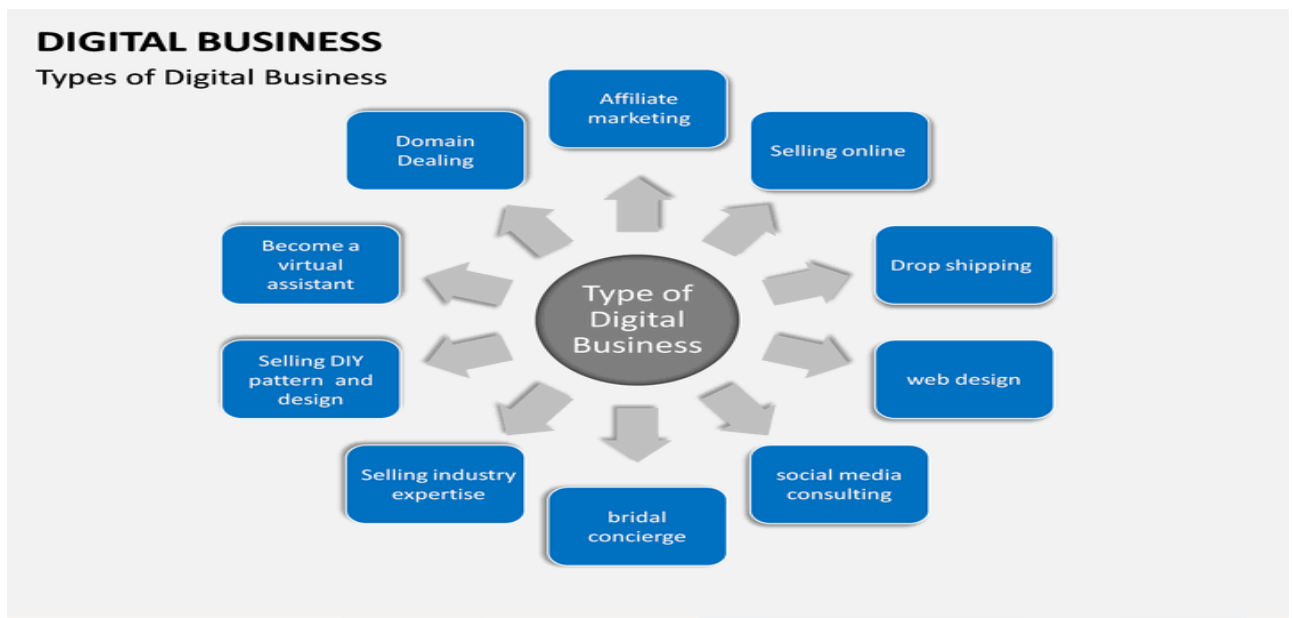
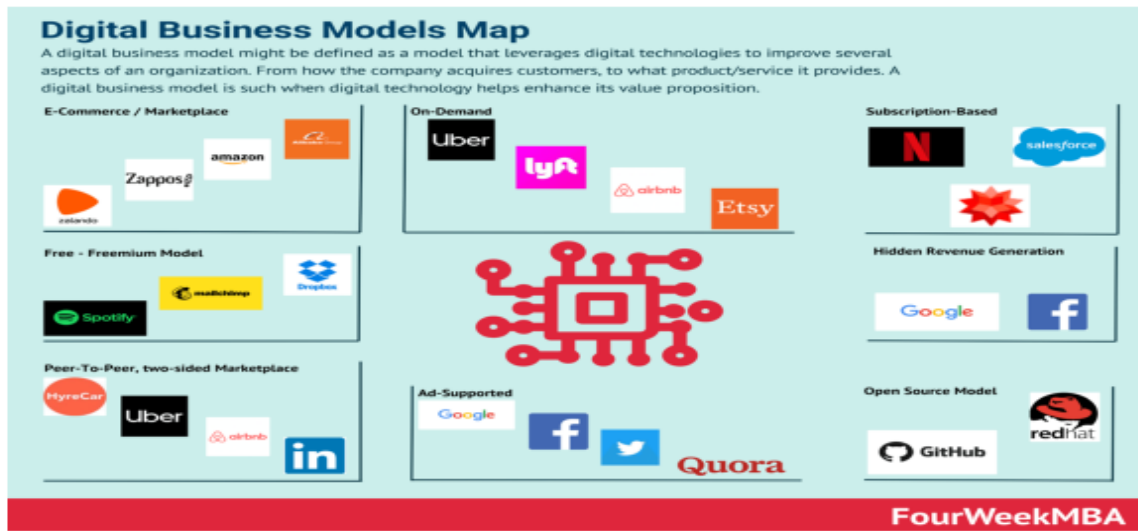


Digital business models

Lecture 3. Digital business models types

Content

- Main kinds of digital business models
- How to choose the right digital business model?
- Strategies for choosing a digital business model



