

2. eCommerce Business Models and Concepts



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Teaching Objectives

- Identify the key components of eCommerce business models.
- Describe the major B2C business models.
- Describe the major B2B business models.
- Describe business models in other emerging areas of eCommerce.
- Explain the key business concepts and strategies applicable to eCommerce.

2-2

Tweet Tweet: What's Your Business Model?



- What characteristics or benchmarks can be used to assess the business value of a company such as Twitter?
- Have you used Twitter to communicate with friends or family? What are your thoughts on this service?
- What are Twitter's most important assets?
- Which of the various methods described for monetizing Twitter's assets do you feel might be most successful?

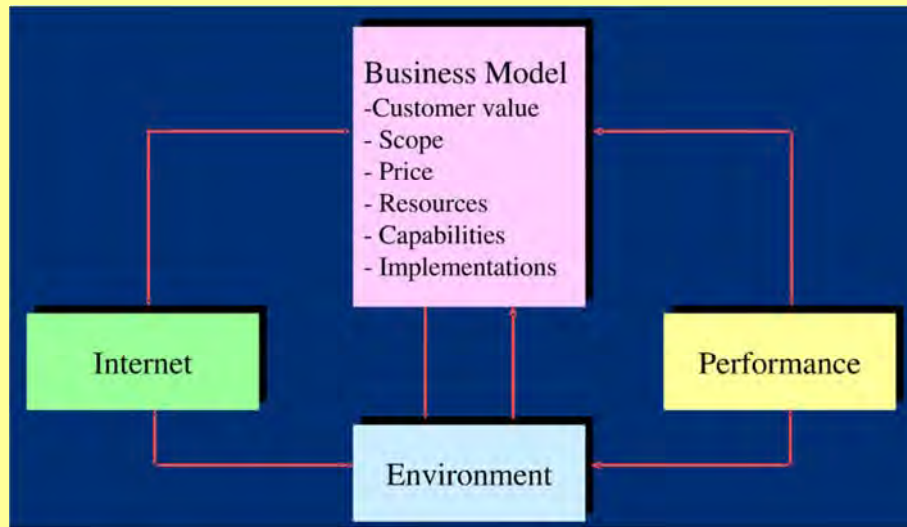
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Outline

1. **eCommerce Business Models**
2. Major Business-to-Consumer (B2C) Business Models
3. Major Business-to-Business (B2B) Business Models
4. Business Models in Emerging eCommerce Areas
5. How the Internet and the Web Change Business: Strategy, Structure, and Process

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Components of eBusiness models



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eCommerce Business Models

- Business model
 - Set of planned activities designed to result in a profit in a marketplace
- Business plan
 - Describes a firm's business model
- eCommerce business model
 - Uses/leverages unique qualities of Internet and Web

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8 Key Elements of a Business Model

COMPONENTS	KEY QUESTIONS
Value proposition	Why should the customer buy from you?
Revenue model	How will you earn money?
Market opportunity	What marketplace do you intend to serve, and what is its size?
Competitive environment	Who else occupies your intended marketplace?
Competitive advantage	What special advantages does your firm bring to the marketplace?
Market strategy	How do you plan to promote your products or services to attract your target audience?
Organizational development	What types of organizational structures within the firm are necessary to carry out the business plan?
Management team	What kinds of experiences and background are important for the company's leaders to have?

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1. Value Proposition

- Why should the customer buy from you?
- Successful eCommerce value propositions:
 - Personalization/customization
 - Reduction of product search, price discovery costs
 - Facilitation of transactions by managing product delivery

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2. Revenue Model

- How will the firm earn revenue, generate profits, and produce a superior return on invested capital?
- Major types:
 - Advertising revenue model
 - Subscription revenue model
 - Transaction fee revenue model
 - Sales revenue model
 - Affiliate revenue model

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Advertising Revenue Model

- Web site that offers content, services and/or products also provides a forum for advertisements and receives fees from advertisers
- Example: Yahoo.com



