PART 2

BUSINESS STRATEGIES FOR ELECTRONIC COMMERCE

CHAPTER 3

SELLING ON THE WEB

LEARNING OBJECTIVES

In this chapter, you will learn:

- What a revenue model is and how companies use various revenue models
- How some companies change their revenue models to achieve success
- Revenue strategy issues that companies face when selling online
- How to create an effective business presence on the Web
- What factors enhance Web site usability
- How companies use the Web to connect with customers

INTRODUCTION

In the 1980s, **Progressive** was a relatively small auto insurance company that specialized in writing policies for people who had poor driving records and could not qualify for regular policies sold by other insurers. Progressive charged higher premiums for these policies, which the insurance industry calls substandard policies. Often, other insurers who could not write standard polices for customers would refer those customers to Progressive. The combination of high premiums and the lower cost of its smaller sales force enabled Progressive to earn good profits on the substandard business. Eventually, other insurers noticed Progressive's success and began to offer their own substandard policies.

To respond to the increased competition, Progressive improved its claim service and was one of the first insurance companies to offer 24/7 service every day of the year. During the 1990s, Progressive developed a full line of auto insurance products for all types of drivers and worked hard to make sure that it offered the lowest prices in every market. Progressive's marketing mentions the quality of its service, but it always emphasizes its low prices.

Progressive was the first auto insurance company to launch a Web site (in 1995) and was the first to sell policies online (in 1997). Knowing that most potential insurance buyers shop multiple Web sites to find the best rate, the company began showing its competitors' rates on its Web site in 2002, allowing potential customers to compare prices without leaving Progressive's site. The site displays these rates even when Progressive's rate is higher than a competitor's rate on a particular policy.

By providing these competitive quotes, Progressive hopes to convince shoppers that their Web site is an important one to visit early in their search because it can save them time. The practice of displaying competitors' quotes also creates an impression of openness and honesty. Progressive believes that people prefer to buy insurance from honest companies who offer the best prices. Its Web site conveys its belief and provides a consistent corporate message to potential customers. In 2008, Progressive introduced a female character, "Flo," who embodies openness, honesty, and a devotion to low prices. Flo appears in the company's television and radio ads, and is featured prominently on its Web site. In fact, the character often appears in television ad vignettes that tout the price comparison feature of the Web site. The comparative quotes feature of the Web site and its use of the Flo character are examples of how companies can successfully integrate their Web presence into their overall brand positioning strategy and reinforce the message they want to deliver to customers and potential customers.

REVENUE MODELS FOR ONLINE BUSINESS

As you learned in Chapter 1, a useful way to think about electronic commerce implementations is to consider how they can generate revenue. Not all electronic commerce initiatives have the goal of providing revenue; some are undertaken to reduce costs or improve customer service. You will learn about those types of initiatives in Chapter 5. In this chapter, you will learn about various models that online businesses currently use to generate revenue, including Web catalog, digital content, advertising-supported, advertising-subscription mixed, and fee-based models. These approaches can work for both business-to-consumer (B2C) and business-to-business (B2B) electronic commerce. Many companies create one Web site to handle both B2C and B2B sales. Even when companies create separate sites (or separate pages within one site), they often use the same revenue model for both types of sales.

Web Catalog Revenue Models

Many companies sell goods and services on the Web using an adaptation of a revenue model that is more than 100 years old. In 1872, a traveling salesman named Aaron Montgomery Ward started selling dry goods to farmers through a one-page list. Richard Sears and Alvah Roebuck began mailing catalogs to farmers and small-town residents in 1895. Both Montgomery Ward and Sears, Roebuck & Company grew to become dominant retailers in the United States by the 1950s, with retail stores serving urban markets and the catalog business well established in serving rural and small-town markets. The general acceptance of the mail order catalog business built a solid base for the Web-based version that would evolve from it in the 1990s.

In the traditional catalog-based retail revenue model, the seller establishes a brand image, and then uses the strength of that image to sell through printed information mailed to prospective buyers, who place orders by mail or telephone. For more than a century, this revenue model, called the **mail-order** or **catalog model**, has been successful for a wide variety of consumer items, including apparel, computers, electronics, housewares, and gifts. Other companies that succeeded as mail-order businesses in the twentieth century include J. C. Penney, LL Bean, and Hickory Farms.

Many companies have adapted this revenue model to the online world by replacing or supplementing their print catalogs with information on their Web sites. This revenue model is called the **Web catalog revenue model**. Most customers today place orders through the Web site, but in the early years of electronic commerce, many shoppers used the Web to obtain information about products and compare prices and features, and then made their purchases by telephone. Types of retail businesses that use the Web catalog revenue model include sellers of computers, consumer electronics, books, music, videos, jewelry, clothing, flowers, and gifts. Many general merchandisers also use the Web catalog revenue model. B2B sellers have also been avid adopters of the Web catalog model. Items such as tools, electrical and plumbing parts, and every imaginable industrial supply item from sandpaper to valve gaskets are now offered for sale online.

Many of the most successful online businesses using the Web catalog revenue model are firms that were already operating in the mail-order business and simply extended their operations to the Web. Other companies that use the Web catalog revenue model adopted it after realizing that the products they sold in their physical stores could also be sold on the Web. This additional sales outlet did not require them to build additional stores, yet provided access to new customers throughout the world.

Discount Retailers: Getting a Great Deal Online

A number of discounters, such as Overstock.com, began their first retail operations online. Borrowing a concept from the physical world's Wal-Marts and discount club stores, these discounters sell merchandise at extremely low prices.

Traditional discount retailers, such as Costco, Kmart, Target, and Wal-Mart, were reluctant to implement online sales on their Web sites, which they used originally for general information distribution. They had huge investments in their physical stores, were making large amounts of sales in those stores, and did not really understand the world of online retailing. However, after some false starts and learning challenges, all of these major retailers now use the Web catalog revenue model in their online sales operations.

LEARNING FROM FAILURES

Walmart.Com

Wal-Mart is the world's largest retailer, with thousands of stores and annual sales exceeding $400 billion. Founded in 1962 by retailing legend Sam Walton, the company has won numerous awards for business innovation. However, Wal-Mart's moves into online retailing have been troubled.

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

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

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

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

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

The new Web site was a vast improvement over the old site; much better organized with improved browsing and search functions. The site offered about the same number of items as the previous site (about 500,000 items; several times more than what the physical stores carry); however, the newer site had more consumer electronics, toys, and sporting goods with fewer offerings of consumable products. Wal-Mart also created a separate distribution center to serve Walmart.com exclusively.

A decade later, Wal-Mart's online operations were once again in the news. In 2011, industry analysts estimated that Walmart.com was the sixth-largest online retailer in North America and noted that this was not a particularly impressive showing for the world's largest retailer. In August, the company announced that it was ending sales of music downloads after failing to compete successfully against Apple's iTunes store and that two of its top online executives were leaving the company. In the wake of these developments, Wal-Mart announced a major reorganization of its online operations in North America, the United Kingdom, and Japan that it hopes will better integrate online and physical store operations. Online business managers will now report to retail operations directors in each country rather than to a global e-commerce director. After more than 10 years, it is reversing its 2000 strategy of separating these operations.

Wal-Mart's experience is a testament to how difficult it can be to get Web retailing right. Success eluded the largest retailer in the world for years. Wal-Mart is estimated to have spent hundreds of millions of dollars on various Web implementations and product distribution strategies over the past 15 years. And now it appears to be starting over once again.

Using Multiple Marketing Channels

Having more than one way to reach customers is often a good idea for companies, as Montgomery Ward and Sears found out many years ago. They used one channel (retail stores) to reach urban customers and another channel (mail order catalog) to reach rural customers. Each different pathway to customers is called a **marketing channel**. Companies find that having several marketing channels lets them reach more customers at less cost. For example, it is expensive to stock a large number of different items in a physical store, so a company such as **Best Buy** will stock the most popular items in its stores but will sell a wider variety of items (including those that are not in high demand at every one of its retail locations) on its Web site. Customers who want to have physical contact with a product (putting fingers on a laptop computer's keyboard, for example) before buying can visit the retail location. A customer who wants a high-end and expensive home theater system can find it on the Web site. By having two marketing channels (retail store and Web site), Best Buy reaches more customers and offers more products than it could by using either channel alone. Like many other retailers, **Home Depot** encourages online sales by offering an option to have online orders shipped free to a nearby physical store location for the customer to pick up. This is an especially attractive option for large or heavy items.

Some retailers, such as **Talbots**, combine the benefits of these two marketing channels by offering in-store online ordering. This allows customers to examine a product in the store, and then find their exact size or the color they like by placing an order on the retailer's Web site from the store.

Similarly, a retailer that mails print catalogs might include a product's general description and photo in the catalog, but refer customers to the retailer's Web site for detailed specifications or more information about the product. Mailed catalogs (or newspaper advertising inserts) continue to be an effective marketing tool because they inform customers of products they might not otherwise know about. The catalog arrives in the mail (or the newspaper insert arrives with the newspaper) to inform them. In contrast, a Web site only delivers the marketing message if the customer visits the Web site.

Using multiple marketing channels to reach the same set of customers can be an effective strategy for retailers. Figure 3-1 shows two examples (there are many other possibilities) of how retailers might combine two marketing channels.

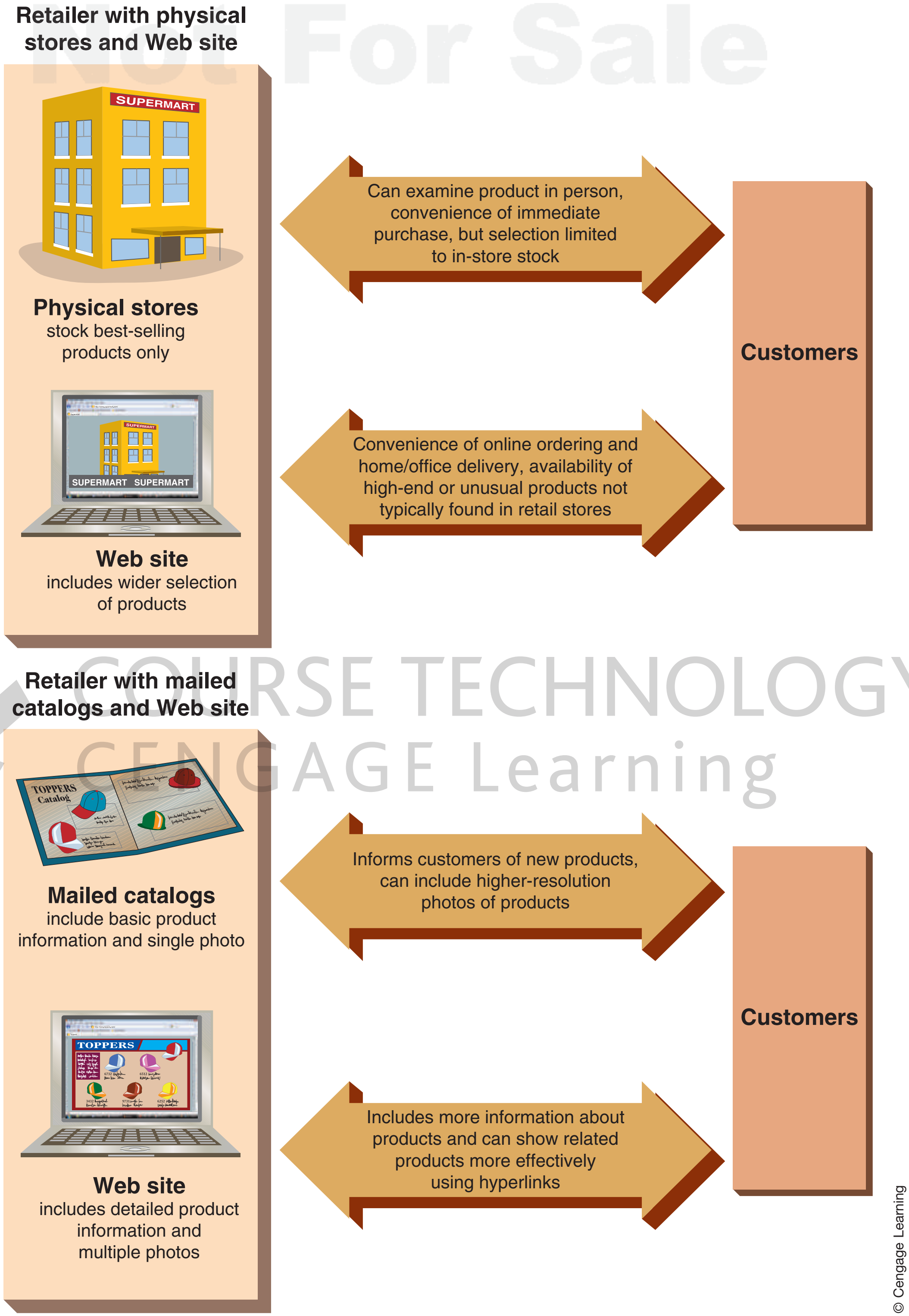

FIGURE 3-1 Combining marketing channels: Two retailer examples

Adding the Personal Touch

A number of apparel sellers have adapted their catalog sales model to the Web. These Web stores display photos of casual and business clothing categorized by style and described with prices, sizes, colors, and tailoring details. Their intent is to have customers examine the clothing and place orders through the Web site. Lands' End pioneered the idea of online Web shopping assistance with its Lands' End Live feature in 1999. A Web customer with a question can initiate a text chat with a customer service representative or click a button on the Web page to have the representative call. In addition to answering questions, the representative can offer suggestions by pushing Web pages to the customer's browser.