<https://www.sketchbubble.com/en/presentation-digital-business.html>

Main kinds of digital business models

- Free-Model (Ad-supported Model)
- Freemium Model.
- On-Demand Model.
- E-Commerce Model.
- Marketplace Model (Peer-to-peer, two-sided marketplace).
- Ecosystem Model.
- Access-Over-Ownership Model / Sharing Model.
- Experience Model.
-

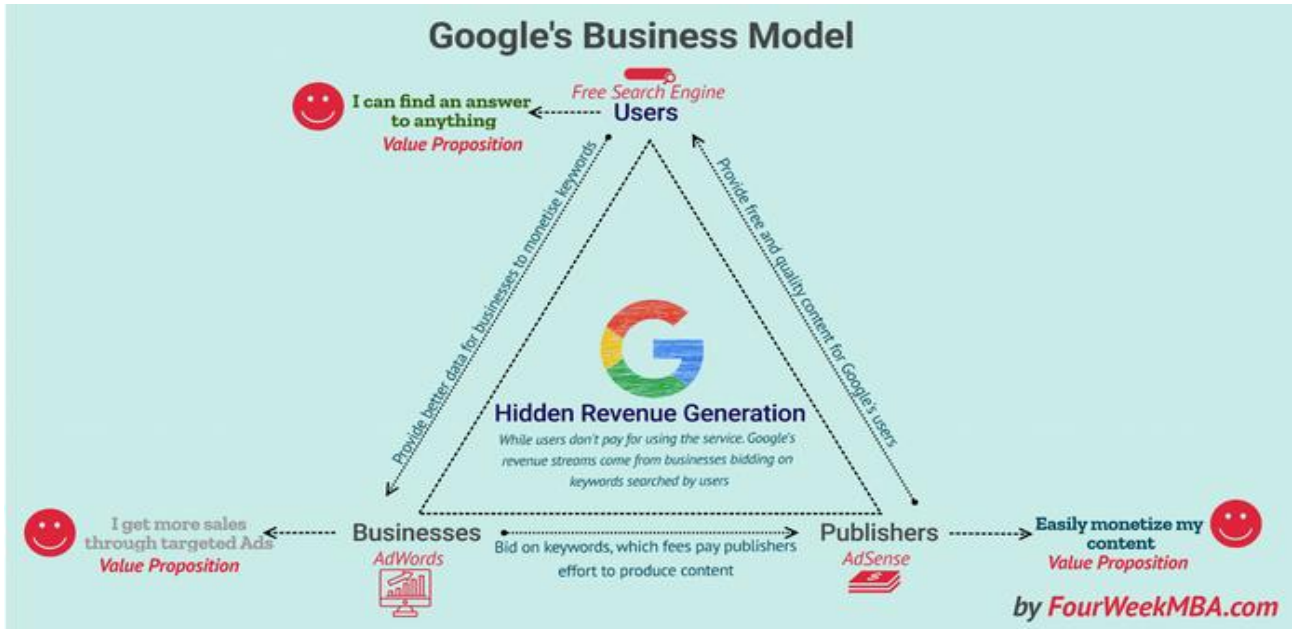
Free-Model (Ad-supported Model)

Everyone knows the “free” business model as it is used by two of the most famous companies in the world. Google, as well as Facebook, are good examples of how to make use of the ad-supported and “free” business model. The idea behind this business model is to offer a service for free and the user becomes then the product that is being sold. In the case of Google and Facebook, every user who is using the services is giving valuable information about himself. With this data, it is then easy to display ads that the companies can buy and target specific users.

Free-Model (Ad-supported Model)

- The advertising-supported model means the business or service provides free content for users. To monetize the site and service, they host ads from other brands or companies and broadcast to their audience.
- The free model has become quite pervasive on the web. Starting from Netscape going on, companies have built great products, released them for free with the hope that once enough people would get used to them, monetization would not be an issue.
- While this model worked pretty well for products that scaled up quickly, amassed investments to sustain their infrastructure in the short term, and then found a monetization strategy.
- Companies like Google and Facebook have started in this way. They released a free service to a larger and larger user base. Attracted the first angel investors, then venture capitalists they had to then quickly turn to the advertising model to monetize their users, to avoid being left without cash and investors.

