eCommerce Revenue Models

Idea In Short

Today, it's easier than ever for creative founders to make their ideas a reality. Each year, we see new businesses dethroning incumbent behemoths. While many of the tools are new and rapidly improving, the rules have stayed the same. If you want to innovate and defy expectations, you'll need to know your business model and define how you'll innovate.

Many eCommerce vendors start their entrepreneurial journey following the subtleties of a pragmatic business model & generating revenue through business transactions along the eCommerce value chain. With eCommerce booming over the past decade, revenue models are critical in creating a sustainable business model. The following revenue models will help choose the monetization strategy.

One-off Sale

One-off selling is a win-lose approach to revenue, where building the relationship with the customer is not important. Often referred to as retail selling, this approach is considered the most traditional form of generating revenue. One-off revenue models, or transactional revenue models, are less attractive than recurring revenue models. This is because the company has to invest something new into every sale. eBay leverages the features of transaction revenue model. For instance, if you wish to sell a product on eBay site, you have to pay a fixed amount for listing the product. Every time a transaction happens i.e., every time eBay promotes your product through its endeavors, you have to pay a fixed transaction amount. The transaction can be anything - right from users watching video associated with your product to buying it, a certain fixed amount has to be paid.

Advertising Model

This is one of the classical revenue models. Also called the Online advertising revenue model, companies buy advertising space on your site. In the purchased advertising space,

organizations conveying their intended information in text or graphics format. Companies pay you for promoting their advertisements, pay-per-click [PPC], pay per view or other agreed upon schemes. Media companies often use this revenue model to provided other companies advertising space on their platforms. Traditionally, newspapers & magazines used this revenue model, so this strategy is well established. The publishers generate revenue through the various advertisements they place in their issues. Internet businesses that provide services often have advertising spaces on their platforms. Examples include Google and Taobao. Mobile applications also incorporate some ad space use to generate revenues. Many popular mobile apps & social networks, such as Facebook, Twitter & Instagram have strong mobile revenues through this strategy.

Subscription Model

If users wish to avail the services of a few websites, they have to pay some amount periodically. Companies run various subscription offers, such as 3 months subscription plan, 6 months subscription plan, 12 months subscription plan etc. Sellers can promote their products by availing the subscription offers. For example, many popular eCommerce community forums and discussion forums provide updates on contemporary issues for premium members. Companies also charge for offering security and payment services. The software sector, which was once dominated by the licensing model, is slowly moving towards subscription based revenue model. Companies, such as Trello, Basecamp, Adobe, Microsoft, Netflix and others have migrated to this revenue model. The Pay-per-Use model is one of the modern trends to enter the market with the introduction of Software as a Service, wherein the virtual service provider enables the usage of the software through the cloud. In short, this model essentially requires users to pay a small subscription fee on per usage basis every time they use the software.

Affiliate Referral Model

If you own a blog & have a great crowd of admirers, you can endorse the products & services of 3rd parties. To put in simple terms, you can recommend your followers to purchase the products / services of 3rd party providers. By embedding a link that directs your customers to the 3rd party's marketplace or website, you can unobtrusively recommend the products / services. When someone clicks on your link to enter the 3rd party site, online tools record their clicks as leads and/or any generated sales. As an alternate action, you can request for a unique coupon code from the provider & ask your customers to redeem the

code. You get a fixed amount based on the number of customers who redeem a particular code or purchase the product / service. Hence, the affiliate referral model is based on commissions. Essentially you resell items from other retailers on your site. You are then rewarded for driving new customers to the merchant who is selling the item. There are a number of different payment methods within the affiliate model:

- PPC (Pay Per Click): Affiliate gets paid whenever the affiliate link is clicked
- PPI (Pay Per Impression): Affiliate is paid when someone lands on the merchant's site
- PPL (Pay Per Lead): Affiliate is paid when someone clicks on affiliate link and takes an action, e.g. completing a form to generate a new lead
- PPS (Pay Per Sale): Affiliate is paid when a sale is made. Affiliate receives a percentage of the cost of that item

The affiliate revenue model is quite popular because it benefits both the seller - by extending their reach and generating new sales & the affiliate - through commissions.