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Subscription Revenue Model

- Web site that offers users content or services charges a subscription fee for access to some or all of its offerings
- Examples:
 - Consumer Reports Online
 - Yahoo! Platinum

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Ancestry.com Uses a Subscription Business Model



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Transaction Fee Revenue Model

- Company that receives a fee for enabling or executing a transaction
- Examples:
 - eBay.com
 - E-Trade.com



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Sales Revenue Model

- Company derives revenue by selling goods, information, or services to customers
- Examples:
 - Amazon.com
 - LLBean.com
 - Gap.com

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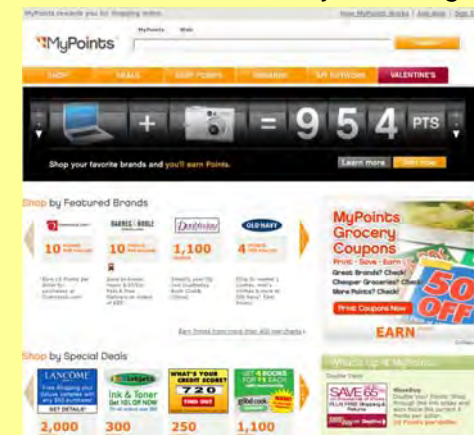
Amazon Uses a Sales Revenue Model



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Affiliate Revenue Model

- Sites that steer business to an “affiliate” receive a referral fee or percentage of the revenue from any resulting sales
- Example:
 - MyPoints.com



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Five Primary Revenue Models

TABLE 2.2 FIVE PRIMARY REVENUE MODELS		
REVENUE MODEL	EXAMPLES	REVENUE SOURCE
Advertising	Yahoo.com	Fees from advertisers in exchange for advertisements
Subscription	WSJ.com, Consumerreports.org Sportsline.com	Fees from subscribers in exchange for access to content or services
Transaction Fee	eBay.com, E-Trade.com	Fees (commissions) for enabling or executing a transaction
Sales	Amazon.com, LLBean.com, Gap.com, Sears.com, JCPenny.com	Sales of goods, information, or services
Affiliate	MyPoints.com	Fees for business referrals

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3. Market Opportunity

- What marketplace do you intend to serve and what is its size?
 - **Marketspace:** Area of actual or potential commercial value in which company intends to operate
 - **Realistic market opportunity:** Defined by revenue potential in each of market niches in which company hopes to compete
- Market opportunity typically divided into smaller niches

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Marketspace and Market Opportunity in the Software Training Market



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4. Competitive Environment

- Who else occupies your intended marketplace?
 - Other companies selling similar products in the same marketplace
 - Includes both direct and indirect competitors
- Influenced by:
 - Number and size of active competitors
 - Each competitor's market share
 - Competitors' profitability
 - Competitors' pricing

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Competitive Environment (cont'd)

- Direct competitors – companies that sell products or services that are very similar and into the same market segment
 - Example: Priceline.com and Travelocity.com
- Indirect competitors – companies that may be in different industries but that still compete indirectly because their products can substitute for one another
 - Example: CNN.com and ESPN.com

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5. Competitive Advantage

- What special advantages does your firm bring to the marketplace?
 - Achieved when firm produces superior product or can bring product to market at lower price than competitors
- Important concepts:
 - Asymmetries
 - First-mover advantage
 - Unfair competitive advantage
 - Leverage
 - Perfect markets

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Competitive Advantage (cont'd)

- **Asymmetries** - when one participant in a market has more resources than others
- **First mover advantage** – results from a firm being first into a marketplace
- **Unfair competitive advantage** – occurs when one firm develops an advantage based on a factor that other firms cannot purchase
- Companies **leverage** their competitive assets when they use their competitive advantages to achieve more advantage in surrounding markets

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6. Market Strategy

- How do you plan to promote your products or services to attract your target audience?
 - Details how a company intends to enter market and attract customers
 - Best business concepts will fail if not properly marketed to potential customers