Free-Model



<https://medium.com/swlh/digital-business-models-map-ac1210c1cbb3>

Freemium Model

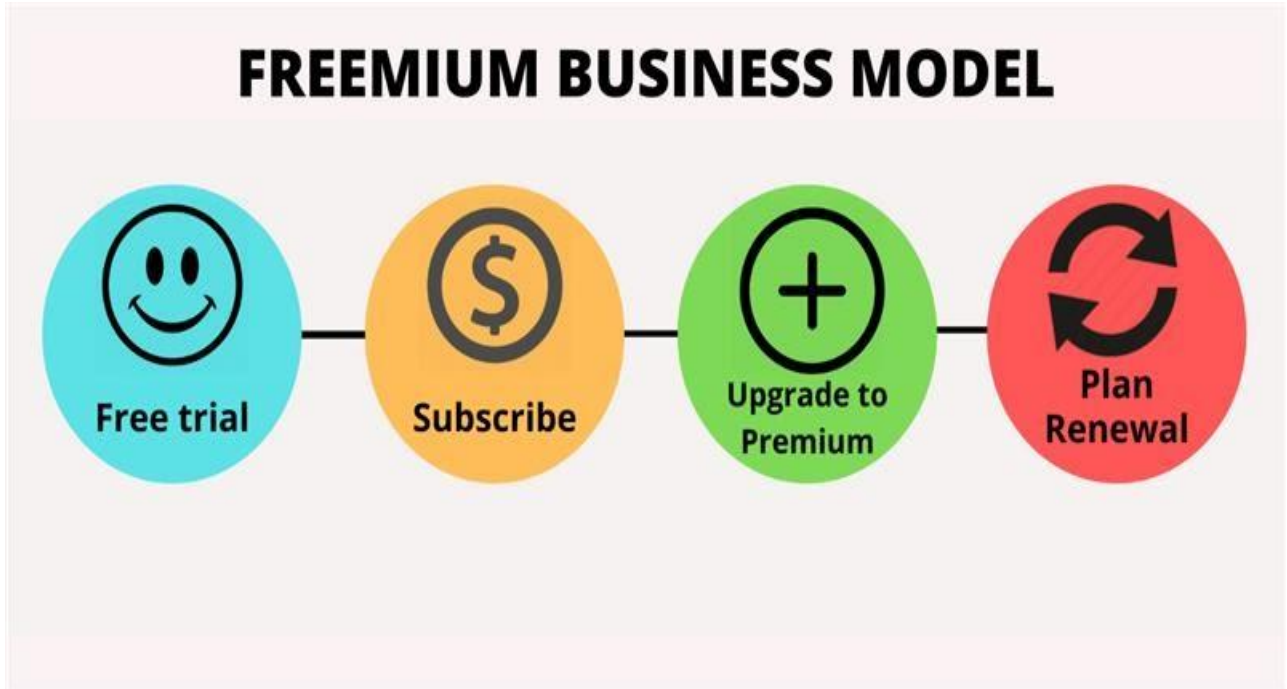
Especially in the software world, this is one of the most commonly seen digital business models. Users get free access to a basic version (Free) of the product which is mostly limited in some ways. If the user wants to use more features or resources, then they have the option to upgrade to the paid version (Premium).

A great example is Spotify. Everyone can use the service for free (and get advertisements) but when you want more features and higher quality, then you need to pay a monthly subscription. This is also a great example, that different business models can be mixed.

Freemium Model

Freemium, a portmanteau of the words "free" and "premium," is a pricing strategy by which a basic product or service is provided free of charge, but money (a premium) is charged for additional features, services, or virtual (online) or physical (offline) goods that expand the functionality of the free version of the software.[1][2] This business model has been used in the software industry since the 1980s. A subset of this model used by the video game industry is called free-to-play.

