable and sustainable in the long term. However, with a good business model, and good negotiation skills, it will most likely be possible to obtain at least some key benefits that surpasses the standard terms. A particularly interesting benefit, especially for a new online business with limited financial resources, is that of commission. Commission is the possibility of receiving products from the supplier without paying for them – until the online business has collected the cash from the end customers. This creates a “risk-free” business environment for the online business because products that are not sold can be returned to the supplier with only minor transportation costs incurred. Drop Shipping, as explained in the Key Activities chapter, is a form of supplier agreement specifically suited to conducting online business and the entrepreneur can consider that as a partnership option as well.

### 4.9.2 Affiliate Websites

Affiliate websites are partners in the form of other actors on the Internet. It can be information websites, blogs, other e-merchants etc. – basically all kind of actors with whom mutual agreements about exposure can be formed. Information websites and blogs, which typically have some kind of niche content, can have links, to the online business, built into their text content or they can make direct and overt recommendations of the online business and its Value Propositions. Reciprocal favors can be monetary – a fee for each referred customer or for each sale generated by referred customers – or it can be referrals to the partners’ website in newsletters or after the payment process is complete.

Affiliate agreements can be made with other e-merchants which serve the same Customer Segment(s) as the online business but have different Value Propositions. An e-merchant selling golf equipment and an e-merchant selling wine could benefit from each other’s customers. The affiliation could be based on reciprocal links on each website or mutual advertising in both parties’ newsletters or invoice emails.

### 4.9.3 Price Comparison Websites

Partnerships with price comparison websites can be considered half partnership half marketing. Good partnerships with price comparison websites can prove an effective mean of generating sales – 22 % of all online trade starts with price comparison websites (Strandbygaard, 2011). The concept is that the price comparison websites gather price information on Value Propositions from various online businesses and these businesses can then choose to partners with the price comparison websites by agreeing to pay the websites a fee for each customer that is redirected from the price comparison websites to the online business. Pricerunner.dk and kelkoo.com are examples of price comparison websites.

### 4.9.4 Investors and Co-founders

Investors and co-founders are especially relevant partners for a new entrepreneurial venture. If the entrepreneur starting the business does not have sufficient financial resources to start his online business – and his bank being uncooperative – he can try to acquire funding from external investors. These investors will often be business angels which are private investors – usually with a successful entrepreneurial background themselves – who will acquire a part of the online business in exchange for providing funding to the entrepreneur. The business angels can assume a passive role with little or no involvement in daily operations or a more active role where they are part of operations and are involved in decision-making.

Co-founders are partners that the entrepreneur acquires either because they possess specialized skills or because they can contribute substantially with work effort thereby easing the total work burden for the entrepreneur. Interesting co-founders, for an online business, could be a programmer or a graphic designer since these two areas counts for a large amount of total work effort in an online business.

### 4.9.5 Others

For some online businesses it can be relevant to try to form partnerships with strong brand companies. As mentioned in the Customer Relationship component, having partners with strong brands can help heighten trust and credibility in the eyes of customers. For a new entrepreneur, it can also be very valuable to be able to represent a partnership with a larger well-known company since such partnerships can help tremendously in convincing other potential partners that the new business is serious and worth investing time and money in.

New and small online businesses can benefit from partnerships with competitors. It can be joined marketing campaigns or joined purchasing from suppliers. In general, most activities, in which there is a mutual financial advantage, can be basis of a partnership between two or more competitors. The value of the partnerships, with competitors, depends on the kind of business and the business model used. An online business selling the same products e.g. clothing, from the same supplier, as two other online businesses might benefit from joined purchasing, with lower prices, and instead compete in other areas. An online business selling its own self-made personal protection products might not have any big advantages in forming a partnership with competitors.

## 4.10 Cost Structure

Cost Structures contain all the relevant costs the online business has in order to make its business model long term sustainable. The costs are basically linked to all of the remaining eight business model components but especially the Key Resources, the Key Activities, and the Key Partnerships components are interesting since the content of these components, to a large degree, constitutes what has to be acquired and what has to be done in order for the remaining components to be functional.

The entrepreneur can ask himself the following questions when trying to identify the costs of his overall business model:

1. What are the most important costs linked to all of the other business model components?

There are two general types of business model cost structures:

* Cost-driven: Cost-driven business models have an intensive focus on minimizing costs wherever possible in order to offer customers the lowest possible prices. The structures are usually based on low-price Value Propositions, automated processes, and outsourcing.
* Value-driven: Value-driven business models focus heavily on creating maximum value and low costs are not a big concern. These structures are usually based on high-price Value Propositions and personalized customer interactions.