Today, many Web sites offer a chat feature that is activated by the Web site visitor clicking a button on the Web page. Some sites activate a chat window when a visitor remains on a particular Web page longer than a certain time interval. These chat windows simulate the experience of having a helpful salesperson approach the customer in a physical retail store. Other online general apparel retailers have added online chat, personal shopper, and virtual model features to their sites. Some of these sites include a feature that lets two shoppers browse the Web site together from different computers. Only one of the shoppers can purchase items, but either shopper can select items to view. The selected items appear in both Web browsers. Web sites can buy this technology from vendors such as **DecisionStep** (its product is called ShopTogether).

Lands' End also was a pioneer in adding personal shopper and virtual model features to its site. The **personal shopper** is an intelligent agent program that learns the customer's preferences and makes suggestions. The **virtual model** is a graphic image built from customer measurements and descriptions on which customers can try clothes. Lands' End found that the dollar amount of orders placed by customers who use the virtual model is significantly higher than other orders. The Canadian company that developed this Web site feature, **My Virtual Model**, has sold the technology to a number of other clothing retailers. The My Virtual Model Web site stores an individual's virtual model details and makes that information available through any other clothing retailer site that offers the service.

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

In addition to text chat, some online retailers use video to communicate with customers who have Webcams attached to or built into their computers. ITSRx is an online pharmacy that fills prescriptions for patients who have serious and chronic diseases such as cancer or multiple sclerosis. Many of these prescription drugs are injectables and a number of ITSRx's customers are new users of these medications. In the past, ITSRx used e-mail, telephone, or fax communications to answer customer questions about the drugs. Today, the pharmacy uses text chat and online video to instruct customers and to watch them as they administer their injections. The use of video in this case is much more efficient and safer than relying on e-mails or even text-based chat interactions.

Fee-for-Content Revenue Models

Firms that own written information (words or numbers) or rights to that information have embraced the Web as a highly efficient distribution mechanism. Many of these companies use a **digital content revenue model**; that is, they sell rights to access the information they own. Many companies sell subscriptions that give customers the right to access all or a specified part of the information; others sell the right to access individual items. A number of companies combine these two approaches and sell both subscriptions and individual access rights.

Legal, Academic, Business, and Technical Content

Many digital content providers specialize in legal, academic research, business, or technical material; however, all types of content are now available online. Whether you are an engineer who needs to find out if an idea you have has already been patented by someone else or a physician checking on a potential prescription interaction, you can find a digital content provider online who wants to fulfill your need.

LexisNexis offers a variety of information services for lawyers and law enforcement officials, court cases, public records, and resources for law libraries. In the past, law firms had to subscribe to and install expensive dedicated computer systems to obtain access to this information, but the Web has given LexisNexis customers much more flexibility in how they access their subscriptions.

Many academic and professional organizations, such as the American Psychological Association and the Association for Computing Machinery, sell subscriptions and individual access rights to their journals and other publications online. Academic publishing has always been a difficult business in which to make a profit because the base of potential subscribers is so small. Even highly regarded academic journals might have fewer than 2000 subscribers. To break even, academic journals must often charge each subscriber hundreds or even thousands of dollars per year. Electronic publishing eliminates the high costs of paper, printing, and delivery, and makes dissemination of research results less expensive and more timely.

A number of academic information aggregation services, such as ProQuest and EBSCO Information Services, purchase the rights to academic journals, newspapers, and other publications and resell those rights in subscription packages to schools, libraries, companies, and not-for-profit institutions.

Dow Jones, a business-focused publisher of newspapers such as *The Wall Street Journal* and *Barron's*, was one of the first publishers to create a Web site for selling subscriptions to digitized newspaper, magazine, and journal content. Today, Dow Jones operates an online content management and integration service called Factiva, which gives companies the ability to manage internal information and integrate it with external information to track company and industry news, perform analysis of acquisition candidates, and manage the company's risk in a dynamic business environment. Factiva also sells subscriptions to individuals who want to do research on businesses for employment searches or investment analysis.

Electronic Books

Another type of digital content sold online is the electronic book. Companies such as Audible and Books-on-Tape (now both owned by Amazon.com) sold digital audio editions of books for many years, first as cassette tapes, then as CDs, and later as various types of digital files. Today, the market leaders in electronic books are Amazon.com's Kindle products, Barnes & Noble's Nook products, and Google's eBookstore. Sales of electronic books are steadily growing; for example, Amazon.com announced that in 2011 it would sell more electronic books than paper books.

Books, magazines, and newspapers sold by these services as digital content are available for the physical readers (the Kindles and the Nooks) and for related applications that run on computers, tablet devices, and smart phones. Books are sold individually for these devices/applications; magazines and newspapers are sold on a subscription basis.

Online Music

The recording industry was slow to embrace online distribution of music because audio files are digital products that can be easily copied once purchased. Following a period of several years during which audio files were illegally shared among thousands of users, much of the recording industry finally stopped resisting digital sales of audio files. Starting around 2006, the recording companies began to identify ways they could capture some of the market for music files by selling their audio tracks online.

The largest online music stores include Amazon MP3, Apple's iTunes, eMusic, Google Music, Microsoft's MSN Music, and Rhapsody. These sites sell single songs (tracks) for about a dollar each and sell albums at various prices (most are between $5 and $12). Although some sites offer subscription plans, most of the sales revenue on these sites is generated from the sale of individual songs or digital albums.

The online music market has been complicated because no single store offers all of the music that is available in digital format and because many of the stores try to promote their own music file formats. Artists and recording companies sometimes only offer their music through one store and some refuse to offer their music online at all. By promoting their own file formats, stores are trying to encourage music consumers to use one store exclusively. Some online music sellers require buyers to download and install software, called **Digital Rights Management (DRM)** software, that limits the number of copies that can be made of each audio file. This does not prevent illegal copying, but it does make copying somewhat more difficult and the sellers hope that the extra effort required will discourage some of this copying. However, each store has different rules about how many copies are permitted and on which devices the files can be played. Consumers, especially those who buy music from more than one store, have found these varying restrictions confusing.

In 2007, the Amazon MP3 store was the first major online retailer to offer music tracks from several major recording companies in DRM-free MP3 format. Since then, other major retailers have followed Amazon's lead and most of them now offer some or all of their music in DRM-free, compatible file formats. Also, without DRM, it is now easier to convert files from one format to another. A report published by Strategy Analytics in 2011 predicts that online music sales will reach $2.8 billion in 2012, surpassing the declining total of music CD sales (estimated to be $2.7 billion) for the first time.

Online Video

Digital video can be sold or rented online as either a file download or as a streaming video. DRM software provides control over the number of copies that can be made of the downloaded video, the devices on which the video can be installed, and restrictions on how long the video remains available for watching. Videos offered for sale online include previously released movies, television shows, and programming that is developed specifically for the online market.

In the past, video sales have been limited by three main issues: the large size of video files (which can make download times long and streaming feeds uneven), concern that such sales might impair other sales of the video, and technological barriers that prevent downloaded videos from being played on a variety of devices. Online businesses have been working to overcome these issues and have had some success in addressing all three issues.

First, videos are still the largest types of files that are regularly transmitted on the Internet, but companies are continually experimenting with technologies that improve the delivery of large files and video streams. You will learn more about these content delivery technologies, pioneered by companies such as Akamai, Amazon.com, and Google, in Chapter 8.

Second, the companies that produce media are learning more about how online distribution fits into their overall revenue strategy. Movies traditionally have been released by the major Hollywood studios (20th Century Fox, Paramount, Sony, Walt Disney, Warner Brothers, and Universal) into different markets in a well-defined serial pattern. Movies were first distributed to theaters, which paid a high price for the right to show the movie first. After its initial theater run, the movie might then have been sold to airlines for in-flight showings and to premium cable channels such as HBO or Starz. Next, the movie was released on DVD and became available for purchase or rental through retail video stores. Eventually, the movie was sold to broadcast television stations and basic cable channels. This serial release pattern was designed to provide the movie's creators with the highest revenue obtainable at each point in the life of the product. Media producers released movies in this pattern for years, out of fear that any online distribution might steal sales away from one of their traditional outlets. These media producers now are experimenting with alternative distribution strategies. Some are now releasing movies online and on DVD simultaneously. As the number of online content distributors that charge either a subscription or a per-view fee for movies increases, media producers will be more amenable to releasing their product online because they can get paid for it.

Finally, video delivery technologies are becoming more transparent. For example, HTML 5 allows the delivery of movies through a standard Web browser without requiring plug-ins or external software. The availability of Web browsers on devices other than computers (for example, smart phones and tablet devices) has reduced concerns about technology barriers to video delivery on multiple devices.

Amazon.com sells the right to view movies and television shows on its Web site. The struggling video rental chain **Blockbuster** sells and rents access to video downloads, as does **Netflix**, which includes online access to movies on its Web site as part of its DVD rental subscription plans. Apple's **iTunes** service includes video offerings for rent or purchase in addition to its many free video downloads.

Television programs are also available online. Three of the major U.S. broadcast networks (ABC, Fox, and NBC) formed a joint venture to operate **Hulu**, which offers video clips of popular television programs and movies. Hulu offers much of its content free (using an advertising-supported revenue model) but also offers a monthly subscription, which makes premium content available. The other major U.S. broadcast network, CBS, operates **TV.com**, which offers free selected CBS-owned content, using an advertising-supported revenue model. Premium cable channel providers such as HBO and Showtime offer online access to their content for customers who have subscriptions to their services through their local cable company.

Advertising as a Revenue Model Element

Instead of charging a fee or subscription for content, many online businesses display advertising on their Web sites. The fees they charge advertisers are used to support the operation of the Web site and pay for the development or purchase of its content. Some sites rely entirely on advertising for their revenue, others use it only to provide part of their revenue. In this section, you will learn how advertising revenue is incorporated into the revenue models of various content-providing online businesses.