Freemium Model



<https://alcorfund.com/insight/18-business-model-example-explained>

Freemium Model

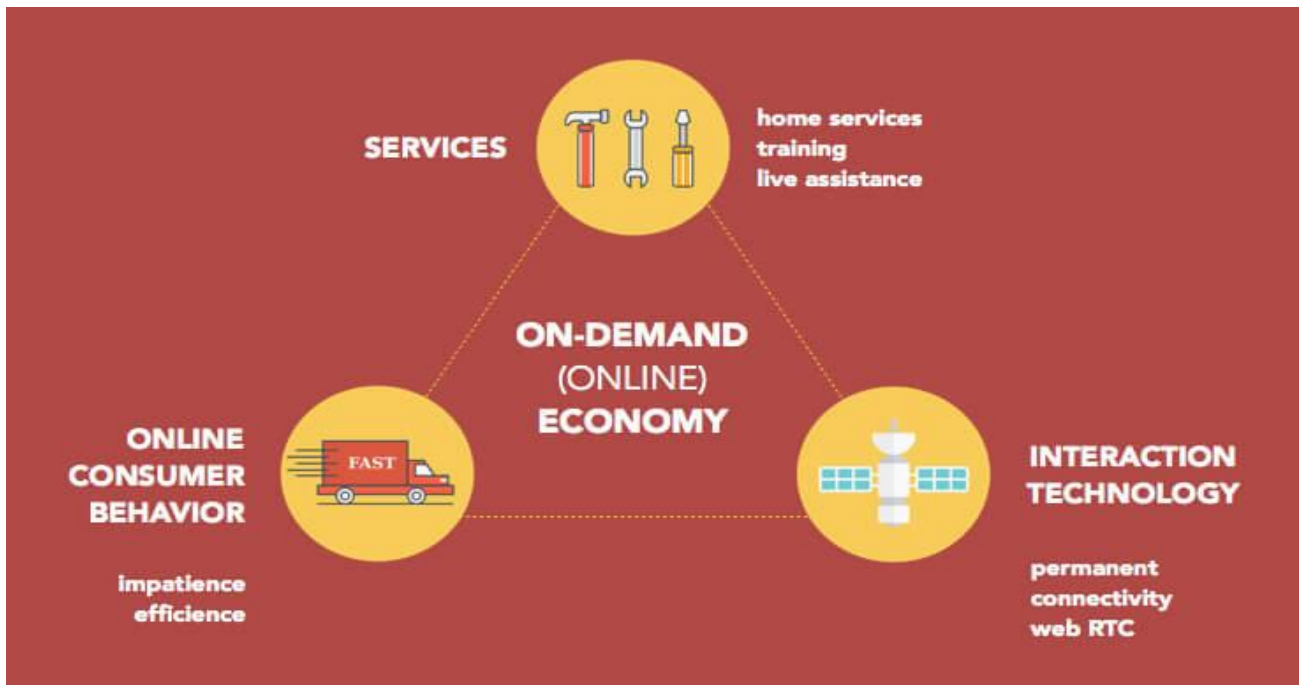


<https://fourweekmba.com/digital-business-models>

On-Demand Model

Similar to the “Access-Over-Ownership” is also the On-Demand business model. In this case, it is not a physical product you are owning but a virtual product or a service. On-demand works for example via online video stores, where you get the right to consume a video for a certain period of time (Amazon Video, Apple TV+, etc.). We also see the on-demand model in the “gig-economy”. This is an example where you book a consultant and you get automatically charged depending on how long you need help. (Upwork, UpCounsel, Fiverr, etc.)

On-Demand Model



<https://reinvently.com/blog/make-money-in-on-demand-economy>

E-Commerce Model

One of the first and by far most successful companies to sell physical products via an online shop and e-commerce business model was Amazon. By today it is also the best-known business model on the web and it is possible to buy almost everything on the internet today.

In contrary to a marketplace model, which is Amazon today too, pure E-Commerce models are based on a one-sided sales approach. A company is selling its own stocks to customers.

E-COMMERCE BUSINESS MODEL



E-Commerce Model

- E-commerce is the conducting of commercial transactions electronically. It is used to order and deliver products and services through conventional channels (indirect or offline e-commerce) or completely electronically (direct or on-line e-commerce) over any kind of computer network. Possible networks include; the internet and an extranet (a private platform that uses internet technology), Transmission Control Protocol (TCP)/Internet Protocol (IP), and an electronic data interchange (EDI) network.
- The market relies heavily on the maximizing of conversion rate to gain more revenue and profit. Therefore, understanding the various types of e-commerce helps in; selection of a suitable model for an individual business, the building of the site, selection of a Content Management System (CMS) and eventually unlocking of untapped revenue streams.

Types of E-Commerce

- **Business-to-Consumer Models (B2C):** An organization following a B2C business model sells services or products to end-users. Examples of B2C models are click-and-mortar businesses that supplement existing consumer-facing business with online sales, pure-play online vendors with no physical stores or offline presence, and manufacturers that use an online business to allow customers to order and customize directly.
- **Business-to-Business Models (B2B):** The vast majority of e-commerce are transactions in which an organization sells products or services to another

organization. This includes online versions of traditional transactions, such as a wholesaler purchasing a consignment of goods online and selling to clients from retail outlets.

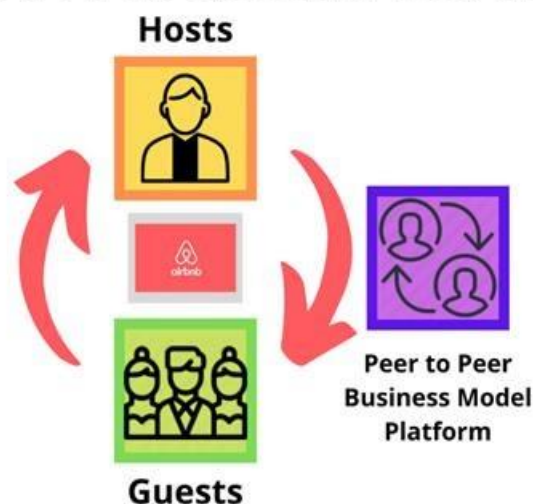
- **Consumer-to-Consumer Models (C2C):** Businesses involved in C2C e-commerce play the role of intermediaries, helping individual consumers to sell or rent their assets (such as residential property, cars) by publishing their information on the website and facilitating transactions. C2C commonly takes place on online marketplaces such as Craigslist, eBay, Grailed, and even parts of Amazon that allow consumers to sell to consumers.