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7. Organizational Development

- What types of organizational structures within the firm are necessary to carry out the business plan?
- Describes how firm will organize work
 - Typically divided into functional departments
 - Hiring moves from generalists to specialists as company grows

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8. Management Team

- What kinds of experiences and backgrounds should the company's leaders have?
 - Employees are responsible for making the business model work
 - Strong management team gives instant credibility to outside investors
- A strong management team:
 - Can make the business model work
 - Can give credibility to outside investors
 - Has market-specific knowledge
 - Has experience in implementing business plans

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Categorizing eCommerce Business Models

- No one correct way
- We categorize business models according to:
 - eCommerce sector (B2C, B2B, C2C)
 - Type of eCommerce technology; i.e., m-commerce
- Similar business models appear in more than one sector
- Some companies use multiple business models; e.g., eBay

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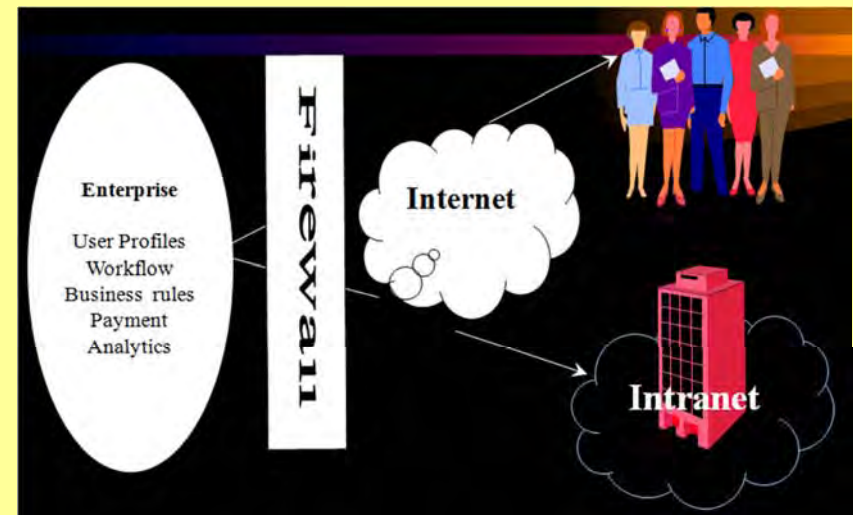
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What is B2C eCommerce?

- **B2C (Business-to-Consumer)** is basically a concept of online marketing and distributing of products and services over the Internet. It is a natural progression for many retailers or marketer who sells directly to the consumer. The general idea is, if you could reach more customers, service them better, make more sales while spending less to do it, that would be the formula of success for implementing a B2C eCommerce infrastructure.
- For the consumer, it is relatively easy to appreciate the importance of eCommerce. Why waste time fighting the very real crowds in supermarkets, when, from the comfort of home, one can shop on-line at any time in virtual Internet shopping malls, and have the goods delivered home directly.

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B2C eBusiness Model



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Who should use B2C eCommerce?

- **Manufacturers** - to sell and to retail the business buyers
- **Distributors** - to take orders from the merchants they supply
- **Publisher** - to sell subscriptions and books
- **Direct Sales Firms** - as another channel to reach the buyers
- **Entertainment Firms** - to promote new products and sell copies
- **Information Provider** - to take payment for downloaded materials
- **Specialty Retailers** - Niche marketers of products ranging from candles, coffees, specialty foods, books use it to broaden their customer reach.
- **Insurance Firms** - On-line rate quotes and premium payments have made it easier for this industry to attract and retain customers. In fact, virtually any business that can deliver its products or provide its services outside its doors is a potential user.