Advertising-Supported Revenue Models

The **advertising-supported revenue model** is the one used by broadcast network television in the United States. Broadcasters provide free programming to an audience along with advertising messages. The advertising revenue is sufficient to support the operations of the network and the creation or purchase of the programs. With the exception of the overall Web growth slowdown during 2000–2002, which you learned about in Chapter 1, Web advertising has increased steadily since the mid-1990s. As you will learn in Chapter 4, online advertising is now well established as an important component of the advertising mix used by businesses of all types. As online advertising grows, more and more Web sites can use it as a revenue source, either alone or in combination with other revenue sources.

The use of online advertising as the sole revenue source for a Web site has faced two major challenges. First, there has been little consensus on how to measure and charge for site visitor views, even after almost 20 years of experience with the medium. Because Web sites can take multiple measurements, such as number of visitors, number of unique visitors, number of click-throughs, and can measure other attributes of visitor behavior, Web advertisers have struggled to develop standards for advertising charges. In addition to the number of visitors or page views, stickiness is a critical element in creating a presence that attracts advertisers. The **stickiness** of a Web site is its ability to keep visitors at the site and attract repeat visitors. People spend more time at a **sticky** Web site and are thus exposed to more advertising.

The second issue is that very few Web sites have sufficiently large numbers of visitors to compete with mass media outlets such as radio or television. Although a few Web sites have succeeded in attracting the large general audience that major advertisers have traditionally wanted to reach, most successful advertising on the Web is targeted at specific groups. The set of characteristics that marketers use to group visitors is called **demographic information**, which includes things such as address, age, gender, income level, type of job held, hobbies, and religion. It can be difficult to determine whether a given Web site is attracting a specific market segment unless that site collects demographic information from its visitors—information that visitors often are reluctant to provide because of privacy concerns.

One solution to this second problem has been found by an increasing number of specialized information Web sites. These sites are successful in using an advertising-supported revenue model because they draw a specialized audience that certain advertisers want to reach. These sites do not need to gather demographic information from their visitors because anyone drawn to the site will have the specific set of interests that makes them a prized target for certain advertisers. In most cases, advertisers will pay high enough rates to support the operation of the site and in some cases, the advertising revenue is large enough to make these sites quite profitable.

Two examples of successful advertising-supported sites that appeal to audiences with specific interests are **The Huffington Post** and the **Drudge Report**. Each of these Web sites appeals to people who are interested in politics (liberal and conservative, respectively). Advertisers that want to target an audience with a specific political interest are willing to pay rates that are high enough to make these sites profitable enterprises. Online news sites that focus their coverage on a particular town or metropolitan area can use the advertising-supported revenue model successfully. Companies that want to reach potential customers in that area would find such sites to be useful for targeted marketing, since the Web sites would draw visitors with a specific interest in the geographic area.

Similarly, HowStuffWorks is a Web site that explains, as the name suggests, how things work. Each set of Web pages in the site attracts visitors with a highly focused interest. For example, a visitor looking for an explanation of how heating stoves work would be a good prospect for advertisers that sell heating stoves. HowStuffWorks does not need to obtain any specific information from its visitors; the fact that visitors are viewing the heating stoves information page is enough justification for charging heating stove companies a higher rate for ads on those pages. HowStuffWorks has a collection of pages that appeal to an array of visitors with highly focused interests. Thus, it is an attractive online advertising option for a wide variety of companies because the site has a collection of pages on a broad range of very specific products and processes that would be attractive to a variety of consumers, each of whom has a highly focused interest in one or more of them.

These three strategies—general interest, specific interest, and collection of specific interests—for implementing an advertising-supported revenue model are summarized in Figure 3-2.

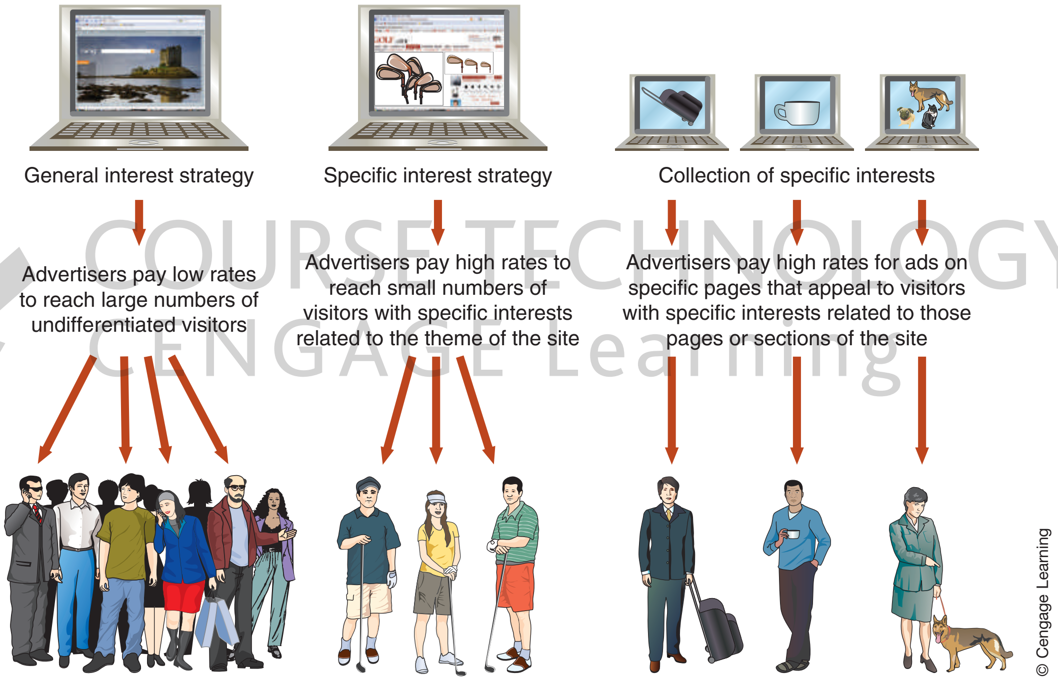

FIGURE 3-2 Three strategies for an advertising-supported revenue model

Some companies have been successful using the general interest strategy shown in Figure 3-2 by operating a Web portal. A **portal** or **Web portal** is a site that people use as a launching point to enter the Web (the word "portal" means "doorway"). A portal almost always includes a Web directory or search engine, but it also includes other features that help visitors find what they are looking for on the Web and thus make the Web more useful. Most portals include features such as shopping directories, white pages and yellow pages searchable databases, free e-mail, chat rooms, file storage services, games, and personal and group calendar tools.

One of the leading Web portal sites is Yahoo!, which was one of the first Web directories. A **Web directory** is a listing of hyperlinks to Web pages. Because the Yahoo!

portal's search engine presents visitors' search results on separate pages, it can include advertising on each results page that is triggered by the terms in the search. For example, when the Yahoo! search engine detects that a visitor has searched on the term *new car deals*, it can place a Ford ad at the top of the search results page. Ford is willing to pay more for this ad because it is directed only at visitors who have expressed interest in new cars. Besides Yahoo!, portal sites that use the general interest strategy today include **Google** and **Bing**. Smaller general interest sites, such as the Web directory **refdesk.com**, have had more difficulty attracting advertisers than the larger sites.

Not all portals use a general interest strategy, however. Some portals are designed to help visitors find information within a specific knowledge domain. The technology portal **C-NET** is one example of this type of site. C-NET uses the collection of specific interest strategy. The entire site is devoted to technology products and the site includes many reviews of specific technologies and related products. Advertisers pay more to have their ad appear near a discussion of a technology related to their product or on a page that reviews the product.

Travel portals such as **Kayak** have also been successful as advertising-supported online businesses. The Kayak site allows visitors to specify travel dates and destinations, and then searches multiple sites to find the best airfares, car rentals, and hotel rooms. It searches provider sites such as those of the airlines, hotels, and car rental companies, but it also searches sites that consolidate travel products and sell them at reduced prices. Kayak benefits its visitors by saving them the trouble of visiting multiple sites to find the best travel deals. And it sells targeted advertising space to companies that want to reach travelers with near-term travel plans.

Advertising-Supported Online Classified Ad Sites

Many newspapers and magazines publish all or part of their print content on the Web. They sell advertising to cover the costs of converting their print content to an online format and operating the Web site. Some publications, such as local shopping news and alternative press newspapers, have always been fully supported by advertising revenues and are distributed at retail locations and newsstands without charge. Many of these publications have made an easy transition to an advertising-supported revenue model. Most newspapers and magazines, however, have relied on subscription and newsstand revenue to supplement their advertising revenue. These publications have had a more difficult time in making their online editions generate sufficient revenue.

It remains unclear whether an online presence helps or hurts the business operations of these publishers. Although a Web site can provide greater exposure for the publication's name and a larger audience for advertising that it carries, an online edition also can divert sales from the print edition. Like retailers or distributors whose online sales lead to the loss of their brick-and-mortar sales, publishers also experience sales losses as a result of online distribution. Newspapers and other publishers worry about these sales losses because they are very difficult to measure.

In addition to the concern about lost sales of print editions, most newspaper and magazine publishers have found that the cost of operating their Web sites cannot be covered by the revenue they generate from selling advertising on the sites. Many publishers continue to experiment with various other ways of generating revenue from their Web sites. There is no consensus among media industry analysts regarding whether a pure advertising-supported revenue strategy can work for newspapers or magazines in the long run. As you will learn later in this chapter, many of these companies have experimented with combinations of revenue and subscription revenue sources and this experimentation will likely continue into the foreseeable future.

In the past, newspapers generated a significant percentage of their revenue from their classified advertising pages. You have already learned that targeted advertising can command higher rates than general advertising. Newspaper classified advertising was the original version of targeted advertising. Each ad is placed in a specific classification and only readers interested in that type of ad will read that classification. For example, a person looking for an apartment to rent would look in the Rentals classification. The growth of classified advertising Web sites has been very bad for newspapers. Sites such as **craigslist** now carry many free classified ads that would once have produced substantial classified advertising revenue for local newspapers. Craigslist and similar sites run most ads for free, only charging for a small proportion of the ads they carry (craigslist charges for job ads, brokered rental ads in New York City, and a few other categories). Craigslist generates enough revenue to continue operating, but many other classified advertising sites generate substantial revenue, replacing newspapers' historical role as the primary carrier of classified ads.

The most successful targeted classified advertising category has been Web employment sites. Companies such as **CareerBuilder.com** offer international distribution of employment ads. These sites offer advertisers access to targeted markets. When a visitor specifies an interest in, for example, engineering jobs in Dallas, the results page can include a targeted ad for which an advertiser will pay more because it is directed at a specific market segment. Other employment ad sites, such as **The Ladders**, charge both job seekers and employers for ads and access to those ads.

Employment ad sites such as **Monster.com** also target specific categories of job seekers by including short articles on topics of interest. These articles increase the site's stickiness and attract people who are not necessarily looking for a job. This is a good tactic because people who are not looking for a job are often the candidates most highly sought by employers.

Another type of online classified advertising business is the used vehicle site. Trader Publishing has printed advertising newspapers for many years and now operates the **AutoTrader.com** site. Similar sites accept paid advertising from individuals and companies that want to sell cars, motorcycles, and boats.

A product that is likely to be useful after the original buyer uses it is an appropriate item for inclusion in a classified advertising site. Classified advertising sites for used musical instruments, comic books, and used golf equipment are just a few examples.

Advertising-Subscription Mixed Revenue Models

In an **advertising-subscription mixed revenue model**, which has been used for many years by traditional print newspapers and magazines, subscribers pay a fee, but also accept some level of advertising. On Web sites that use the advertising-subscription mixed revenue model, subscribers are typically subjected to much less advertising than they are on sites supported completely by advertising. Firms have had varying levels of success in applying this mixed revenue model and a number of companies have moved to or from this model as they try to find the best way to generate revenue online.