Marketplace Model (Peer-to-peer, two-sided marketplace)

The two-sided marketplace is something we see quite often on the internet. The sellers and the buyers use a 3rd party platform to trade their goods and services. This marketplace can involve services (Uber, Upwork, etc.) or also products (eBay, Etsy, Amazon).

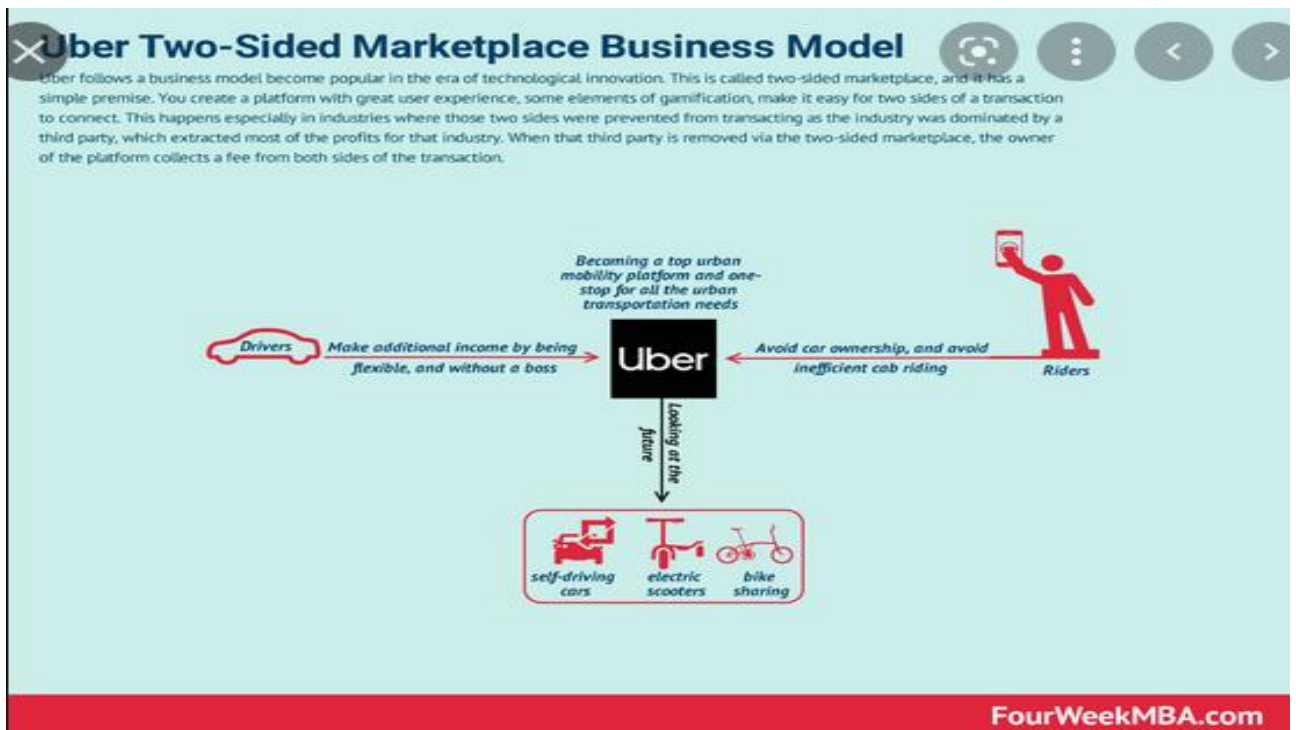
The biggest issue with this business model is its complexity and dynamics. If you don't have sellers you will never attract buyers, if the buyers don't find sellers, you will lose the buyers. So, a two-sided platform needs to carefully scale demand and supply at the same time to keep both sides attracted.

PEER TO PEER BUSINESS MODEL



<https://alcorfund.com/insight/18-business-model-example-explained>

Two-sided marketplace Model

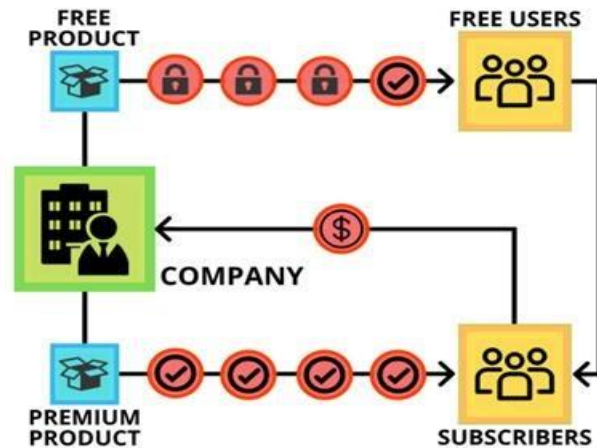


<https://medium.com/swlh/digital-business-models-map-ac1210c1cbb3>

Subscription Model

We all know Netflix or Office 365. These products are good examples of the classical subscription model. There the user gets access, updates, services, etc. on a monthly/annual basis. The subscription model is especially used for content, software, and memberships.