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B2C Business Models

BUSINESS MODEL	VARIATIONS	EXAMPLES	DESCRIPTION	REVENUE MODEL
Portal	Horizontal/General	Yahoo.com AOL.com MSN.com	Offers an integrated package of content services and content search, news, e-mail, chat, music downloads, video streaming, calendars, etc. Seeks to be a user's home base.	Advertising, subscription fees, transaction fees
	Vertical/Specialized (Vortal)	Sailnet.com	Offers services and products to specialized marketplace	Same
E-tailer	Virtual Merchant	Amazon.com	Online version of retail store, where customers can shop at any hour of the day or night without leaving their home or office.	Sales of goods
	Clicks and Bricks	Wal-Mart.com Sears.com	Online distribution channel for a company that also has physical stores	Same
	Catalog Merchant	LandsEnd.com LJBean.com	Online version of direct mail catalog	Same
	Manufacturer direct	Dell.com Compag.com		Sales of goods
Content Provider		WSJ.com Sportsline.com CNN.com Shapody.com ESPN.com	Information and entertainment providers like newspapers, sports sites, and other online sources that offer customers up-to-date news and special interest how-to guidance and tips and/or information sales.	Advertising, subscription fees, affiliate referral fees
Transaction Broker		E-Trade.com Expedia.com Monster.com Travelocity.com Hotels.com Orbitz.com	Processors of online sales transactions, such as stock brokers and travel agents, that increase customers' productivity by helping them get things done faster and more cheaply.	Transaction fees
Market Creator	Auctions	Ebay.com Priceline.com Amazon.com	Web-based businesses that use Internet technology to create markets that bring buyers and sellers together	Transaction fees
Service Provider		Mybconsulting.com Lawinfo.com xDrive mySFO.com	Companies that make money by selling users a service, rather than a product.	Sales of services
Community Provider		About.com iVillage.com NetNoic.com Oxygen.com Epinions.com	Sites where individuals with particular interests, hobbies, and common experiences can come together and compare notes.	Advertising, subscription, affiliate referral fees

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B2C Business Models: Portal

- Search plus an integrated package of content and services
- Revenue models:
 - Advertising, referral fees, transaction fees, subscriptions
- Variations:
 - Horizontal/General
 - Vertical/Specialized (Vortal)
 - Pure Search

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B2C Models: E-tailer

- Online version of traditional retailer
- Revenue model: Sales
- Variations:
 - Virtual merchant
 - Bricks-and-clicks
 - Catalog merchant
 - Manufacturer-direct
- Low barriers to entry

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B2C Models: Content Provider

- Digital content on the Web
 - News, music, video
- Revenue models:
 - Subscription; pay per download (micropayment); advertising; affiliate referral fees
- Variations:
 - Content owners
 - Syndication
 - Web aggregators

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B2C Models: Transaction Broker

- Process online transactions for consumers
 - Primary value proposition—saving time and money
- Revenue model:
 - Transaction fees
- Industries using this model:
 - Financial services
 - Travel services
 - Job placement services

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B2C Models: Market Creator

- Create digital environment where buyers and sellers can meet and transact
- Examples:
 - Priceline
 - eBay
- Revenue model: Transaction fees



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B2C Models: Service Provider

- Online services
 - e.g., Google: Google Maps, Google Docs, and so on
- Value proposition
 - Valuable, convenient, time-saving, low-cost alternatives to traditional service providers
- Revenue models:
 - Sales of services, subscription fees, advertising, sales of marketing data

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B2C Models: Community Provider

- Provides online environment (social network) where people with similar interests can transact, share content, and communicate
 - E.g., Facebook, Twitter, LinkedIn
- Revenue models:
 - Typically hybrid, combining advertising, subscriptions, sales, transaction fees, affiliate fees