Two of the world's most widely-circulated newspapers, ***The New York Times*** and ***The Wall Street Journal***, have each used an advertising-subscription mixed model since they first took their publications online. *The Wall Street Journal's* mixed model is weighted toward subscription revenue. The site allows nonsubscriber visitors to view the classified ads and certain stories from the newspaper, but most of the content is reserved for subscribers who pay an annual fee for access to the site. Visitors who already subscribe to the print edition are offered a reduced rate on subscriptions to the online edition. As you will learn later in this chapter, *The New York Times* has gone through a number of changes to its revenue model, but for most of its online life it has made substantial portions of its content available at no cost and relied more heavily on advertising than *The Wall Street Journal*.

Most newspapers and magazines that use the advertising-subscription mixed revenue model for their online publications make most of their content available online, but a number of them do restrict the amount of free content as *The Wall Street Journal* does. Figure 3-3 shows the revenue models used by a number of newspapers and magazines, including those that use the advertising-supported model, the advertising-subscription mixed model with substantial content freely available, and the advertising-subscription mixed model with most content available only to subscribers.

Advertising-Supported	Advertising-Subscription Mixed Supported	
Most or All Content Free to All Visitors	Substantial Content Free to All Visitors	Most Content Available Only to Subscribers
The Boston Globe	BusinessWeek	The Economist
Cleveland Plain Dealer	Chronicle of Higher Education	Foreign Affairs
Financial Times	Forbes	Harvard Business Review
Newsweek	Inc. Magazine	National Geographic
InStyle	The Los Angeles Times	Nature
PC Magazine	The New York Times	Scientific American
San Francisco Chronicle	The Washington Post	Sports Illustrated
Smithsonian		Technology Review
Time		The Times
		The Wall Street Journal

FIGURE 3-3 Revenue models used by online editions of newspapers and magazines

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

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

Fee-for-Transaction Revenue Models

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

Stock Brokerage Firms: Two Rounds of Disintermediation

Online stock brokerage firms use a fee-for-transaction model. They charge their customers a commission for each trade executed. In the past, stockbrokers offered investment advice and made specific buy and sell recommendations to customers in addition to their transaction execution services. They did not charge for this advice, but they did charge substantial commissions on the trades they executed. In the United States, these commission rates were set by a government agency and were the same for each stockbroker. Thus, because they could not compete on price, the best way for brokerage firms to compete was to offer more and better investment advice.

After the U.S. government deregulated the securities trading business in the early 1970s, a number of discount brokers opened, including the highly successful **Charles Schwab** firm. These discount brokers distinguished themselves by not offering any investment advice and charging very low commissions. They did not employ account executives (as the traditional brokerage firms did) because they did not need to offer the same level of personalized service; the attraction to customers was their low commission rates. Traditional brokers had provided free research to all of their customers, but many of those customers neither wanted nor valued the research. Those customers were very happy to move their business to the discount brokers who provided fast, inexpensive trade execution only. As this shift occurred, individual stockbrokers were disintermediated from the industry value chain.

A second round of disintermediation occurred in the 1990s as new online brokerage firms took business away from the discount brokers who had earlier taken business away from traditional brokers. The Web made it possible for firms such as **E*Trade Financial** to compete with both traditional and discount brokers by offering investment advice posted on their Web pages or sent in e-mailed newsletters. This advice was similar to that offered by a traditional broker, but could be provided without many of the costs of distributing the advice that traditional brokers had incurred (such as stockbroker salaries, overhead, and the costs of printing and mailing paper newsletters). These Web-based brokerage firms could also offer fast execution of trades by having customers enter data into Web page forms, thus competing with the discount brokers.

Of course, the full-line brokers found that they were simultaneously losing business to both the discount brokers and the online brokers. In response, both discount brokers and the few surviving traditional brokers opened stock trading and research information Web sites in attempts to take back some of their business from the online brokers. After two rounds of disintermediation and the financial crisis of 2008, the brokerage firms that remain today do most of their business online. **TD Ameritrade** is one example of a surviving firm that offers a combination of investment advice and advanced trading tools to a wide range of customers online.

Insurance Brokers

Other sales agency and brokerage businesses have moved substantial portions of their operations online. Although insurance companies themselves were slow to offer policies and investments for sale online, a number of intermediaries that sell insurance policies from a variety of companies have been online since the early days of the Web. Quotesmith, which began business in 1984 as a policy-quoting service for independent insurance brokers, decided in 1996 to sell its policy price quotes directly to the public over the Internet. By quoting policies and accepting applications directly, Quotesmith disintermediated the independent insurance agents with whom it formerly worked. Although Quotesmith is no longer in business, similar sites such as **InsWeb** and **Insurance.com** continue to provide quotes from multiple insurance carriers online directly to consumers.

As you learned in the case at the beginning of this chapter, **Progressive** provides quotes on its Web site for both its insurance products and for its competitors' products. **The General** (General Automobile Insurance Services) uses its Web site to reach auto insurance buyers who might have had trouble getting insurance from other companies. It advertises its online insurance quotes as being "fast and anonymous." By offering a comfortable environment to potential customers who have been rejected by other companies because of credit problems or traffic tickets, The General has been successful in this specific niche of the insurance market. Today, most major insurance companies offer information and policies for sale on their Web sites.

Event Tickets

Before the Web made online sales possible, obtaining tickets for concerts, shows, and sporting events could be a challenge. Some venues only offered tickets for sale at their own box offices, and others sold tickets through ticket agencies that were difficult for patrons to find or impossible to reach by telephone. The Web gave event promoters the ability to sell tickets from one virtual location to customers practically anywhere in the world. Established ticket agencies such as **Ticketmaster** were early participants in online ticket sales and earn a fee on every ticket they sell.

In addition to the original sale of tickets, the Web created opportunities for those who deal in secondary market tickets (tickets that have already been sold by the event's producer and that are being offered for resale to other persons). Companies such as **StubHub** and **TicketsNow** operate as brokers to connect owners of tickets with buyers in this market. These ticket resellers earn fees on tickets they resell for others, but they can also profit by buying blocks of tickets and reselling them at a higher price. Both ticket brokers and ticket resellers reduce transaction costs for both buyers and sellers of tickets by creating a central marketplace that is easy to find and that facilitates buyer-seller negotiation.

Online Banking and Financial Services

Because financial services do not involve a physical product, they are easy to offer on the Web. The greatest concerns that most people have when they consider moving their financial transactions to the Web are security and the reliability of the financial institution, which are the same concerns that exist in the physical world. However, on the Web, it is much more difficult for a firm to establish its reputation for security and trust than it is in the physical world, where massive buildings and clearly visible room-sized safes can help create the necessary image. Some people who are willing to buy products and services online are unwilling to trust a Web site for their banking services, but the number who do is growing. A 2010 comScore research study reported that 64 percent of U.S. banking customers pay their bills online. In Chapter 11, you will learn more about how online payments and other financial transactions are processed.

Most banks that entered the online banking business did so by offering some of their services on the Web. They generally began with sites that offered account balances and statements, then added bill pay, account transfers, loan applications, and other services. Some firms started completely new online banks that were not affiliated with any existing bank (such as the **First Internet Bank of Indiana**). Banks benefit from serving their customers online because it costs the bank less to provide services online than to provide those same services through personal interactions with bank employees in a branch office.

Although online banks let customers pay their bills electronically, many customers still receive their bills in the mail. Those who do receive their bills online must often visit a different Web site to view each online bill. A **bill presentment** service provides an electronic version of an invoice or billing statement (such as a credit card bill or a mobile phone services statement) with all of the details that would appear in the printed document. As online banks add bill presentment services that allow their customers to view all of their bills on the bank's Web site (and pay each of them with a single click), they are finding that more of their customers are willing to do their banking on the Web.

Another important feature that an increasing number of online banks now offer is **account aggregation**, which is the ability to obtain bank, investment, loan, and other financial account information from multiple Web sites and display it all in one location at the bank's Web site. Many of a bank's best customers have credit card, loan, investment, and brokerage accounts with several different financial institutions. Having all of this information collected in one place is very helpful to these customers. Some banks have created their own account aggregation and bill presentment software, but companies such as **Yodlee** sell these services to banks and other financial institutions. The number of banks that offer aggregation is expected to continue to grow.

Travel

In the past, travel agents earned substantial commissions on each airplane ticket, hotel reservation, auto rental, or vacation that they booked. These commissions were paid to the travel agent by the transportation or lodging provider. Thus, the traditional revenue model in the travel agency business was a fee-for-transaction, similar to the model of stock brokerage firms.

When the Internet became available to commercial users, a number of online travel agencies began doing business on the Web. Existing travel agencies did not, in general, rush to the new medium. They believed that the key value they added, personal customer service, could not be replaced with a Web site.

In recent years, most airlines and auto rental companies have reduced the amount of the commissions they pay travel agents. In some cases, they have stopped paying commissions at all. Most cruise lines and hotels continue to pay commissions. And many hotels sell blocks of rooms to travel agents who can then resell them as part of vacation packages. Some airlines also sell blocks of seats to travel agents. Online travel sites have much larger volume than traditional travel agencies and are thus able to buy larger blocks of hotel rooms and airline seats.

Online travel sites have evolved to make money in various ways. They all collect any commissions that are paid. And they buy and sell rooms and airline seats, but most of them, including **Travelocity**, which was based on the Sabre computer system that traditional travel agencies used to book flights and hotel rooms (Travelocity is owned by Sabre), and Microsoft's **Expedia** subsidiary, run advertising on their Web sites in a combined advertising-fee revenue model. In 2001, a consortium of five major U.S. airlines launched **Orbitz**, which became one of the most visited travel sites on the Web. The Orbitz home page appears in Figure 3-4.

FIGURE 3-4 Orbitz home page

The online travel sites were able to disintermediate many traditional travel agencies. By expanding rapidly online, they were able to negotiate better deals on hotel rooms and airline seats that they purchased for resale. With their scale of operations and low cost per transaction, they were able to continue operating profitably on the reduced airline ticket commissions. These factors combined to hasten the end of the traditional travel agency.

Some smaller travel agencies have survived; these agencies most often specialize in cruise vacations. Cruise lines still view travel agents as an important part of their selling strategy and continue to pay commissions to travel agents on the sales that they make. Web sites that make discounted cruise packages easy to search, such as **VacationsToGo.com**, or that provide detailed information about cruises have been successful in this travel industry niche.

Other small travel agencies have been successful by following a reintermediation strategy with a focus on specific groups of travelers. These travel agents identify a group of travelers with specific needs and sell travel packages designed for that group. For example, surf vacations have become increasingly popular. The stereotypical surfer of years gone by (a young unemployed male) has been replaced by a much broader demographic. Today's surfers often have significant financial resources and enjoy surfing in exotic locations. Web sites such as **WaveHunters.com** have followed a reintermediation strategy and cater to this specialized market. Travel agencies that specialize in unusual or exotic destinations, such as Antarctica, have also been successful as intermediaries if they have particular expertise, knowledge, or local contacts that help them create custom itineraries. These sites also include advertising as part of their online presences and revenue models.

Automobile Sales

Traditional auto dealers buy cars from the manufacturer and sell them to consumers. They provide showrooms and salespeople to help customers learn about product features, arrange financing, and make a purchase decision. Dealers make their profits by charging a markup on each vehicle sale in addition to charging fees for service, warranty extensions, and other add-ons. In the United States, most states have laws that prevent auto manufacturers from selling directly to consumers, which provides some protection from disintermediation for auto dealers. Almost all auto dealers negotiate the prices at which they sell their cars; thus, the salesperson's job includes extracting the highest possible price from the consumer. Many people do not like negotiating car prices, especially if they have taken the time to learn about car features, arrange financing, and are ready to purchase a car without further assistance from a salesperson.

