Project ecommerce business models by timmers marketing essay

Electronic commerce; can be defined loosely as “ doing business electronically” (European Commission 1997). Perhaps the earliest attempt to construct a taxonomy of e-commerce business models was Paul Timmers in “ Business Models for Electronic Markets” (Electronic Markets, Vol. 8, No. 2, July 1998). In this article, Timmers provides brief descriptions, benefits and examples of 11 models: e-shop, e-procurement, e-auction, e-mall, third party marketplace, virtual community, value chain service provider, value chain integrator, collaboration platform, information brokerage, and trust services. With the advent of the new medium of the Internet, new ways of doing business have been developed. Most of those include businesses which are consumer oriented such as Amazon that capture the public attention. According to Timmers there are eleven business models that are currently in use. If we take Timmer’s view on these business models, Amazon can come under these:

Virtual Community.

This is because the ultimate value of virtual communities comes from the members (customers or partners), who add their information onto a basic environment provided by the virtual community company. The membership fees as well as advertising generate revenues. In Amazon’s case this is very abundant in the Amazon books section. Amazon. com allows you to add content and customize your user experience. You can write product recommendations, upload your own product images, get product news and share and discover products in “ Your Media Library”.

E-auction:

Electronic auctions (on the Internet) offer an electronic implementation of the bidding mechanism also known from traditional auctions. According to Timmer’s business model Amazon can be classified under the e-auction aspect as well. This can be elaborated by the example that when Amazon. com has launched an option for acquiring Amazon EC2 Compute resources i. e. “ Spot Instances”. Using this option, customers bid any price they like on unused Amazon EC2 capacity and run those instances for as long their bid exceeds the current “ Spot Price.” (Vogels, 2009). These “ Spot Prices” fluctuated according to the supply and demand of the product and varied according to the hour when the purchase was made.

E-Mall:

E-Malls according to Timmer’s is a collection of e-shops. It usually has a common payment method. Amazon can be place under this model since it sells products in over forty categories, from books to electronics to groceries to jewelry to auto parts all under the umberalla brand of Amazon. The products being sold may belong to different brands but customers who visit amazon. com get a wholesome experience out of it.

3rd Party Marketplace

Amazon provides a user interface to the suppliers’ product catalogues. According to the wikiinvest. com analysis, when Amazon made the strategic decision to open up its website, it simultaneously created a Marketplace of third party sellers who effectively compete with Amazon for any given sale.

” These merchants sold a variety of new and used products for which Amazon received a commission on products sold via its Marketplace, and although gross margins on these transactions is generally less than that if Amazon sold the item directly, the Marketplace strategy creates a one-stop shopping destination with a consistent experience for the customer. It has also helped Amazon dramatically increase its selection of available products. This turned out to be a very smart move because today over 30% of items sold on Amazon are sold by third parties.” (AMAZON. COM INC.(AMZN), 2010)

Micheal Rappa

Micheal Rappa(2007) believed that, “ In the most basic sense, a business model is the method of doing business by which a company can sustain itself — that is, generate revenue. The business model spells-out how a company makes money by specifying where it is positioned in the value chain.”

According to his definition of the business models Amazon can be classified under the following.

Affliate model :

Amazon. com largely pioneered the affiliate model in 1996, when it began recruiting thousands of smaller Web sites to help generate new traffic to its online store. Amazon. com and other companies found willing partners among smaller e-businesses, content-based Web sites, and Web portals (E-commerce, 2009). In contrast to the generalized portal, which seeks to drive a high volume of traffic to one site, the affiliate model provides purchase opportunities wherever people may be surfing.

Brokerage model:

A subgroup of this model according to Rappa(2007) is the Virtual Marketplace or Virtual Mall. Amazon is also said to follow this model since the “ Merchant Services: it provides is kind of a Virtual Marketplace. Amazon. com offers a Pro Merchant Subscription that helps the consumer list items they want to sell. They are allowed for instance to do discounted selling in which there is the $0. 99-per-sale fixed closing fee is waived for every listing sold after you become a Pro Merchant. The consumer only pays the remaining 6 to 20 percent commission and the variable closing fee, plus a monthly subscription fee of $39. 99. There is also the volume listing which lets Amazons customers do a thousand listings at once.