SUBSCRIPTION BUSINESS MODEL



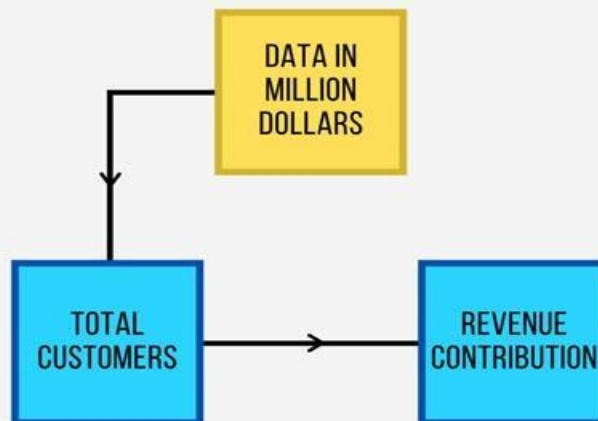
<https://alcorfund.com/insight/18-business-model-example-explained/>

Open-Source Model

Firefox is one of the most successful open-source examples. The software is free to download, free to use, and open for the community worldwide to contribute. Because it's free and a lot of people contribute it spreads fast and usually also gets a lot of (free) resources to improve the software. The business model behind Firefox is generating royalties and partnerships from search engines.

Open source itself is not necessarily a business model, as you might not be able to leverage the software for a sustainable business model. Red Hat gives out the Linux-Distribution for free and later then earns money from training, services, and hosting of the software.

OPEN SOURCE BUSINESS MODEL



<https://alcorfund.com/insight/18-business-model-example-explained/>

SaaS business model

SaaS (Software as a Service): A common form of cloud computing in which the provider allows the user to connect to and use cloud-based applications from various devices over the internet. It can be provided to B2B or B2C on a pay-as-you-go basis. Common examples are office tools such as Microsoft Office 365, email, and calendaring. The service provider manages underlying middleware, infrastructure, app software, and data and the appropriate service agreement ensures security and availability of the data and application as well. SaaS supports businesses to run at minimal upfront cost.

SAAS BUSINESS MODEL



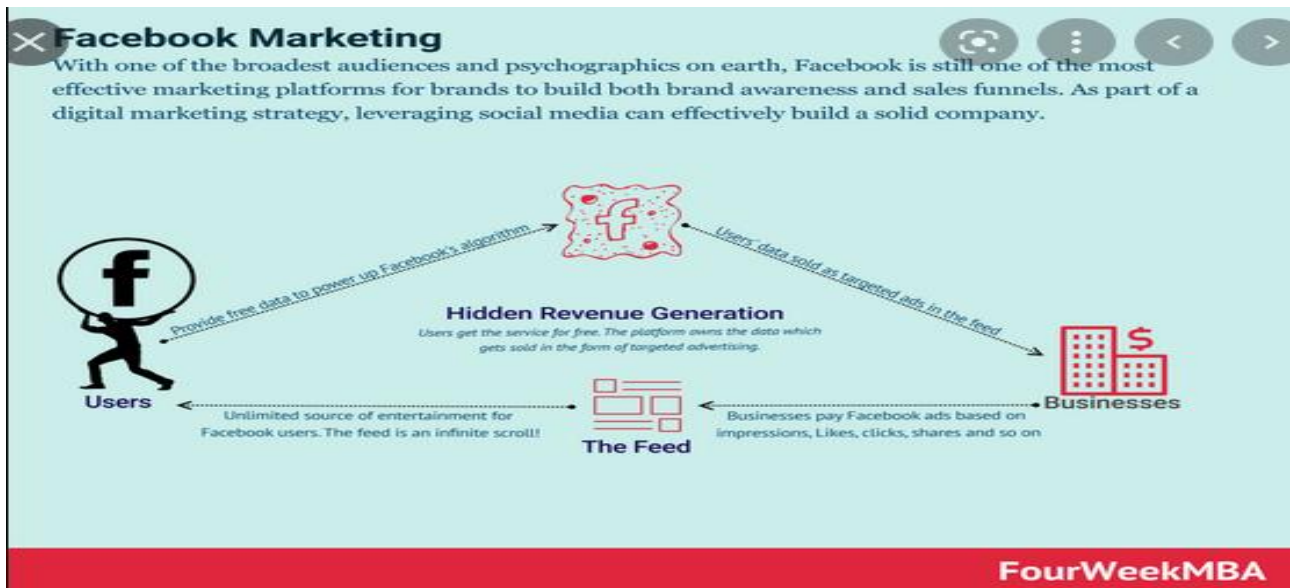
<https://alcorfund.com/insight/18-business-model-example-explained/>

Hidden revenue generation Model

Sometimes the revenue generation is not always visible for the customers at first sight. Due to data collection and analysis, there might be other value streams possible. As we saw with the Mozilla example, where the open-source browser gets revenues from royalties to include different search engines, we know that there might be hidden business models behind platforms and digital services.