Autobytel and similar firms, such as **Edmunds.com**, provide an information service to car buyers. They offer an independent source of information, reviews, and recommendations regarding auto makes and models. Some of these firms offer customers the ability to select a specific car (model, color, options) at a price the firm determines. The firm then finds a local dealer that has such a car and is willing to sell it for the determined price. An alternative approach is for the firm to locate dealers in the buyer's area that are willing to sell the car specified by the buyer (including make, model, options, and color) for a small premium over the dealer's nominal cost. After the firm introduces the buyer to the dealer, that buyer can purchase the car without negotiating with a salesperson. The firm charges participating dealers a fee for this service. In effect, these firms are disintermediating the individual salesperson. To the extent that the salesperson provides little value to the consumer, these firms are reducing the transaction costs in the process. The car salesperson is disintermediated and the Web site becomes the new intermediary in the transaction, which is an example of reintermediation. Some auto sales sites also sell advertising on their sites, which makes them, like the online travel agencies, examples of mixed fee-for-transaction and advertising-supported revenue models.

Real Estate and Mortgage Loans

Other fee-for-transaction businesses use Web sites to solicit business, including real estate brokers and mortgage loan brokers. Most real estate brokerage firms have a strong online presence, including information about properties they have for sale or rent, along with contact information for individual brokers affiliated with their offices. Many individual real estate brokers operate their own Web sites as well. The industry's trade association, the National Association of Realtors, sponsors a Web site, **Realtor.com**, that carries detailed descriptions and photos of houses listed for sale by its member firms. Although very few (if any) real estate transactions are completed online, these Web sites play an important role in bringing buyers and sellers together.

Although the financial crisis of 2008 dramatically reduced the number of mortgage brokers in business, a number of them continue to do business online. Both **GMAC Mortgage** and **E-LOAN** still provide information and take mortgage loan applications online.

The complexity and size of real estate transactions have made it difficult for online activities to displace completely the work done by individual real estate and mortgage brokers. Thus, this is one line of business that has been highly resistant to disintermediation caused by online technologies. The changes caused by online elements in the real estate and mortgage businesses have been minor.

Fee-for-Service Revenue Models

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

Online Games

Computer and video games are a huge industry. In the United States alone, more than $14 billion per year is spent on these types of games. A substantial portion of that revenue is generated online. Although many sites that offer games relied on advertising revenue in the past (and some, such as **GSN.com**, still do), a growing number, including **MSN Games** and **Sony Online Entertainment**, include premium games in their offerings. Site visitors must pay to play these premium games, either by buying and downloading software to install on their computers, or by paying a subscription fee to enter the premium games area on the site. Almost all game sites include some elements of advertising in their revenue models.

Professional Services

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

Although some medical, legal, and other professional practices allow patients to make appointments online, and a few professionals do online consultations, most are reluctant to do any element of their practices on the Web. Many professionals are worried about protecting the privacy of their patients or clients online.

The **Law on the Web** site offers legal consultations on a variety of matters for residents of the United Kingdom. Accounting professionals in the United States can be located through the **CPA Directory**, and a number of legal referral sites can direct site visitors to local attorneys. The online version of the well-known Martindale-Hubbell lawyer directory is also available online at **Martindale.com**.

Although a large number of Web sites offer general health information, physicians and other health care professionals have been reluctant to sell specific advice to specific patients online. The difficulty of diagnosing medical problems without a physical examination of the patient is a significant barrier to providing most types of health care services online, but some physicians are beginning to offer online consultations to patients with whom they have an ongoing, established relationship.

The **Cope Today** Web site does offer online therapy to patients in the United States. The site connects potential patients with therapists licensed in that patient's jurisdiction, so the therapist providing the online consultation complies with state professional practice laws. Online consultations are done by text or video chat. The site's founder notes that some conditions, such as depression or anxiety, might be easier to treat online since the patient does not need to leave home to see a therapist.

Free for Many, Fee for a Few

Chris Anderson, the editor of *Wired Magazine*, proposed in 2004 that the economics of producing and selling digital products is substantially different from the economics of producing and selling physical products. In his books (see references to his work in the For Further Study and Research section at the end of this chapter), he explains that physical products benefit from the production of standardized versions that generate economies of scale. Because each product requires materials and labor, using the same materials allows large producers to buy those materials at lower costs by ordering in bulk. Labor costs can be reduced by training workers to do specific production tasks efficiently. Since most of the cost of a physical product is in the manufacture of each unit (as opposed to the design of the prototype), the key to making a profit is to reduce the cost of manufacturing. Digital products work differently. They tend to have large up-front costs. Once those costs are incurred, additional units can be made at very low additional cost. For example, a software program can cost thousands of dollars to create. It can take many hours of expensive programmer time to design, code, and test. But once it is in production, creating additional units (especially if those units are distributed in digital form, online) costs very little. Making minor changes in the program so that it works better for different types of customers can be inexpensive, too. Thus, the economics of digital products are quite different from the economics of physical products.

The result of Anderson's logic is that it can be profitable to offer a digital product to a large number of customers for free, and then charge a small number of customers for an enhanced, specialized, or otherwise differentiated version of the product. If you can charge the small number of customers enough to cover the cost of developing the digital product and yield a profit, you can give away many copies of the product, especially if those free copies entice more paying customers for the enhanced product. For example, Yahoo! offers free e-mail accounts to site visitors. This draws visitors to the Yahoo! site and allows the company to sell some advertising on the pages that display the e-mail service. But some e-mail users will want an enhanced version of the service. Perhaps they want pages with no advertising, the ability to send large attachments with their e-mails, or more storage space for their e-mails. Yahoo! charges for a premium version of its service that offers these features. It costs the company very little to offer this service, but it generates considerable revenue.

In the physical world, this free sample logic works in reverse. Companies selling physical products have often used a mixture of free and for-sale products. For example, a bakery might have a plate of cookies available for customers to taste. The bakery hopes that enough customers will be impressed with the taste of the free cookies that they will buy cookies or other baked goods. They give away a small number of physical products to boost sales.

CHANGING STRATEGIES: REVENUE MODELS IN TRANSITION

Many companies have gone through transitions in their revenue models as they learn how to do business successfully on the Web. As more people and businesses use the Web to buy goods and services, and as the behavior of those Web users changes, companies often find that they must change their revenue models to meet the needs of those new and changing Web users. Some companies created electronic commerce Web sites that needed many years to grow large enough to become profitable. This is not unusual; both CNN and ESPN took more than 10 years to become profitable and they had both created new businesses in television, which was an existing and well-established medium. Many Web companies found that their unprofitable growth phases were lasting longer than they had anticipated and were forced either to change their revenue models or go out of business.

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

Subscription to Advertising-Supported Model

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

Although *Slate* drew a wide readership and received acclaim for its incisive reporting and excellent writing, it was unable to draw a sufficient number of paid subscribers. At its peak, *Slate* had about 27,000 subscribers generating annual revenue of $500,000, which was far less than the cost of creating the content and maintaining the Web site. *Slate* is now operated as an advertising-supported site. Because it is a part of Microsoft, *Slate* does not report its own profit numbers. Microsoft maintains the *Slate* site as part of its Bing portal, so it is likely that the value of the publication to Microsoft is to increase the portal's stickiness.

Advertising-Supported to Advertising-Subscription Mixed Model

Another upscale online magazine, **Salon.com**, which has also received acclaim for its innovative content, has moved its revenue model in the direction opposite of *Slate*'s transition. After operating for several years as an advertising-supported site, *Salon.com* began offering an optional subscription version of its site called *Salon Premium*, which was free of advertising and could be downloaded for later offline reading on the subscriber's computer.

The subscription version offering was motivated by the company's inability to raise the additional money from investors that it needed to continue operations. The subscription version has gone through a number of changes over the year and now includes access to additional content such as downloadable music, e-books, and audio books. The premium version of the site, now called **Salon Core**, also includes subscriptions to various print magazines, access to sports content, music, and a preferential access to the site's writers and editors.

Advertising-Supported to Fee-for-Services Model

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

After two years of offering free disk storage space, Xdrive found that it was unable to pay the costs of providing the service with the advertising revenue it had been able to generate. After being bought by AOL in 2005, Xdrive switched to a subscription-supported model (AOL-registered users were eligible for a small free storage service) and began selling the service to business users as well as individuals. In recent years, disk drive costs have dropped and Xdrive frequently adjusted its monthly fee downward. AOL finally closed the service in 2009.

Companies that have successful online storage businesses today, such as **Carbonite** or **Dropbox**, generally charge a fee for their services that is based on the amount of storage used. Some companies use the "free for many, fee for a few" revenue model. Amazon.com and Google both offer consumer data storage services that are free up to a certain point, with additional storage available for a monthly or annual fee.

Advertising-Supported to Subscription Model

Northern Light was founded in August 1997 as a search engine, but a search engine that did more than search the Web. It also searched its own database of journal articles and other publications to which it had acquired reproduction rights. When a user ran a search, Northern Light returned a results page that included links to Web sites and abstracts of the items in its own database. Users could then follow the links to Web sites, which were free, or purchase access to the database items.

Thus, Northern Light's revenue model was a combination of the advertising-supported model used by most other Web search engines plus a fee-based information access service, similar to the subscription services offered by ProQuest and EBSCO that you learned about earlier in this chapter. The difference in the Northern Light model was that users could pay for just one or two articles (the cost was typically \$1–\$5 per article) instead of paying a large amount of money for unlimited access to its database on an annual subscription basis. Northern Light also offered subscription access to most of its database to companies, schools, and libraries.

In January 2002, Northern Light decided that the advertising revenue it was earning from the ads it sold on search results pages was insufficient to justify continuing to offer that service. It stopped offering public access to its search engine and converted to a new revenue model that was primarily subscription supported. Northern Light's new model generates revenue from annual subscriptions to large corporate clients. Its main products today include SinglePoint, a search engine that runs on corporate databases, and MI Analyst, a meaning extraction tool used in business research applications.

Multiple Changes to Revenue Models

Over its 240-year publishing history, Encyclopædia Britannica has developed one of the most respected brand names in research and education. Beginning in 1768 as a sort of precomputer-age frequently asked questions (FAQ) list, a group of academics developed the encyclopedia out of collected notes they had made while conducting research and decided to publish them as a series of articles.

The company has been through a number of revenue model transitions as it developed its current online business strategy. When Encyclopædia Britannica first moved online in 1994, it began with two Web-based offerings. The Britannica Internet Guide was a free Web navigation aid that classified and rated information-laden Web sites. It featured reviews written by Britannica editors who also selected and indexed the sites. The company's other Web site, Encyclopædia Britannica Online, contained the full text and pictures from the print encyclopedia. It was available for a subscription fee or as part of the Encyclopædia Britannica CD package. Britannica's intention was to use the free site to attract users to the paid subscription site.

In 1999, disappointed by low subscription sales of Encyclopædia Britannica Online, Britannica converted to a free, advertising-supported site. In terms of Web site traffic, the new revenue model was a huge success. The first day the new free site, **Britannica.com**, became available it had more than 15 million visitors, forcing Britannica to shut down for two weeks to upgrade its servers. The site offered full content of the encyclopedia's print edition in searchable form, plus access to the *Merriam-Webster's Collegiate Dictionary* and the *Britannica Book of the Year*. One of the most successful aspects of the site was the way it integrated the Britannica Internet Guide Web-rating service with its print content. The Britannica Store sold the CD version of the encyclopedia along with other educational and scientific products to help generate revenue.

Unfortunately, advertising sales were not what the company had hoped. After two years of trying to generate a profit using this advertising-supported model, Britannica returned to the mixed model it continues to use today. In this mixed model, the company offers free online access to summaries of encyclopedia articles and the *Merriam-Webster's Collegiate Dictionary*, but the full text of the encyclopedia is only available to visitors who pay an annual fee of about $70.

Britannica went from being a print publisher to a seller of information on the Web to an advertising-supported Web site to a mixed advertising subscription model—three major revenue model transitions—in just a few short years. The main value that Britannica has to sell is its reputation and the expertise of its editors, contributors, and advisors. After exploring these different revenue models, the company has decided that the best way to capitalize on its reputation and expertise is through a mixed revenue model of subscriptions and advertising support, with the bulk of its revenue coming from subscriptions. Britannica also generates revenue by selling books, CDs, DVDs, and software with an educational theme through its online products store.