Advertising model:

Amazon also has a web advertising model. A subgroup of it is the classified in which there is a list of items for sale or wanted for purchase. In the case of Amazon a minimal listing fee is also applicable. On Amazon the user also has to register to carry out a sale/purchase transaction. The initial registration may be free but it helps Amazon track the demographics of its users and display and advertise products according to the past history. What Amazon is dong can also be classified under contextual advertising

Merchant model.

In this model according to Rappa(2007), sales may be made based on list prices or through auction. Amazon. com is the most well known Virtual Merchant or e-tailer, is a retail merchant that operates solely over the web.

Financial Analysis

This is the official Amazon stock data taken from Forbes.

Latest 12 Months Data Items

Latest Full Context Quarter Ending Date

2010/03

Gross Profit Margin

24. 0%

EBIT Margin

5. 0%

EBITDA Margin

6. 8%

Pre-Tax Profit Margin

4. 9%

Interest Coverage

46. 1

Current Ratio

1. 5

Quick Ratio

1. 1

Leverage Ratio

2. 1

Receivables Turnover

38. 2

Inventory Turnover

13. 2

Asset Turnover

2. 8

Revenue to Assets

2. 2

ROE from Total Operations

18. 2%

Return on Invested Capital

17. 8%

Return on Assets

8. 5%

Debt/Common Equity Ratio

0. 02

Price/Book Ratio (Price/Equity)

10. 88

Book Value per Share

$12. 61

Total Debt/ Equity

0. 02

Long-Term Debt to Total Capital

0. 02

SG&A as % of Revenue

17. 3%

R&D as % of Revenue

0. 0%

Receivables per Day Sales

$10. 97

Days CGS in Inventory

27

Working Capital per Share

$6. 22

Cash per Share

$4. 14

Cash Flow per Share

$3. 22

Free Cash Flow per Share

$5. 11

Tangible Book Value per Share

$9. 84

Price/Cash Flow Ratio

42. 6

Price/Free Cash Flow Ratio

26. 8

Price/Tangible Book Ratio

13. 94

With regards to the historical performance of Amazon. com (AMAZON. COM INC.(AMZN), 2010)

Amazon Historical Performance

2006

2007

2008

2009

Net Sales ($millions)

10, 711

14, 835

19, 166

24, 509

Net Income ($millions)

190

476

645

902

Operating expenses ($millions)

1, 966

2, 513

3, 153

4, 402

Cash ($millions)

1, 022

2, 539

2, 769

According to (AMAZON. COM INC.(AMZN), 2010), sales have surged year over year at the world’s largest e-commerce company, with revenues growing 28% from 2008 to 2009 due to a combination of low prices, shipping promotions, and rollouts of new product categories. In the first quarter of 2010, AMZN’s revenue grew by 47% from $4. 18 billion to $7. 13 billion. Although the company faced the release of Apple’s iPad this quarter, Kindle sales accounted for 2% of AMZN’s revenue, with e-book sales accounting for an additional 1. 5%. The category of electronics and general merchandise grew by 72% this quarter. Its profit also rose 68%, from $177 million to $299 million. due to sophisticated inventory forecasting, fast inventory turns, and overall operational efficiency, Amazon has managed to build a retail business with a negative operating cashflow cycle, which means Amazon gets paid for products by customers before they have to pay their suppliers for the goods. Working capital has effectively become a source of investment cash for the company.

(AMAZON. COM INC.(AMZN), 2010) has further reported that International businesses have represented a significant area of growth for Amazon. Although Amazon ships to almost any country in the world, it has selectively chosen to establish country-specific websites and fulfillment networks. Beginning with its expansion into the UK and Germany in 1998, and subsequently to France (2000), Japan (2000), Canada (2002), and its most recent expansion into China (2004), Amazon has expanded its geographic footprint into the world’s major e-commerce markets. International growth rates have consistently beaten that of North America, with % growth rates in revenue

Referencing

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