For companies it's very important to realize what the potentials are and if there are further possibilities to leverage an existing business model with another one to generate additional incomes. But hidden revenue generation can also backfire, especially when dealing with data and with unaware customers. Cambridge Analytica was a great example of such a backlash which led to severe consequences for both companies.

Hidden revenue generation Model

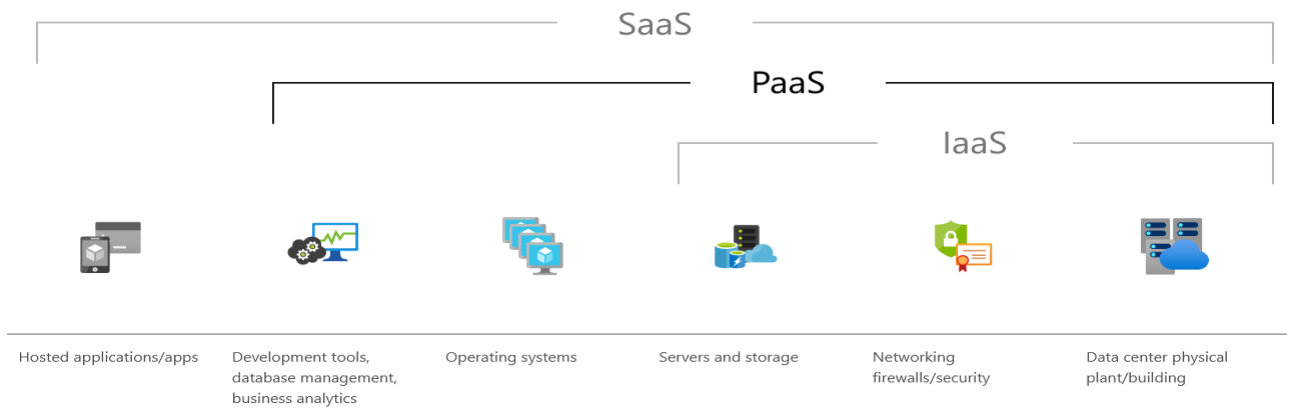


<https://fourweekmba.com/advertising-business-models/>

Platform as a service (PaaS)

Platform as a service refers to cloud computing services that supply an on-demand environment for developing, testing, delivering, and managing software applications. PaaS is designed to make it easier for developers to quickly create web or mobile apps, without worrying about setting up or managing the underlying infrastructure of servers, storage, network, and databases needed for development.

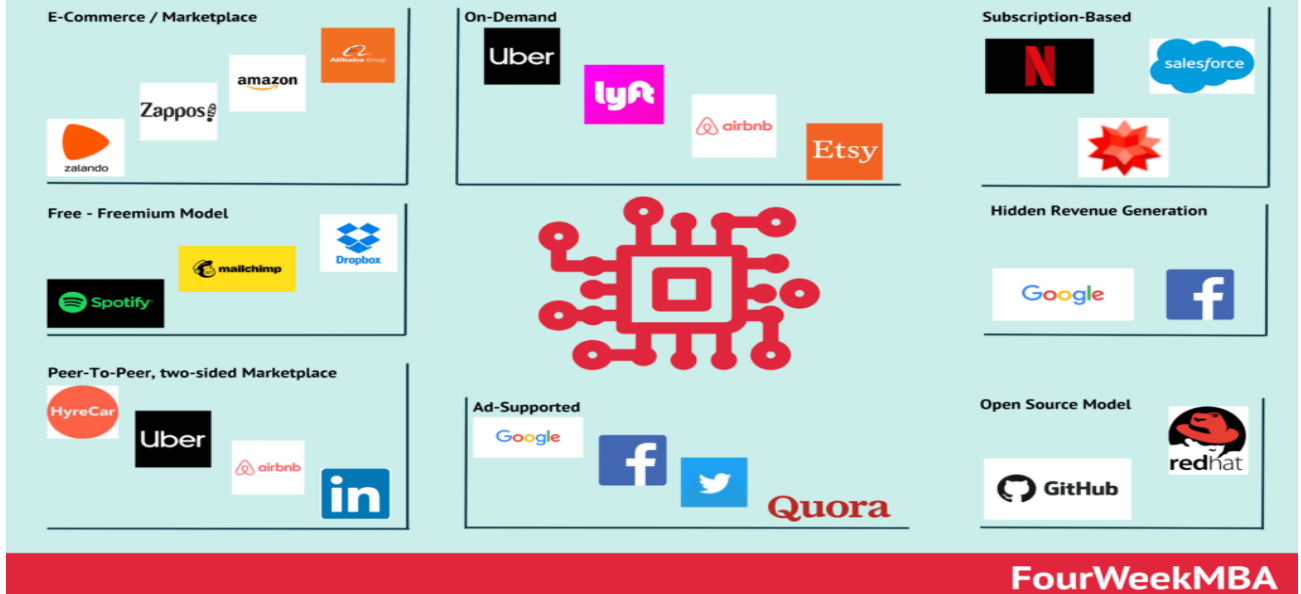
Platform as a service (PaaS)