The New York Times Web site has gone through several revenue model transitions since opening in the mid-1990s. Originally, the site was purely advertising supported and included most of the content in the print edition of the newspaper. It has always charged a subscription fee for its premium crossword puzzles and for time-limited access to its chess column to print subscribers. The first revenue model also included a fee for access to older articles stored in the newspaper's archives.

In 2005, *The New York Times* decided to limit access to much of its most desirable content to subscribers and began charging a fee for access to its Op Ed and news columns. The fee also allowed access to the crossword puzzles and the older articles in the archives. All of the limited-access content was also available to print edition subscribers. This program brought in about 227,000 subscribers, which at $44.95 per year generated about $10 million in revenue.

By 2007, the newspaper became convinced that it could earn more advertising revenue by providing free access to those pages than it was earning in subscription fees, so it went back to relying on an advertising-supported revenue stream. The newspaper charged only for access to the crossword puzzles and for older articles in the archives. With this change, the traffic to the Web site nearly doubled, reaching an average of 30 million unique visitors per month. However, the recession of 2008 caused advertising revenue to drop and the company began considering other alternatives.

In 2011, disappointed with the level of advertising revenue, the company adopted a rather complex program that gave the newspaper some flexibility in what it would put online (in case there was a major story it wanted to cover broadly) yet that would generate more revenue than the advertising-based revenue model it had been using for the previous four years. In the new plan, site visitors could read 20 articles a month at no charge. When a visitor attempts to view the 21st article, the site offers several subscription plans (currently priced between $15–$35 per month) that include unlimited access to the Web site and various levels of access through mobile phones. This type of barrier, which is triggered by a specific level of usage, has become known as a **pay wall**. Subscribers to the print edition are given unlimited access to the site.

The publishers of the newspaper are hopeful that this mixed revenue model will provide an acceptable balance between the editors' desire to have as many people as possible read the paper and the need to generate sufficient revenue to keep the newspaper operating. Their experience with this revenue model will doubtless be watched closely by the entire industry.

REVENUE STRATEGY ISSUES FOR ONLINE BUSINESSES

In the first part of this chapter, you learned about the revenue models that companies are using on the Web today. In this section, you will learn about some issues that arise when companies implement those models. You will also learn how companies deal with those issues.

Channel Conflict and Cannibalization

Companies that have existing sales outlets and distribution networks often worry that their Web sites will take away sales from those outlets and networks. For example, Levi Strauss & Company sells its Levi's jeans and other clothing products through department stores and other retail outlets. The company began selling jeans to consumers on its Web site in mid-1998. Many of the department stores and retail outlets that had been selling Levi's products for many years complained to the company that the Web site was now competing with them. In January 2000, Levi Strauss announced it would stop selling its clothing products on its own Web site. Such a **channel conflict** can occur whenever sales activities on a company's Web site interfere with its existing sales outlets. The problem is also called **cannibalization** because the Web site's sales consume sales that would be made in the company's other sales channels. In recent years, the **Levi's** Web site resumed selling products directly to consumers, but it includes a Store Locator link that helps customers find a nearby store if they want to buy in person. Both Levi Strauss and the retail stores it sells through have agreed that the sales through the Web site are insignificant. Over time, many Levi's retailers have opened online stores themselves, so they see the Levi's site as less of a threat than they did in 2000.

Maytag, the manufacturer of home appliances, found itself in the same position as Levi Strauss. It created a Web site that allowed customers to order directly from Maytag. After less than two years of making direct online sales and receiving many complaints from its authorized distributors and resellers, Maytag decided to incorporate online partners into its Web site store design. Now, after searching and gathering information about specific products from the Maytag Web site, a customer can click a Where to Buy link and be directed to a nearby Maytag retailer.

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

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

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

Strategic Alliances

As you learned in Chapter 1, when two or more companies join forces to undertake an activity over a long period of time, they are said to create a strategic alliance. When companies form a strategic alliance, they are operating in the network form of organization that you learned about in Chapter 1. Companies form strategic alliances for many purposes. An increasing number of businesses are forming strategic alliances to sell on the Web. For example, the relationships that Levi's created with its retail partners by giving them space on the Levi's Web site to sell Levi's products is an example of a strategic alliance.

Earlier in this chapter you learned about Yodlee, the account aggregation services provider, and the online bank sites that offer these services to consumers. The relationship between Yodlee and its bank clients is another example of a strategic alliance. Yodlee can concentrate on developing the technology and services while the banks provide the customers. Account aggregation services decrease the likelihood that customers will consider moving to another bank, which helps the bank hold on to its customers. Thus, both parties benefit from the strategic alliance.

Amazon.com has forged a number of strategic alliances with existing firms. As you learned in Chapter 1, Amazon joined with Target to sell that discount retailer's products on a Target-branded Web site. Amazon.com has also formed strategic alliances with many smaller companies to offer their products for sale on the Amazon.com Web site.

Luxury Goods Strategies

Some types of products can be difficult to sell online. This is particularly true for expensive luxury goods and high-fashion clothing items that customers generally want to see in person or touch. Many luxury brands hesitated to offer their products online for fear of alienating the upscale physical stores that sold their products. For example, clothier **Lilly Pulitzer** launched its Web site in 2000, but did not sell on the site until 2008, fearing that it would lose some of the luxury cachet it derived from limiting its sales outlets.

Some upscale brands overcome this obstacle by limiting the range of their online offerings. For example, luxury brand Chanel, which launched its retail site in 2010, and Calvin Klein do not offer all of their products online. Chanel sells fragrance and skincare products online but not its clothing lines. Calvin Klein does not sell its couture line online, but it does sell its ready-to-wear lines on its Web site.

In large part, luxury retailers limit their sales online out of concern that some or all of their products' features must be experienced in person and cannot be adequately represented online. One industry that has overcome this obstacle, however, is the retail jewelry business. After years of slow online sales, jewelry sales have grown rapidly in recent years. Retailers such as Blue Nile and Ice.com operate highly successful online jewelry stores. Even general retailers such as Costco offer $50,000 diamond rings online. Helping these stores overcome resistance is the general availability of independent appraisal certificates for diamonds and other high-priced jewelry items. Another important factor is the stores' well-advertised "no questions asked" return policies.

Overstock Sales Strategies

In the fast-changing clothing business, retailers have always had to deal with the problem of overstocks—products that did not sell as well as hoped. Many retailers use outlet stores to sell their overstocks. Lands' End found that its overstocks Web page worked so well that it has closed some of its physical outlet stores. Many other retailer Web sites include a link to separate sections for overstocks or clearance sales of end-of-season merchandise.

An online overstocks store works well because it reaches more people than a physical store and it can be updated more frequently than a printed overstocks catalog. Overstocks and clearance sale pages have become a standard element of clothing retailers' Web sites.

CREATING AN EFFECTIVE BUSINESS PRESENCE ONLINE

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

Identifying Web Presence Goals

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

A firm's physical location must satisfy so many other business needs that it often runs out of the resources it would need to convey a good presence. On the Web, businesses and other organizations have the luxury of building their Web sites with the main goal of creating a distinctive presence. A good Web site design can provide many image-creation and image-enhancing features very effectively—it can serve as a sales brochure, a product showroom, a financial report, an employment ad, and a customer contact point. Each entity that establishes a Web presence should decide which features the Web site can provide and which of those features are the most important to include. An effective site is one that creates an attractive presence that meets the objectives of the business or organization. A list of these objectives, along with some examples of Web site design strategies that can help accomplish them, appears in Figure 3-5.

Objectives	Strategies
Attracting visitors to the Web site	Include links to the Web site (or specific pages) in marketing e-mails
Making the site interesting enough that visitors stay and explore	Product reviews, comparison features, advice on how to use a product or service
Convincing visitors to follow the site's links to obtain information	Clearly labeled links that include a hint of the information to be obtained by following them
Creating an impression consistent with the organization's desired image	Using established branding elements such as logos, characters used in other advertising media, slogans, or catchphrases
Building a trusting relationship with visitors	Ensuring the validity and objectivity of information presented on the site
Reinforcing positive images that the visitor might already have about the organization	Presenting testimonials, information about awards, links to external reviews or articles about the organization or its products and services
Encouraging visitors to return to the site	Featuring current information about the organization or its products and services that is regularly updated

FIGURE 3-5 Web presence objectives and strategies

Making Web Presence Consistent with Brand Image

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

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

Most auto manufacturers' Web sites convey a consistent brand image. They usually include links to detailed information about each model, a dealer locator page, information about the company, and a set of shopping tools such as configuration pages for each model.

Not-for-Profit Organizations

Auto makers enhance their images by providing useful information to customers on their Web sites. The main function of their Web sites, however, is to promote their products and get customers in touch with a dealer who can sell them a car. For other organizations, the image-enhancement capability is a key goal of their Web presence efforts. Not-for-profit organizations are an excellent example of this. They can use their Web sites as a central resource for communications with their varied and often geographically dispersed constituencies.

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

The ACLU home page, shown in Figure 3-6, gives visitors an opportunity to learn about the organization and contribute money or join if their interests are piqued by what they see. The ACLU home page includes links to information about each major issue on which the ACLU has taken a position. The ACLU's Web site is especially valuable to it because the organization serves many different constituencies, not all of whom agree with the ACLU or with each other on all issues. If the ACLU were to create a print newsletter that contained interesting information for some of its supporters, that same information might offend other supporters. The Web site allows visitors to select the issues in which they are interested—and only those issues.

FIGURE 3-6 ACLU home page

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

WEB SITE USABILITY

Research indicates that few businesses accomplish all of their goals for their Web sites in their current Web presences. Even sites that succeed in achieving most of these goals often fail to provide sufficient interactive contact opportunities for site visitors.

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

How the Web Is Different

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

This failure to understand how the Web is different from other presence-building media continues to be an important reason that so many businesses do not achieve their Web objectives. To learn more about this issue, see Jakob Nielsen's classic **Failure of Corporate Websites** page in the Web Links; the article was written in 1998, but still accurately describes far too many Web sites. In revisiting the issue in 2009 (see **Top 10 Information Architecture Mistakes**), Nielsen found that a surprising number of Web sites still contained the same kinds of architectural and navigational flaws that impair site visitors' ability to find information.

Most Web sites that are designed to create an organization's presence in the Web medium include links to a fairly standard information set. The site should give the visitor easy access to the organization's history, a statement of objectives or mission statement, information about products or services, financial information, and a way to communicate with the organization. Sites achieve varying levels of success based largely on how they offer this information. Presentation is important, but so is realizing that the Web is an interactive medium. The Web gives even large companies the ability to engage in two-way, meaningful communication with their customers. Companies that do not make effective use of this ability will lose customers to competitors that do.

Meeting the Needs of Web Site Visitors

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

Varied Motivations of Web Site Visitors

Web designers face some challenges when trying to create a site that is useful for everyone because visitors arrive for many different reasons, including these:

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

Creating a Web site that meets the needs of visitors with such a wide range of motivations can be challenging. Not only do Web site visitors arrive with different needs, they arrive with different experience and expectation levels. In addition to the problems posed by the diversity of visitor characteristics, technology issues can also arise. These Web site visitors are connected to the Internet through a variety of communication channels that provide different bandwidths and data transmission speeds. They will also be using different Web browsers running on different devices (including computers, mobile phones, smart phones, television sets, and even game consoles). Even those using the same browser can be running different versions or have it configured in various ways. Different browser add-in and plug-in software can add yet another dimension to visitor variability. Considering and addressing the implications of these many variations in visitor characteristics when building a Web site can help convert these visitors into customers.

