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Building a Successful Business Model Using the Internet

By Ben Moore

Since April of 2000, many Internet companies have folded because their business models were not sustainable and/or profitable. Yet many other companies are still drawn to the large market opportunities promised by the Internet. Realizing these large market opportunities begins with analyzing the reasons why many Internet companies did not succeed. These reasons include errors/bad assumptions in:

1) Customer Acquisition Strategy
2) Competitive Advantage
3) Customer Service
4) Fulfillment Strategy

Customer Acquisition Strategy

How will you get new customers? Every business needs new customers and this is why the customer acquisition strategy is vital to the success of any business model. Early in the Internet boom, Internet companies had millions to spend on acquiring new customers (TV commercials, Super Bowl commercials, direct mail, print ads, radio, billboards, etc.), however, when many calculated their acquisition costs (marketing costs/number of new customers obtained) they realized they were spending more to acquire the customer than the future revenues generated by the customer. This was especially true in the Business to Consumer (B2C) market. High acquisition costs drove a lot of Internet companies in the red and made many more focus on Business to Business (B2B) transactions. A business may spend thousands or even millions per year on a variety of products and services, while a consumer rarely spends thousands per year on any product or service. By looking at acquisition costs per customer versus customer value, you can determine how maintainable is your customer acquisition strategy. Also, to keep customer acquisition costs down, companies use Affiliate Programs, Partnerships and Tell-A-Friend programs, where someone is rewarded for referring new customers to them.

Competitive Advantage

Why should the customer purchase from you and no one else? Many Internet businesses folded because they did not have a sustainable competitive advantage. e.g. Why Should I purchase the Nikon Camera from you when there are over 1,000 other places on the Internet that sell this camera? “Brick and Mortar” companies migrating some of their customers online have had some success on the Internet. These companies already have a sustainable competitive advantage – the relationship with their customers - and are offering their customers additional convenience by ordering online and in some cases, the ability to pick up the order at the nearest location. Stores selling specialty items online and made to order/mass customization have also had some level of success. Mass Customization aims at providing goods and services that meet individual customers’ requirements with near mass production efficiency. By allowing a customer to order a product/service that has been customized just for them, creates significant barriers to exit, for the customer, while improving profit margins on the product/service. For example, if a company manufactured a custom vitamin just for you, based on your age, weight, diet, medical conditions, family history and other factors, would you go elsewhere for your nutritional supplementation?

Customer Service

How will you service the online customer? Customers demand getting their questions answered and their problems resolved quickly. Many companies that closed up shop did not have online Customer Service/e-Service systems; this made them spend more on customer support per incident than competitors and lose business due to frustrating customers/potential customers. Other companies failed to provide a phone number where a customer could reach a "real person". The takeaways are to provide e-Service online, constantly update your e-Service section with new answers and problem resolutions and provide access to a real person. This is key especially in selling online. Over 60% of shopping carts are abandoned because a potential customer could not get one of their questions answered about the product, return policy, product use, etc.

Fulfillment Strategy

How will you get the product or service to the customer? Will you purchase a $20 item if it takes another $16 to ship it to you? Most will not. Amazon has always used a strategy of selling small, valuable products that can be shipped fairly inexpensively. Many other retailers did not use this strategy and incurred loses on fulfillment charges from UPS, FedEx and the US Postal Service. The cost of shipping physical products is the major reason newer Internet models are fulfilling digital products (application service providers, software, online services, etc.) that can be emailed, downloaded or used online.

Putting It All Together

By looking at your customer acquisition strategy, competitive advantage, customer service requirements and fulfillment strategy, you will be on your way to a successful business model using the Internet and realizing the large market opportunities promised by the Internet. My personal prediction is more mass customized digital products (software or online services customized to an individual customers requirements) with excellent customer service leveraging affiliate plans/partnerships to obtain new customers.

Agent Technologies, Inc. provides e-Commerce Solutions specializing in WebSolutions for Mass Customization (sm). Founded in 1995, Agent Technologies, Inc. has been dedicated to helping clients leverage the power of Internet Based Technologies. Our services include e-Commerce Solutions, Business Reporting & Analysis, e-Business Strategy Development & Execution and Agent Based Systems.

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