<https://www.avivasolutions.nl/onze-verhalen/hoe-kies-je-het-beste-cloud-model>

Digital Business Models Map

A digital business model might be defined as a model that leverages digital technologies to improve several aspects of an organization. From how the company acquires customers, to what product/service it provides. A digital business model is such when digital technology helps enhance its value proposition.



<https://fourweekmba.com/digital-business-models/>

Strategies for choosing a digital business model

A digital business strategy

- A digital business strategy is a plan for maximizing the benefits of technology-focused initiatives that will help you to analyse and reach your business objectives whilst measuring your successes and failures.
- To implement a successful one, you need a cross-functional team with executive leadership, marketing and information technology (IT) members.
- We suggest to keep in mind these elements that should be included in any digital business strategy which are: people with new skills; new digital business models; the product and service portfolio; information as an asset; digital business technologies; and content, media and channels.

Strategies for choosing a digital business model

For earlier/quick monetization it is better to look at Freemium, E-Commerce or Subscription models. They are simpler because the supply side is already fixed/better controlled, you can earn direct returns and can only focus on building the demand side. Business models that are longer term and based on network effects are typically

two-way platforms, two-way marketplaces, and especially digital ecosystems. They have to grow for a long time before monetization makes sense and therefore have a long funding gap that needs to be overcome. But in the long run, they can financially outperform other businesses because they use a network effect, which can be called the winner-take-all effect, to dominate the market through size and reduce the entry of new competitors as they would first need to catch up. missed. (For example, Facebook and Google. Facebook had already taken over the market and Google didn't stand a chance with its social media platform due to the network effect)

How to choose the right digital business model ?

It is necessary to proceed from the fact that which digital business model is the best / correct / most profitable / most effective. Every business needs to see what offerings they want to have and where they want to optimize. Two-sided marketplaces are extremely complex and take longer to grow, Freemium is widely adaptable and can be combined with ad-supported business models as we saw with Spotify, and digital ecosystems can be the most complex business models with the highest risk as they require huge investments, a large user base, and the organization of many partners and streams.

How to choose the right digital business model ?

When thinking about new business models, it's always a good idea to think about the customer and the unique value proposition you want to get. Take care not to overdo it, and better keep it clean and simple instead of using too many business models at the same time. It is especially important to note that for platforms, marketplaces, and digital ecosystems, immediate monetization can hinder growth and lead to a gap between supply and demand. Sometimes digital business models need a critical mass and a critical base to use a monetization model and therefore require some time and investment before they can start generating revenue.

5 Steps for Developing Your Strategy

1. Prepare a Detailed Business Plan.

Outline what your business is, your goals and visions, and how you plan to achieve them.

2. Identify Your Target Audience.

Narrow your audience down to two or three buyer personas. Outline the solutions that your company will offer.

3. Develop a Strong Value Proposition.

How will your company stand out among the competition? Establish what differentiates you.

4. Determine Key Business Partners.

Select key partners and strategic alliances that can best help contribute to serving your customers.

5. Allow Room for Innovation.

When developing your business model, leave room for future innovation. It's important to ensure that your plan meets the needs of your customers.

How to Create a Digital Business Strategy

- No matter your brand, creating a successful digital business strategy is crucial to success in future.
- When you leverage the power of technology to build your business, you will undergo what's known as a digital transformation. There are so many exciting and new technologies continuing to emerge, which makes forging a digital business model a necessity for your strategy.
- “Every industry and every organization will have to transform itself in the next few years. What is coming at us is bigger than the original internet and you need to understand it, get on board with it, and figure out how to transform your business.” – Tim O'Reilly, Founder & CEO, O'Reilly Media.
- <https://www.vistaprojects.com/blog/digital-transformation-quotes/>

4 Important Dimensions for Creating a Digital Business Model

- WHO is your target customer and what are their needs?
- WHAT is the value proposition and which products does it generate?
- HOW is the value proposition delivered?
- WHY is the business model profitable?

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