Making Web Sites Accessible

One of the best ways to accommodate a broad range of visitor needs, including the needs of visitors with disabilities, is to build flexibility into the Web site's interface. For example, some sites offer a text-only version. As researchers at the **Trace Center** note, this can be an especially important feature for visually impaired visitors who use special browser software to access Web site content. Approximately 10 percent of all Web users have some kind of disability. The **W3C Web Accessibility Initiative** site includes a number of useful links to information regarding these issues.

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

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

The use of Adobe Flash to create animated graphic elements on Web pages has been controversial for years (see, for example, WebWord.com's **Flash Usability Challenge** pages or Jakob Nielsen's commentaries: **Flash: 99% Bad** and **Ephemeral Web-Based Applications**). Although some Web site designers love Flash as a creative design tool, many electronic commerce sites are reluctant to use it because of the non-standard interface it can present to customers. Web pages built with Flash (or large portions of those pages) are not rendered in HTML and do not provide the same navigation tools or visual hints that Web pages created in HTML offer. Flash files can be large and can thus take a long time to download; another issues is that Flash does not work on Apple's iPhone and iPad products. This has increased concern about its use in Web sites designed to be viewed on smart phones and tablet devices.

As HTML 5 (which you learned in Chapter 2 includes the ability to include multimedia links directly in the markup language itself) becomes more widely used, most experts predict that the use of Flash will decline significantly. In the meantime, some sites provide an option on their home pages that allows users to select Flash or non-Flash versions of the site.

Some specific tasks that customers want to perform do lend themselves to animated Web pages. For example, the Lee® Jeans **FitFinder** is a series of Flash animation pages that can help customers find the right size and style of jeans. One of the Lee® Jeans FitFinder animation pages is shown in Figure 3-7.

FIGURE 3-7 Lee® Jeans FitFinder Flash animation

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

To be successful in conveying an integrated image and offering information to potential customers, businesses should try to meet the accessibility goals shown in Figure 3-8 when constructing their Web sites.

Business Web sites need to:

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

FIGURE 3-8 Accessibility goals for business Web sites

Trust and Loyalty

When companies first started selling on the Web, many of them believed that their customers would use the abundance of information to find the best prices and disregard other aspects of the buying experience. For some products, this may be true; however, most products include an element of service. When customers buy a product, they are also buying that service element. A seller can create value in a relationship with a customer by nurturing the customer's trust and developing it into loyalty. Business researchers have found that a 5 percent increase in customer loyalty (measured as the proportion of returning customers) can yield profit increases of 25 to 80 percent.

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

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

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

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

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

Usability Testing

An increasing number of companies are realizing the importance of usability testing, however, most companies do not perform any usability testing on their Web sites. As its name suggests, **usability testing** is the testing and evaluation of a site by its owner to ensure ease of use for site visitors. As the practice of usability testing becomes more common, more Web sites will meet the goals outlined previously in this chapter.

Experts estimate that average electronic commerce Web sites frustrate as many as half of their potential customers to the point that they leave without buying anything. Even the best sites lose many customers because the sites are confusing or difficult to use. Simple changes in site usability can increase customer satisfaction and sales. For example, some Web sites do not include telephone contact information in the belief that not staffing a call center will save the business money. However, if your customers cannot reach you, they will not continue to do business with you. Most customers will give up when they cannot communicate with you when they need to, using the medium they prefer for that communication.

Companies that have done usability tests, such as Eastman Kodak, T. Rowe Price, and Maytag, have found that they can learn a great deal about meeting visitor needs by conducting focus groups and watching how different customers navigate through a series of Web site test designs. Industry analysts agree that the cost of usability testing is so low compared to the total cost of a Web site design or overhaul that it should almost always be included in such projects. Two pioneers of usability testing are Ben Shneiderman and Jakob Nielsen. Dr. Shneiderman founded the **University of Maryland Human-Computer Interaction Lab** and has published a number of books on interface design. Dr. Nielsen's **Alertbox** Web site includes information about how to conduct usability testing and how to use its results to improve Web site design and operation. In 2011, he published an excellent summary of usability issues on the Alertbox site titled **E-Commerce Usability**.

Because usability testing is fairly inexpensive, many companies run usability tests periodically on their Web sites. Although user behavior is quite stable over time, Web sites evolve and are changed almost constantly. Many times these changes can affect Web site structure and navigation in unexpected and unintended ways. A regular program of usability testing can identify these issues and allow companies to resolve them before they cause user frustration and lost sales.

Customer-Centric Web Site Design

An important part of a successful electronic business operation is a Web site that meets the needs of potential customers. In the list of goals for constructing Web sites that you learned about earlier in the chapter, the focus was on meeting the needs of all site visitors (which might include customers, potential customers, investors, potential contributors for charitable organizations, business partners, suppliers, potential employees, and the general public). Putting the customer at the center of all site designs is called a **customer-centric** approach to Web site design. A customer-centric approach leads to some guidelines that Web designers can follow when creating a Web site that is intended to meet the specific needs of *customers*, as opposed to all Web site visitors. These guidelines include the following:

- Design the site around how visitors will navigate the links, not around the company's organizational structure.
- Allow visitors to access information quickly.
- Avoid using inflated marketing statements in product or service descriptions.
- Avoid using business jargon and terms that visitors might not understand.
- Build the site to work for visitors who are using the oldest browser software on the oldest computer connected through the lowest bandwidth connection—even if this means creating multiple versions of Web pages.
- Be consistent in use of design features and colors.
- Make sure that navigation controls are clearly labeled or otherwise recognizable.
- Test text visibility on a range of monitor sizes; text can become too small to read on a small monitor and so large it shows jagged edges on a large monitor.
- Check to make sure that color combinations do not impair viewing clarity for color-blind visitors.

Web sites that are designed for mobile device users should follow a few additional guidelines. These rules help accommodate the use of devices with very small screens (compared to laptop or desktop computer users) and the tendency of mobile device users to be even less patient than other Web users.

- Text should be extremely concise; there is no space for excess verbiage on a mobile device screen.
- Navigation must be clear, intuitive, and easy to see.
- The set of available functions should be limited to those likely to be used by site visitors in a mobile setting (the page can include links to the more complete, non-mobile version of the site).
- Creating a dedicated Web site for mobile users is almost always essential because the needs of mobile users are so different from those of other users.
- Conduct usability tests by having potential site users navigate several versions of the site.

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

Using these guidelines when you create your site can help make visitors' Web experiences more efficient, effective, and memorable. Usability is an important element of creating an effective Web presence.

USING THE WEB TO CONNECT WITH CUSTOMERS

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

The Nature of Communication on the Web

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

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

The Internet is a medium with unique qualities. It occupies a central space in the continuum of media choices. It is not a mass medium, even though a large number of people now use it and many companies seem to view their Web sites as billboards or broadcasts. Nor is the Internet a personal contact tool, although it can provide individuals the convenience of making personal contacts through e-mail and newsgroups. Jeff Bezos, founder of Amazon.com, described the Web as the ideal tool for reaching what he calls "the hard middle"—markets that are too small to justify a mass media campaign, yet too large to cover using personal contact. Figure 3-9 illustrates the position of the Web as a customer contact medium, located between the large markets addressed by mass media and the highly focused markets addressed by personal contact selling and promotion techniques.

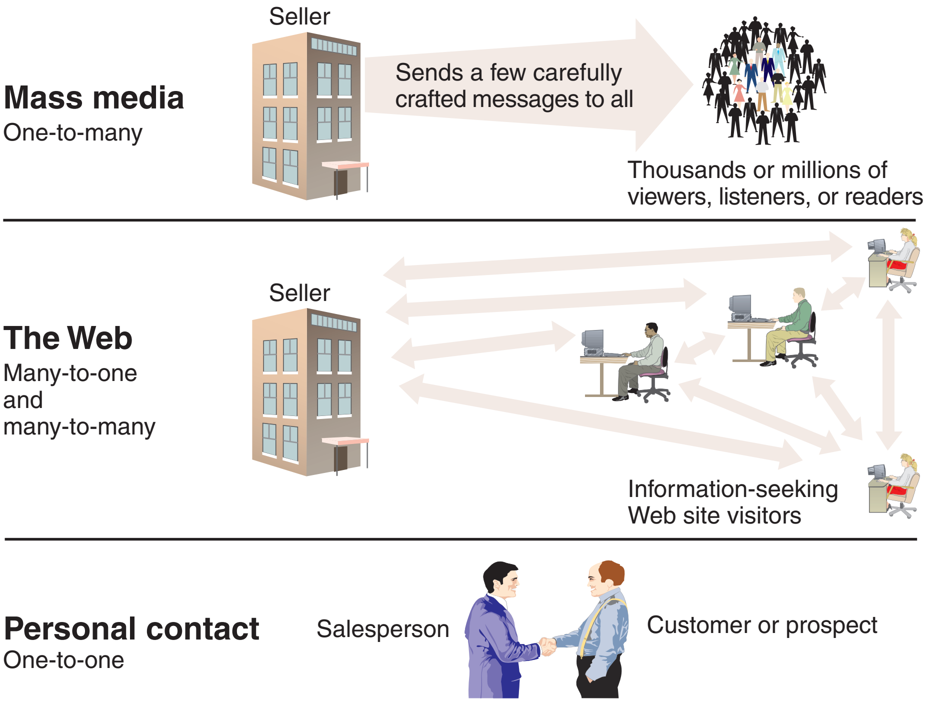

FIGURE 3-9 Business communication modes

To help you better understand the differences shown in Figure 3-9, read the following scenario. The scenario assumes that you have heard about a new book, but would like to learn more about it before buying it. Consider how your information acquisition process would vary, depending on the medium you used to gather the information.

- *Mass media*: You might have been exposed to general promotional messages from book publishers that have created impressions about quality associated with particular book brands. If your existing knowledge includes a brand identity for the book's publisher, these messages might influence your perceptions of the book. You might have been exposed to an ad for the title on television, radio, or in print. You might have heard the book's author interviewed on a radio program or read a review of the book in a publication such as *The New York Times Book Review* or *Booklist* magazine. Notice that most of these process elements involve you as a passive recipient of information. This communication channel is labeled "Mass media" and appears at the top of Figure 3-9. Communication in this model flows from one advertiser to many potential buyers and thus is called a **one-to-many communication model**. The defining characteristic of the mass media promotion process is that the seller is active and the buyer is passive.
- *Personal contact*: Small-value items are not frequently sold through this medium because the costs of devoting a salesperson's efforts to a small sale are prohibitive. However, in the case of books, local bookshop owners and employees often devote considerable time and resources to developing close relationships with their customers. Although each individual book sale is a small-value transaction, people who frequent local bookshops tend to buy

large numbers of books over time. Thus, the bookseller's investment in developing personal contacts is often rewarded. In this scenario, you may visit your local bookshop and strike up a conversation with a knowledgeable bookseller. In the personal contact model, this would most likely be a bookseller with whom you have already established a relationship. The bookseller would offer an opinion on the book based on having read that book, books by the same author, or reviews of the book. This opinion would be expressed as part of a two-way conversational interchange. This interchange usually includes a number of conversational elements (small talk, such as discussions about the weather, local sports, or politics) that are not directly related to the transaction you are considering. These other interchanges are part of the trust-building and trust-maintaining activities that businesses undertake to develop the relationship element of the personal contact model. The underlying **one-to-one communication model** appears at the bottom of Figure 3-9 and is labeled "Personal contact." The defining characteristic of information gathering in the personal contact model is the wide-ranging interchange that occurs within the framework of an existing trust relationship. Both the buyer and the seller (or the seller's representative) actively participate in this exchange of information.