Sales Commission Model

The entire fraternity of wholesalers and retailers follows the commission model. This model is based on the belief that incentives drive behaviors. According to Charlie Munger, there are only a few forces more powerful than incentives. In his speech The Psychology of Human Misjudgment, he reflects on how the power of incentives never disappoints him:

> Well, I think I've been in the top 5% of my age cohort all my life in understanding the power of incentives, and all my life I've underestimated it. And never a year passes but I get some surprise that pushes my limit a little farther.

Because of the prevailing War for being the best, sellers list their products on various sites, such as Etsy. The sellers can fix competitive prices & customers can compare the prices & quality before purchasing the product / service. Popular shopping clubs, such as brands4friends, Vente Privee, etc. come under the gamut of this model. As a matter of fact, Amazon charges a fixed annual fee to the sellers who list their products on its website. Commission charges differ depending on the product that you're selling. They can range from 1% to 40% depending on the category your product / service falls under.

Sponsorship Model

Sponsorship is essentially a fixed promotion. It can entail putting a logo on a website or on the jerseys of a popular sports team. Companies sell sponsorships based on their audience size. Today, such advertising is becoming more targeted towards demographic or geographical groups, or even highly targeted towards individual users (ads on social media). However, sponsorship still relies on mass broadcasting to get noticed by as many people as possible. The following example illustrates this. Assume that you own an editorial that describes various emerging trends in your industry. The best way to assert the trends is by offering exclusivity on each and every trend. A typical sponsorship package comprises promotion on leader board, a medium sized ad, a large sized ad etc. In professional services context, advertisers can sponsor the white papers & research papers produced by your team. This model is also called the underwriting model.

> The Verge, the tech site of Vox Media, partnered with Ford on a feature on innovation in Kansas City as part of a series called "Detours," which looks at cities off the beaten path that have been transformed by technology. To preserve its editorial independence, the Verge crafted the series and presented it to Ford because it aligned with the carmaker's brand. The campaign offered Ford a 30-second pre-roll ad as well as an intro and prominent logo placement in the video series intro.

Whenever a copy of your white paper is downloaded, the email of the user is sent to the sponsor. Advertisers can now send e-mails targeted at such users. Similarly, you can list the names of certain sponsors in your publications' weekly, weekly newsletters, email campaigns etc.

Agency Model

A publisher employs specialized writers and editors to help create custom content in partnership with a brand. The specialists balance the brand's marketing goals with their own understanding of how to create engaging content, to make something that serves everyone's needs.

> BuzzFeed and The Atlantic use this model. Each has a separate team of specialized

writers, editors and other creative positions that work with brand partners to create — and importantly, revise and improve — their content ideas before publishing. The concept is that the sponsored content has to have strong editorial value — which serves both the publisher, the audience and the advertiser.

A publisher can also provide a dedicated space for brands to publish their own messages in their own name. The publisher has little direct involvement in the content. Here, the brand is paying for access to a publisher's platform to access its audience.

Forbes' BrandVoice product works this way. Marketers get access to the same publishing system as Forbes other writers and editors, which includes tools for search- and social-optimization. Their content appears throughout the Forbes site. The key, according to Forbes, is absolute transparency about who produced what.

Syndication Model

Also called web syndication, this is the online version of content sharing happening since the early days of print, radio & television. The ability to access a larger audience for the syndicated content underpins this revenue strategy. Web syndication is marketing strategy for websites that equates to a right or license to broadcast or distribute content from one site to another. The most common syndication is a content licensing arrangement between two or more internet companies. In this constellation, one company provides the content that others publish & promote on their respective websites. Web syndication may allow the company providing the content to earn additional page views and exposure to their content and their website.