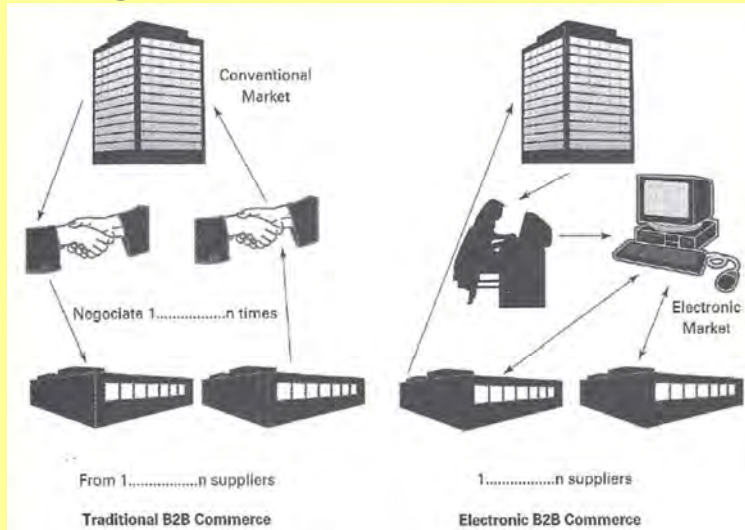
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Advantages of eCommerce for B2B Businesses



Source: <http://www.ebscohost.com/uploads/thisTopic-dbTopic-1074.pdf>

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B2B Business Models

- Net marketplaces
 - E-distributor
 - E-procurement
 - Exchange
 - Industry consortium
- Private industrial network
 - Single firm
 - Industry-wide

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B2B Models: E-distributor

- Version of retail and wholesale store, MRO goods and indirect goods
- Owned by one company seeking to serve many customers
- Revenue model: Sales of goods
- Example: Grainger.com

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B2B Models: E-procurement

- Creates digital markets where participants transact for indirect goods
 - B2B service providers, application service providers (ASPs)
- Revenue model:
 - Service fees, supply-chain management, fulfillment services
- e.g., Ariba



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B2B Models: Exchanges

- Electronic digital marketplace where suppliers and purchasers conduct transactions
 - Usually owned by independent firms whose business is making a market
 - Usually serve a single vertical industry
- Revenue model: Transaction, commission fees
- Create powerful competition between suppliers
- Tend to force suppliers into powerful price competition; number of exchanges has dropped dramatically

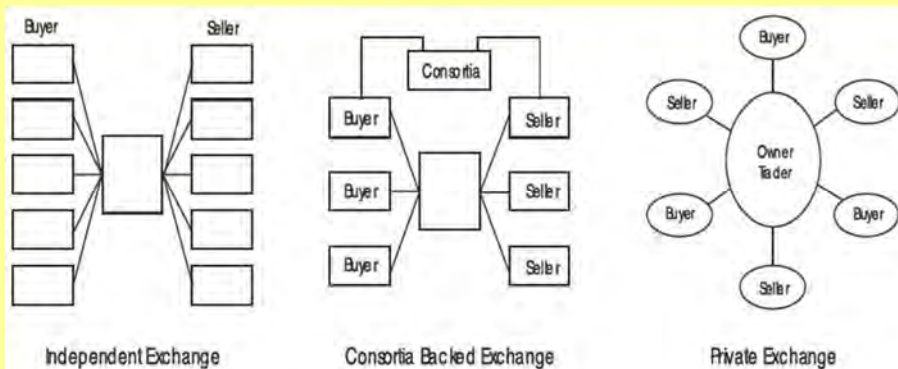
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Electronic Exchanges

- Known as electronic markets or B2B hubs
- These hubs are sites on the Internet where buyers and sellers can come together to exchange information and buy and sell products and services.
- Electronic interchanges typically have one of three structures.

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Electronic Exchange Structures



Source: <http://www.ebscohost.com/uploads/thisTopic-dbTopic:1074.pdf>

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Public Exchange

- Known as an independent exchange
- Third party market operates the electronic market, displays information, and provides the tools necessary to conduct e-business.
- Independent exchanges may be
 - vertical (i.e., serving members of a specific industry) or
 - horizontal (i.e., simultaneously serving businesses in different industries).
- PE are independently owned by the third party that displays the content and provides electronic tools for conducting business.

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Consortia-backed Exchange

- eMarkets created by consortia of traditional firms within an industry who band together to create a common forum for B2B transactions of goods and services.
- One of the primary purposes of consortia-backed exchanges is to drive down costs for all participants.