These two structures are extremes and most businesses will be somewhere in-between leaning towards either cost- or value-driven.

### 4.10.1 Budgets

The entrepreneur can use budgets to help him determine the various costs related to his online business. Four budgets are interesting in this context: Setup costs budget, Operating costs budget, Cash flow budget, and Sales budget.

#### 4.10.1.1 Setup Costs Budget

The setup costs budget contains all the one-time costs related to establishing the online business. For an e-merchant, the major setup costs are linked to the creation of the complete e-commerce solution including programming, domain, the trade platform, payment options, and business operation systems – and the design needed for the solution. The costs will be highly case-specific depending on the type of e-commerce solution, level of customized design etc. that the entrepreneur wants for his online business.

#### 4.10.1.2 Operating Costs Budget

The operating costs budget help the entrepreneur identify all the running costs of the online business. These costs are divided into fixed costs and variable costs. The main fixed costs to consider, for an online business, will be:

* Office rental
* Staff: especially customer service and packaging personnel
* Domain and hosting fees: for having a company providing maintenance, support, and updating of the e-commerce solution.
* Payment Solution: Annual fees to credit card companies and companies providing the payment platform.
* Inventory space: Either in-house or at an inventory hotel.
* Bank Loan Payments

The major variable costs, for an online business, to consider, will be:

* Purchasing from suppliers
* Packaging and Shipping: In-house or through an inventory hotel
* Marketing: Online marketing can be viewed as a mix between traditional variable and fixed costs. The online business only pay for each redirected customer but it is not guaranteed that the customer will buy anything. Therefore, online marketing is generally speaking a variable cost but it is not directly linked to number of sales.
* Credit card fees: For each transaction, the credit card companies charge a percentage fee of the value of the transaction.

#### 4.10.1.3 Cash Flow Budget

A cash flow budget helps the entrepreneur ensure financial liquidity in his online business. Financial liquidity is a crucial factor for a new online business since it usually has quite limited financial reserves – if any at all. The most critical aspect related to a positive cash flow – assumed that the overall business model is, in general, long-term financially sustainable – is the payment to suppliers vs. the payment received from customers. Whenever possible, the entrepreneur should aim at paying the suppliers only when he has obtained money from his customers. It can be through commission, drop shipping, or through delayed payment on product purchases. While such agreements might not always be possible it is still crucial that the entrepreneur continually tries to optimize his inventory system so that he has as few products tied up there as absolutely possible.

#### 4.10.1.4 Sales Budget

A sales budget helps the entrepreneur estimate how much revenue and profit he will generate with his business model. For an online business, relevant elements of a sales budget are:

* Number of visitor per day
* Conversion Rate: How many percentage of visitors that become paying customers – e.g. 2 %
* Average Purchase: The average amount of cash generated on each sale – e.g. 200 DKK
* Profit Margin: The margin, in percentage, on each product/service sold – e.g. 50 %.
  + The profit margin is the sales price minus variable costs.

The entrepreneur can then take the Number of visitors per day and multiply them with the Conversion rate to get the Total number of sales per day. The total amount of sales can then be multiplied with the Average purchase to find the Total value of sales per day. The total value of sales can then be multiplied with the Profit Margin to find the Contribution margin per day. Example:

* Number of visitors per day: 3000
* Conversion Rate: 2 %
* Total number of Sales per day: 3000 x 2 % = 60
* Average Purchase: 200 DKK
* Total Value of Sales per day: 60 x 200 = 12.000 DKK
* Profit Margin: 50 %
* Contribution Margin per day: 12.000 x 50 % = 6.000 DKK

The entrepreneur must then take the Contribution Margin and subtract from it all of the fixed costs. Instead of making this calculation on a day-to-day basis it is often easier to do it on a monthly basis. In the example above, the entrepreneur’s online business generates, on average, 180.000 (6.000 x 30) DKK per month. The entrepreneur must then subtract the fixed costs per month and if the result is positive, the business model is financially viable.