LinkShare is another on-line syndicator. It syndicates commerce rather than traditional content. More than 400 online retailers have contracted with LinkShare to administer their affiliate programs—programs that enable other sites to provide links to the e-tailers in return for a small cut of any sales those links generate. LinkShare aggregates all the programs on its own site, providing an easy, one-stop marketplace for affiliate sites.

Furthermore, to tackle switching costs, LinkShare:

> also provides the technical infrastructure for monitoring transactions and tracking and paying affiliate commissions, and it offers ancillary services such as reporting for both affiliates and retailers. The e-tailers pay LinkShare a combination of up-front fees and per-sale commissions.

The benefits for the site hosting the provided material are fresh content to appeal to consumers and therefore additional traffic. Also known as content syndication, it is one of the established SEO tactics in which 3rd parties distribute content from an originating site. For every content published on the originating, the 3rd parties pay a fixed commission to the author or owners of these site.

Data Monetization Model

Relevant, fresh, and correct data are one of the first information your customers will search on your eCommerce website. If the essential product information, such as price, delivery & inventory is out of date, your customers will abandon your website. For instance, during festivities and certain special occasions, customers may flock to your website & purchase certain type of products. This means, proportionately setting the prices of products can help spur sales. Sellers have to cautiously calculate the per unit price for which ROI seems substantial. Also, the buyers' preferences are taken into consideration & sales forecasting is done. Similarly, to prevent credit card frauds & fraudulent insurance claims, this model may come handy. Needless to say, this model requires & involves a lot of Data Analytics. High-quality data boosts your customer engagement & keeps your products accurate. This makes data syndicator an essential tool for your online sales success. Hence, this business model is all about leveraging & monetizing the data that helps identify the buying patterns of customers. Data-driven business models are among the fastest growing business models. A company that would not be able to exist without its core underlying data asset. In this scenario, data syndicators collect & sell the data to other consumers or businesses. Financial information providers, such as Bloomberg, Reuters, Standard & Poor's, Thomson Financial, D&B Corporation, as well as market research companies like Nielsen rely on this business model.

Freemium Model

More often than not, many web services use this model. It all boils down to selling free products to as many customers as possible. Premium users enjoy all the high-end features. E-commerce marketplace script vendors provide free versions with limited features. Enterprise editions have all high-end features inherently enabled. Obviously, eCommerce marketplace platform owners can make a fortune by selling enterprise editions/versions. Most of the time, the majority of users remain on the freemium plan while a small portion convert to paying customers. Some of the more notable freemium subscriptions include Pandora, Spotify, Dropbox, Hulu & Linkedin. For example, Dropbox offers approximately 2GB of free cloud data storage, while everything above that requires payment. Likewise, LinkedIn encourages its users to try their premium version for a trial period 30 days. To continue with the premium version for a longer duration, the registered user has to pay an extra amount. Successful freemium model requires enough paying customers, so that this small minority can sustain your entire business. The alternative is to find the right pricing strategy to convert more of your users to paying customers. Think Whatsapp's $1 per year plan. This means, you should carefully target & curate who you want in your paying customer-base.

Whitelabel Model

Usually, a white label is a product produced by one company that another company can re-brand as its own. Mass-produced generic products & web applications lend themselves perfectly well to be white labelled. Some websites use white labels to enable a successful brand without having to create the technology & infrastructure itself. Many IT & modern marketing companies outsource or use white-label companies and services to provide specialist services without having to invest in developing their own product. Whitelabeling products can also benefit from two-sided markets & reveal additional revenue opportunities. For example, if your customer requests for additional functional modules, he has to pay a premium to develop & integrate the desired module into his platform. Whenever a 3rd party approaches you for your product's configuration, he has to purchase the required licenses. Whenever licenses expire, the 3rd party has to renew by paying some amount.

Summary

I've covered the most common eCommerce revenue models & examples of eCommerce

businesses that have blazed their own path. Planning your revenue model is important. It's time to get your solution out into the world & begin to refine your revenue model based on the feedback you receive.