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B2B Models: Industry Consortia

- Industry-owned vertical marketplaces that serve specific industries (e.g., automobile, chemical)
- More successful than exchanges
 - Sponsored by powerful industry players
 - Strengthen traditional purchasing behavior
- Revenue model: Transaction, commission fees
- e.g., Exostar



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Private Exchange

- PE are structured around the needs of a specific sponsoring business and its trading partners and can be joined by invitation only.
- **Advantages** over other types of electronic exchanges
 - Owners of PE can regulate access to both buyers and sellers. This means owners have the ability to exclude competitors and their suppliers from the exchange so that the exchange only benefits its members.
 - Owners of a PE can also offer pricing incentives or alternatives so that they can streamline business processes and benefit participants.
 - As opposed to public exchanges, most private exchanges can be tailored to serve specific products.

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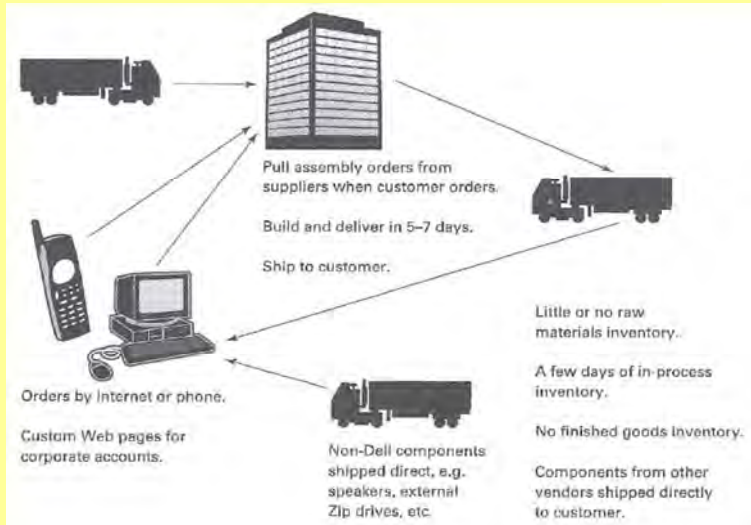
Private Industrial Networks

- Designed to coordinate flow of communication among firms engaged in business together
 - Electronic data interchange (EDI)
- Single firm networks
 - Most common form
 - Example: Wal-Mart's network for suppliers
- Industry-wide networks
 - Often evolve out of industry associations
 - Example: Walmart's network for suppliers



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Applications: Dell business model



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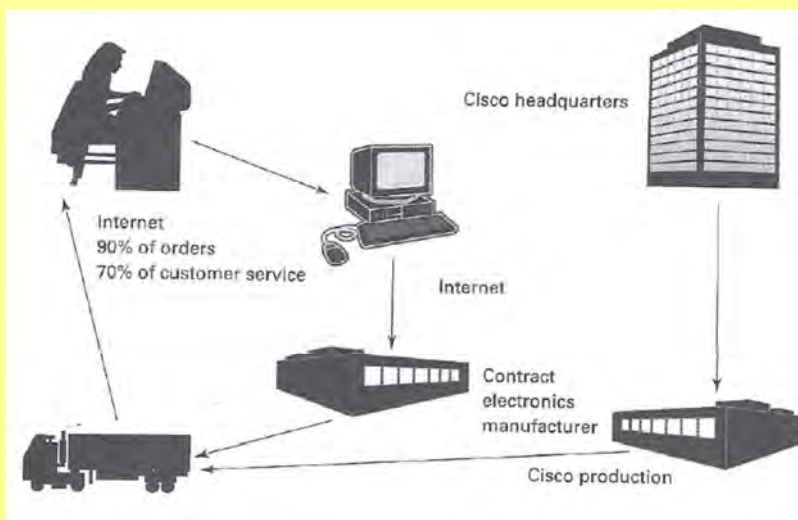
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Applications: Dell business model