# 5.0 Conclusion

In order for an entrepreneur, who wants to start an online business, to create a successful online business model aimed at customers in the business-to-consumer market he/she must first choose a business model framework on which the online business model can be built. Osterwalder and Pigneur’s (2010) business model framework, The Business Model Canvas, is a good choice for an entrepreneur since it is easy to understand and to apply, and there is good coherence between the different components that constitute the framework. The framework also leaves out “competition” as an integrated element which allows the entrepreneur to focus wholly on the development of the business idea and instead use “competition” as part of a separate strategy. The Business Model Canvas contains nine components:

* Customer Segments, Value Propositions, Channels, Customer Relationships, Revenue Streams, Key Resources, Key Activities, Key Partnerships, and Cost Structure.

Other frameworks can be applied as an alternative. The important factor is that the entrepreneur understands the chosen framework and the relation between the various components.

Next, the entrepreneur must decide upon which type of online business the business model is built. The entrepreneur can choose between the following businesses and their offers: Virtual products and services, Conventional products and services, Brokerages, Information/communication/entertainment and gambling, Online commerce support, and Social media and networks. The entrepreneur must choose a general business type in order to focus his business model and identify the elements necessary for that particular type of business.

The content of a successful online business model is decided by the type of online business on which the online business model is built. The Business Model Canvas’ nine components are used to identify the key success factors of a business model for a particular type of online business. In the case of an online e-merchant business – which offers virtual and conventional products and services – the key content of a successful online business model is:

**Value Propositions**

The entrepreneur needs to decide upon one or more Value Propositions. There are three types of Value Propositions to choose from: New Offer, Modified Offer, and Identical Offer.

A New Offer is a completely novel Value Proposition which can be created through creative processes such as The Creative Platform or Visualization exercises with free associations.

A Modified Offer is a Value Proposition based on optimizing an already existing Value Proposition through Differentiation. Competitors’ Value Propositions can be analyzed with the Business Model Canvas to identify possible areas for improvement.

An Identical Offer is a Value Proposition that is similar to those of other businesses. “Price” will often be the competing factor and unless the whole business model supports price competition it is generally not preferable for a new online business to compete solely on low prices.

**Customer Segments**

The entrepreneur also needs to define which Customer Segments he/she wants to serve. The Segment Creation process can be aided by determining various Customer Characteristics which can be either: Geographic, Demographic or Behavioral.

In order to maintain focus on the customers in each Customer Segment, an Archetype, which is a fictional persona who represents a specific Customer Segment, can be created by using relevant Customer Characteristics.

There are five general Segmentation Approaches the entrepreneur can employ:

* Mass Market, Single Market, Differentiated, Diversified, and Multi-sided Approach.

**Channels**

There are three types of Channels for the entrepreneur to be aware of: Distribution, Sales, and Communication Channels. When starting an online e-merchant business, the Distribution Channel and the Sales Channel will be the online business’ website. The Communication Channels are used to raise awareness and for evaluation. Evaluation is done through the online business’ website, and online reviews and recommendations, and awareness is raised through Online Marketing.

**Customer Relationships**

The best Customer Relationships is built through Customer Service, Trust and Credibility and Reviews and Ratings. Customer Service is based on providing customers with more than they expect and on Customer Support. Customer Support is provided through Interaction: Email, Chat, and Telephone Support and through Self-help: FAQ, and Help Forums.

Trust and Credibility is built through a professional and well-constructed website and through providing: Elaborate Business Information, Quality and Trust Seals, Legal Information and Transaction Security. Trust and Credibility can also be built by a Personal Presentation, Admitting a Weakness, Storytelling, Testimonials, and Full-cost Disclosure.

Reviews and Ratings can be accessible on the online business’ website or through external review sites, such as Trustpilot.com, which can also be used as strategic partners. Reviews and Ratings are usually uncontrolled so the entrepreneur must decide whether customers should be allowed to post them on the online business’ own website.

**Revenue Streams**

The Revenue Streams determines how the entrepreneur’s online business can generate revenue. He/she can choose between nine different Revenue Streams:

* Traditional Sales of Products and Services, Advertising, Affiliate Marketing, Subscriptions, Consumer Data Sales, Licensing, Renting and Leasing, Usage Rates, and Brokerage Fees.

The most relevant Revenue Streams for an online e-merchant business are: Traditional Sales of Product and Services, Subscriptions, Renting and Leasing, and Usage Rates.

**Key Resources**

The main Key Resource needed for an online e-merchant business is the E-commerce Solution. The E-commerce Solution includes: Domain Name, E-trade Platform – which can be Standard or Customized, Payment Solutions, and Business Operation Systems – including Financial Management Systems and Enterprise Resource Planning Systems. It is possible for the entrepreneur to buy an already Existing Online Business in order to acquire the E-commerce at a heavily discounted price.