- *The Web*: To obtain information about a book on the Web, you could search for Web site references to the book, the author, or the subject of the book. You would likely identify a number of Web sites that offer such information. These sites might include those of the book's publisher, firms that sell books on the Web, independent book reviews, or discussion groups focused on the book's author or genre. *The New York Review of Books* and *Booklist* magazine, both staples of mass media book promotion, are available online. Book review sites that did not originate in a print edition, such as *BookBrowse*, also appear on the Web. Most online booksellers maintain searchable space on their sites for readers to post reviews and comments about specific titles. If the author of the book is famous, there might even be independent Web fan sites devoted to him or her. If the book is about a notable person, incident, or time period, you might find Web sites devoted to those notable topics that include reviews of books related to the topic. You could examine any number of these resources to any extent you desired. You might encounter some advertising material created by the publisher while searching the Web. However, if you choose not to view the publisher's ads, you will find it as easy to click the Back button on your Web browser as it is to surf television channels with your remote control. The Web affords you many communication channels. Figure 3-9 shows only one of the communication models that can occur when using the Web to search for product information. The model labeled "The Web" in Figure 3-9 is the **many-to-one communication model**. The Web gives you the flexibility to use a one-to-one model (as in the personal contact model) in which you communicate over the Web with an individual working for the seller, or engage in **many-to-many communications** with other potential buyers. The defining characteristic of a product information search on the Web is that the buyer actively participates in the search and controls the length, depth, and scope of the search.

Summary

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

Companies sometimes face the challenges of channel conflict and cannibalization either within their own organizations or with the companies that have traditionally provided sales distribution to consumers for them. In accordance with the network model of organization that you learned about in Chapter 1, companies undertaking electronic commerce initiatives sometimes form strategic alliances with other companies to obtain their skills in Web site operation.

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

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

Key Terms

Account aggregation
Addressable media
Advertising-subscription mixed revenue model
Advertising-supported revenue model
Bill presentment
Cannibalization
Catalog model
Channel conflict
Channel cooperation
Communication modes
Customer-centric
Demographic information
Digital content revenue model
Digital Rights Management (DRM)
Disintermediation
Fee-for-service revenue model
Fee-for-transaction revenue model
Mail-order
Many-to-many communications
Many-to-one communication model
Marketing channel
Mass media
One-to-many communication model
One-to-one communication model
Pay wall
Personal contact
Personal shopper
Portal
Presence
Prospecting
Reintermediation
Stakeholders
Stickiness
Sticky
Usability testing
Virtual model
Web catalog revenue model
Web directory
Web portal

Review Questions

1. Write a paragraph in which you outline the problems that a Web site with a narrow focus that is directed at a small audience could face if it were to rely exclusively on advertising revenue.
2. Define the term "stickiness" as used in electronic commerce. In one or two paragraphs, explain why it is important for advertising-supported Web sites to have this characteristic.
3. Define "channel conflict" and describe in one or two paragraphs how a company might deal with this issue.
4. In two paragraphs, explain why a customer-centric Web site design is so important, yet is so difficult to accomplish.
5. Define the term "presence," and then write about 100 words in which you explain why companies that do business on the Web must be more concerned about presence than firms that operate only in the physical world. Be sure to include a discussion of the characteristics that differ between online and offline presences.
6. Many businesses offer free samples of their products or services to potential customers to induce them to become customers. Write a paragraph in which you describe how this strategy can be implemented online. Be sure to note how the amount of sampling that is likely to be beneficial differs in the online environment and the physical world.

Exercises

1. Assume you are in the market for an Android-based tablet device to use at school. List five features or characteristics that would be important for you to have in such a device. Using your list, write about 100 words on whether you would be most likely to find a product that meets your specific needs by shopping online or in a physical store. If you believe that shopping both online and in person would be a good idea for you, explain which characteristics or features you would evaluate as you shopped online versus in person.
2. You have been hired as a consultant by your local town newspaper, the *Midland Clarion*. Midland is a small town of about 10,000 residents. The *Clarion* has seen its paid subscription list decline steadily over the past 10 years, but the number of visitors to the newspaper's Web site, which includes all of the stories that run in the paper, has steadily increased over the same time period. The *Clarion's* publisher is considering charging an annual subscription fee for access to the editorials and columns on the Web site. The classified and display advertising, along with short summaries of news stories, would continue to be available at no cost. Prepare a report of about 300 words in which you outline the advantages and disadvantages of this advertising-subscription mixed revenue model for the *Clarion*.
3. High-end jewelry retailers such as **Cartier**, **Harry Winston**, and **Tiffany** often use Adobe's Flash software to create their Web sites. In about 200 words, present three arguments for and three arguments against the use of Flash animations in sites such as these. Consider the retailers' objectives, the characteristics of the products being sold, and the type of customers who visit these sites.
4. Prepare a report in which you evaluate the usability of two Web sites that sell GPS navigation devices. A list of links to companies that sell this type of product is included in the Web Links for this exercise, but you may use other sites if you wish. In your report, evaluate how easy it is to learn about and purchase the product. Your report should include a section of about 100 words in which you describe the criteria you used in your evaluation (such as a feature comparison tool, ease of determining shipping costs, clarity and usefulness of product photographs or illustrations, and so on), a section of about 200 words that

summarizes your findings, and a section of about 100 words in which you present your conclusion.

5. Visit the Web sites of two museums. The Web Links for this exercise include a list of links to museums, but you may use other sites if you wish. Write a report of 100 words in which you describe the process on each site for making a donation to the museum. Evaluate how the site's design encourages visitors to donate; for example, is it easy to find a link to a page where you can make a donation? Does the site encourage donations throughout the site's various pages? Provide at least one recommendation for improving each of the two sites you selected.
6. Many real estate agents today have Web sites that list the properties they have for sale. These agents also advertise the properties on Realtor.com and sometimes in television ads. However, most real estate agents would tell you that personal contact provides their most important connections with clients, potential clients, and client referral sources. Write three paragraphs in which you briefly describe the things that real estate agents can best accomplish through (1) their Web sites, (2) mass media advertising, and (3) personal contact.

Cases

C1. Lonely Planet

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

The Wheelers' publishing company, Lonely Planet, has grown rapidly, with typical annual sales increases of 15 percent or more. In 2007, BBC Worldwide purchased a 75 percent ownership interest in the company and purchased the rest of the company's stock in 2011. Lonely Planet TV now produces a variety of travel and documentary programs that appear on cable networks throughout the world. As a BBC subsidiary, the company does not release sales figures, but industry analysts estimate current annual revenues to be about $110 million. Lonely Planet publishes more than 600 titles and holds a 20 percent share of the travel guide market. The company has more than 450 employees in its U.K., U.S., French, and Australian offices performing editorial, production, graphic design, and marketing tasks. Travel guide content is written by a network of more than 200 contract authors in more than 20 countries. These authors are knowledgeable about everything from visa regulations to hotel prices to the names of the hottest new entertainment spots. The combined expertise of the in-house staff and the in-country authors has kept Lonely Planet ahead of its competitors for many years.

Lonely Planet also offers travel services that include a phone card, hotel and hostel room-booking, airplane tickets, European rail travel reservations and tickets, package tours, and travel insurance. These services are sold by telephone and on the Lonely Planet Web site.

The Web site has won numerous awards, including the Society of American Travel Writers Silver Award and a spot on *Time* magazine's "Fifty Best Web Sites" list. The site was launched in 1994 and includes an online store in which Lonely Planet publications are sold. However, the site's main draws are its comprehensive collection of information about travel destinations and its online discussion area, the Thorn Tree, which has nearly a half million registered users. The company has had trouble turning any of this information into a source of revenue generation.

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

Lonely Planet publications are well researched and of high quality, but the writers do not work continually because the books are not published continually. The Web site often has information that is more current than the published travel guides.

The site's online shop does offer some custom guides, which are parts of its existing travel guides packaged in different ways, and it does let customers buy specific chapters from its books, but it still is largely focused on selling books, although the site does offer PDF files that can be downloaded to mobile devices. Lonely Planet has adopted some new technologies, but has not used them to change its revenue model in any major way or to make basic changes in the production of its main product, the travel guides.

Required:

1. Review the company's offerings for Apple iPhone and iPad products and for Android smart phones (Trippy). Evaluate those products and identify opportunities for other products or services that the company could offer for mobile devices that would take advantage of Internet technologies (including wireless technologies for mobile devices) and address customers' concerns about the timeliness and currency of information in the printed travel guides.
2. Prepare a report in which you analyze the marketing channel conflicts and cannibalization issues that Lonely Planet faces as it is currently operating. Suggest solutions that might reduce the revenue losses or operational frictions that result from these issues.
3. Many loyal Lonely Planet customers carry their travel guides (which can be several hundred pages thick) with them as they travel around the world. In many cases, these customers do not use large portions of the travel guides. Also, Internet access can be a problem for many of these customers while they are traveling. Describe a digital product (or products) other than the PDFs of book chapters it currently offers that might address this customer concern and also yield additional revenue for Lonely Planet. Your answer here could build on ideas that you developed in your solution to Requirement 1.

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

C2. Association for the Study of International Business

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

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

One of the journals, *Annals of International Business*, has an academic focus and is read by researchers interested in international business topics. All ASIB members receive a copy of this journal and ASIB sells about 300 subscriptions to the journal at $400 (a total of $120,000 per year). Most of the subscribers are university libraries. This journal is published four times each year.

The second journal, *International Business Today*, is written for business executives. It includes articles and features that report on current trends in international business and is published monthly. All ASIB members receive a copy of this journal and ASIB sells about 1000 subscriptions to the journal at $50 (a total of $50,000 per year).

The total subscription revenue from the two journals is $170,000 per year. *International Business Today* sells advertising that yields about $60,000 per year. ASIB uses that total revenue of $230,000 to cover the costs of producing and mailing both journals. The cost of producing one issue of either journal, which includes proofreading, editing, and typesetting costs, is about $2000. The printing and mailing costs, which have been increasing rapidly over the past several years, average about $3 per journal (the mailing costs to some members are much higher than others because they are located in distant countries). Each year, ASIB produces 16 issues (four of the academic journal and 12 of the business journal) and mails 61,200 journals (13,200 of the academic journal and 48,000 of the business journal) to members and subscribers at a total cost of $215,600 (16 × $2000 plus 61,200 × $3). Thus, ASIB's current journal operations yield a net profit of $14,400 ($230,000 – $215,600) that can help support other ASIB activities.

ASIB has a Web site that it constructed at a cost of $30,000 three years ago. One of ASIB's staff members spends approximately half of her time managing the site. One-half of her salary along with other recurring expenses, such as software licenses and computer upgrades for the Web site, totals about $35,000 per year. Mario explains to you that one of the ASIB's greatest cost reduction successes was last year's decision to offer the monthly newsletter by e-mail. About half of the members chose to receive the newsletter by e-mail. The paper newsletters cost 50 cents each to print and mail, but creating and sending the e-mails took less than $50 worth of staff members' time. Thus, ASIB realized an immediate savings of about $750 each month. The newsletters are also placed on the Web site so that members can check there if they happen to miss the e-mailed newsletter. This success prompted Mario to think about ways to reduce the cost of distributing the journals. He wants to make sure, however, that ASIB continues to receive as much of the journal revenue as possible under any new revenue model.

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

Mario outlined an alternative to the EBSCO contract. In this alternative, ASIB would itself scan the journals into PDF files and make them available on the ASIB Web site for a subscription fee. Mario estimated that it would cost about $1000 to create the PDF files for one issue and place them on the Web site. He also estimated that managing the accounts and passwords would consume about $500 per month of staff time and costs. Mario believes that arranging for distribution of article abstracts through Google Scholar would increase the visibility of the organization and could possibly lead to additional subscription revenue. Note that Mario intends to make the abstract for each article available, not the entire text of each article.

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

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

Required:

1. Review the requirements for listing the Association's journals on **Google Scholar**. Prepare a memo of about 100 words to Mario in which you outline what steps will be necessary to secure distribution of the journals' article abstracts through Google Scholar.
2. Prepare a comprehensive report for Mario in which you outline and analyze the possible revenue models that ASIB might use for its Web site. You should address the two journals as separate issues. Your report should provide the basis for a presentation to the ASIB executive board and should include specific recommendations where possible.

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

For Further Study and Research

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