- Orders for computers are placed with Dell by telephone or through the Internet.
- Through a process just-in-time (or lean) manufacturing, waste is reduced and productivity improved by only having the required inventory on hand when it is actually needed for manufacturing.
- This reduces lead times and set up times for building a computer.
- Dell only orders the parts for a computer when it has a firm (and in the case of non-corporate orders, prepaid) order.
- Dell operates with little in-process and no finished goods inventory: Products are shipped as soon as they are manufactured.
- This approach also enables Dell to forego having brick and mortar store fronts with inventory that must be kept on the books or that might become obsolete, thereby significantly reducing overhead.
- Items that are not built by Dell are shipped directly to the customer by the manufacturer.
- These features help Dell to reduce the costs of production and sales.
- This process allows Dell to custom design systems for its customer within certain parameters as well as to offer a range of items rather than a single system.

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Applications: Cisco business model



Source: <http://www.ebscohost.com/uploads/thisTopic-dbTopic-1074.pdf>

2-55

Cisco Business Model

- This successful network communications manufacturer receives approximately 90% of its orders over the Internet.
-
- The orders are routed to contract electronics manufacturers who build the products to Cisco's specifications.
- Not only are the majority of Cisco's orders received over the web, but 70% to 80% of their customer service requests are also dealt with online.

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E-Hubs

- EH (also known as vertical portals) are B2B web sites that bring together buyers and sellers in a particular industry such as information technology or retail.
- Facilitate business transactions within an industry and may charge a transaction fee for purchases.
- EH reduce transaction costs by aggregating buyers and sellers in an electronic marketplace.
- B2C hubs are one-way networks that primarily create value for sellers, B2B hubs are two-way networks that mediate between buyers and sellers and create value for all parties.
- EH create value in a number of ways including reducing search costs, standardizing systems, and improving matches for both buyers and sellers.
- EH offer more choices to buyers and give sellers more access to buyers.
- For example, if 5 buyers and 5 sellers were potentially interested in doing business with each other, they would first have to locate each other. The sellers would have to determine who the potential buyers were through advertising or a direct sales force. The sellers would then have to make a contact with each potential buyer. This would involve 25 separate searches and 25 separate contacts each time a seller wanted to sell. With EH, this number is drastically reduced. EH finds the potential sellers and buyers, reducing the total number of postings to 10: 5 postings on EH by the sellers and 5 mviews by the buyers.
- EH allow information such as credit checks, product descriptions, and evaluations to be transferred more easily.

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Vertical Hubs

- VH are set up to specialize within an industry or other vertical market.
- Provide domain-specific content and relationships that are of value to their participants.
- Particularly advantageous when there is much fragmentation among the buyers and sellers, and inefficiency in the existing supply chain.
- Have a high degree of domain knowledge and industry relationships, create master catalogs and allow advanced search options.
- VH examples:
 - Band-X for the telecommunications industry,
 - Cattle Offerings Worldwide for the beef and dairy market,
 - PlasticsNet.com for the plastics industry
 - Ultraprise for secondary mortgage exchange.



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Functional Hubs

- Horizontal hubs that provide the same functions across different industries rather than more functions within a single industry.
- FH are successful in situations where there is a greater degree of process standardization and sufficient knowledge about the processes and the ability to customize the business process to respond to differences in various industries.
- FH example: iMark focuses on buying and selling used capital



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Business Models in Emerging eCommerce Areas

- Consumer-to-consumer (C2C)
 - Examples: eBay, Half.com



- Peer-to-peer (P2P)
 - Examples: The Pirate Bay, Cloudmark



- M-commerce:
 - eCommerce models using wireless technologies
 - Technology platform continues to evolve
 - In the United States, demand still highest for digital content like ring tones

2-61

Apple iPhone 4s



The Apple iPhone combines both cellular voice and Internet, as well as Wi-Fi local area network access to the Web. Over 37 million iPhones 4s in Q4 of 2011.