Other Key Resources are highly case-specific and depends on the type of e-merchant business the entrepreneur wants to start.

**Key Activities**

The main Key Activities necessary for an online e-merchant business, are:

* Online Marketing – including Search Engine Optimization (SEO), Search Engine Marketing (SEM), and Newsletters.
* Logistics – including Inventory, Packaging and Shipping, and Delivery to Customers.
* Website Design – including Visual Identity and Architecture.

SEO and SEM are used to attract customers to the online business’ website. Newsletters are used to build customer loyalty and a base of returning customers.

Inventory, Packaging and Shipping can be handled via Drop Shipping, In-house or through an Inventory Hotel and Delivery to Customers concerns Shipping Price and Delivery Spots.

Website Design is important to convey professionalism and trustworthiness and Visual Identity and Architecture are the most important elements.

Other Key Activities are highly context-dependent and are determined by the type of e-merchant business the entrepreneur wants to start.

**Key Partnerships**

The most important Key Partnerships for an online e-merchant business are: Suppliers, Affiliate Websites, Price Comparison Websites, and Investors and Co-founders.

Supplier Agreements can be Plain, Advantageous or Exclusive. Drop Shipping and Commission are agreements particularly interesting for a new e-merchant business because of delayed payment.

Affiliate Websites are partners that link directly to the online business’ website or make overt recommendations. It is also possible, for Affiliates, to place Referrals in their Newsletters and after the payment process is complete.

Price Comparison Websites redirect potential customers to the online business’ website in exchange for a fee.

Investors can provide the entrepreneur with financial resources and Co-founders can contribute with certain skills or help ease the work burden.

**Cost Structure**

To identify the costs inherent to the rest of the business model, the entrepreneur should focus on four types of Budgets: Setup Costs Budget, Operating Costs Budget, Cash Flow Budget, and Sales Budget.

The Setup Costs Budget contains all one-time costs related to starting an online e-merchant business.

The Operating Costs Budget concerns all the online business’ running costs and comprises: Fixed Costs (Office Rental, Staff, Domain and Hosting Fee, Payment Solution, Inventory Space, and Bank Loan Payments, and: Variable Costs (Purchasing from Suppliers, Packaging and shipping, Online Marketing, and Credit Card Fees).

The Cash Flow Budget helps ensure financial liquidity in the online business and the Sales Budget helps the entrepreneur estimate how much revenue and profit will be generated with the chosen business model.

# 6.0 Reflection

Through the development of the project, it became clear that “creating a successful online business model aimed at customers in the business-to-consumer market” had to be narrowed further in, in order for the project to be manageable. The progression of my research and the work with the Theory chapter revealed that there is a relatively large difference between online business models for different types of online businesses – even though they are all still aimed at the business-to-consumer market. I did not have that insight when I formulated the problem statement and I wanted to remain true to the original problem statement instead of just changing it to fit the circumstances.

The most optimal way of testing if the results of my analysis are correct would have been to actually setup an online business, with a website, and test it in the real world. Unfortunately, my financial resources together with my restricted time schedule made such a quest impossible.

When I conducted the analysis of the business model, new elements, that all seemed important to write about, kept popping up making it, at times, a difficult task to choose which elements to write about and which elements to ignore. I also felt the need, at times, to go deeper into some of the elements I wrote about but at the same time, I felt that I needed to cover at least all of the nine components that constitute a business model. I also knew that I had a maximum of 100 pages to work with and, as a result, some of the elements were not treated as “in-depth”, at least in writing, as I, at times, would have liked them to be.

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# 8.0 Appendices

The following online businesses have been used as models – together with information from books and articles – in the process of identifying the key success factors of a successful online business model. The businesses have been chosen on an assessment of:

* Their Longevity
* Their Size (market span and employees)
* Their ability to generate Revenue and Profit
* Their Popularity (Alexa Rank or Trustpilot Score)
* Their Professionalism (Prize awards or nominations)

Amazon.com

* Amazon was founded in 1994 and is the biggest online retail company in existence. It covers a worldwide market and it employs 109.000 people. Its revenue in 2012 was US$ 61.09 billion. Due to investing in warehouses and new ventures, there was a net loss in 2012 of $39 million. In 2011 the net profit was $631 million[[10]](#footnote-10). According to Alexa[[11]](#footnote-11), Amazon is the 8th most visited website in the World.

Ebay.com

* Ebay was founded in 1995. Its market is global and it employs 27.770 people. Its revenue in 2012 was $14.07 billion and its net profit was $2.60 billion[[12]](#footnote-12). According to Alexa, it is the 20th most visited website in the World.

Yahoo.com

* Yahoo! was founded in 1994. Its market is global and it employs 12.300 people. Its revenue in 2012 was $4.99 billion and its net profit was $3.95 billion[[13]](#footnote-13). Yahoo! is the 4th most visited website in the World.

Dell.com

* Dell was founded in 1984. It serves a worldwide market and employs 108.800 people. Its revenue in 2013 was $56.94 billion and its net profit was $2.37 billion[[14]](#footnote-14). Dell ranks 358 on Alexa’s most visited websites.

Google.com

* Google was founded in 1998. Its market is global and it employs 46.400 people. Its revenue in 2012 was $50.18 billion and its net profit was $10.74 billion. Google is the World’s most visited website.

Rakuten.com

* Rakuten was founded in 1997 and is Japan’s largest e-commerce company. It serves a worldwide market and employs 10.300 people. Its revenue in 2012 was $4.7 billion and its net profit was $770 million. Rakuten ranks 98 on Alexa’s “most visited websites” list.

Aliexpress.com (Alibaba Group)

* Aliexpress.com is the retail part of the Alibaba Group. Alibaba was founded in 1999. It serves a worldwide market and employs 24.000 people. Its revenue in the 2. quarter of 2013 was $1.74 billion and its net profit was $856 million[[15]](#footnote-15). Aliexpress.com ranks 84 on Alexa’s list over most visited websites.

The following websites are smaller Danish online businesses that show high professionalism: they have been awarded, or have been nominated, prizes by E-handelsfonden (Danish E-commerce Association) and have a review score on Trustpilot that is higher than 8.0 (out of 10). It is not possible to obtain financial data for all of the businesses.

Smartguy.dk

* Smartguy.dk is a part of the Smartguy Group which was founded in 2000. The group covers 20 different markets. The website was awarded the Danish e-commerce prize in 2012, as the best online business, and was awarded a Silver European E-commerce Prize the same year[[16]](#footnote-16). It has won Børsen’s Gazelle Growth Prize for four consecutive years[[17]](#footnote-17). Its Trustpilot score is 9.1 – out of 10.

Coolshop.dk

* Coolshop was founded in 2005 and currently serves the Danish, Swedish, Norwegian, Finnish, and British markets. Coolshop.dk was awarded the prize for best e-commerce business in Denmark in 2010 and also received two other prizes that year. It has served 1 million customers so far and its score on trustpilot.dk is 9.2.

Unisport.dk

* Unisport.dk was founded in 1995 and employs 50 people. It currently serves five different markets. It was awarded the prize for Best Online Business in Denmark’s in 2013 and the User prize in 2012 and 2011. The business experienced financial growth of 45 % in 2013. It has the seal “e-mærket” and its Trustpilot score is 9.5.

Nemlig.com

* Nemlig.com was founded in 2011 and won the prize for Best Startup and Best Online Business in Denmark the same year. It has obtained “e-mærket” and its score on Trustpilot is 8.2.

Miinto.dk

* Miinto.dk was founded in 2009 and employs 100+ people. It serves 5 different markets. It won the prize for Best B2C-business in 2011 and Best Marketing Campaign + Tool for E-commerce in 2013. It has obtained “e-mærket” and its Trustpilot score is 8.1.

Billigvvs.dk

* Billigvvs.dk was founded in 2000 and employs 25 people. It serves the Danish, Swedish and Dutch Market. It was nominated for best B2C-business in 2010 and has obtained “e-mærket”. Its Trustpilot Score is 9.1.

Lirumlarumleg.dk

* Lirumlarumleg.dk was founded in 2006 and employs 8 people. It currently serves the Danish market. It was awarded Best Small B2C online business in 2010 and the owner was, the same year, awarded the prize of Best Danish Female Entrepreneur. It has obtained “e-mærket” and its Trustpilot score is 9.7.

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10. http://www.google.com/finance?q=NASDAQ:AMZN&fstype=ii&ei=XEvJUojcGLHFwAOlcA [↑](#footnote-ref-10)
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17. http://investor.borsen.dk/artikel/1/223515/hummel-chef\_skal\_hjaelpe\_nynoteret\_toejfirma.html [↑](#footnote-ref-17)