Source: <http://venturebeat.com/2012/02/06/npd-iphone-android-sales/>

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eCommerce Enablers: The Gold Rush Model

- eCommerce infrastructure companies have profited the most:
 - Hardware, software, networking, security
 - eCommerce software systems, payment systems
 - Media solutions, performance enhancement
 - CRM software
 - Databases
 - Hosting services, etc.

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How the Internet and the Web Change Business

- eCommerce changes industry structure by changing:
 - Basis of competition among rivals
 - Barriers to entry
 - Threat of new substitute products
 - Strength of suppliers
 - Bargaining power of buyers

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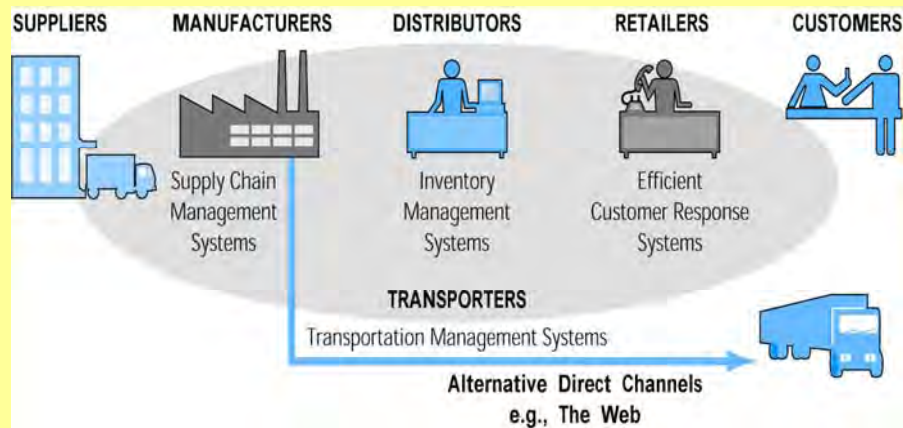
Industry Value Chains

- Set of activities performed by suppliers, manufacturers, transporters, distributors, and retailers that transform raw inputs into final products and services
- Internet reduces cost of information and other transactional costs
- Leads to greater operational efficiencies, lowering cost, prices, adding value for customers

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eCommerce and Industry Value Chains

Figure 2.4, Page 100



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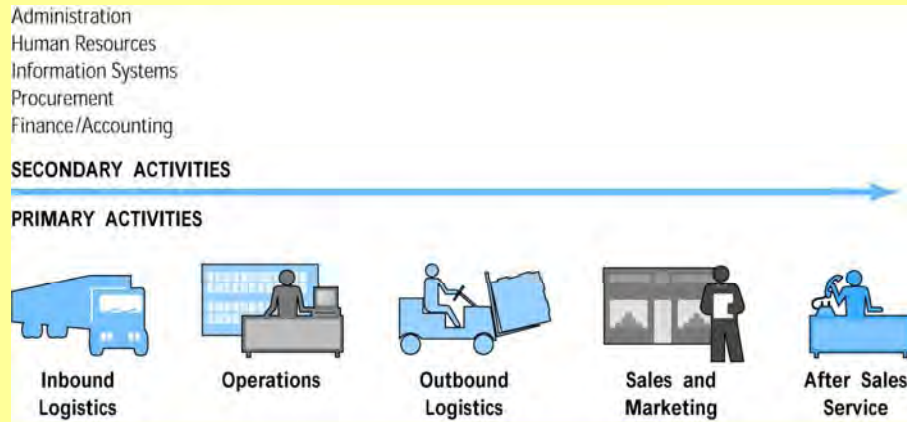
Firm Value Chains

- Activities that a firm engages in to create final products from raw inputs
- Each step adds value
- Effect of Internet:
 - Increases operational efficiency
 - Enables product differentiation
 - Enables precise coordination of steps in chain

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eCommerce and Firm Value Chains

Figure 2.5, Page 101



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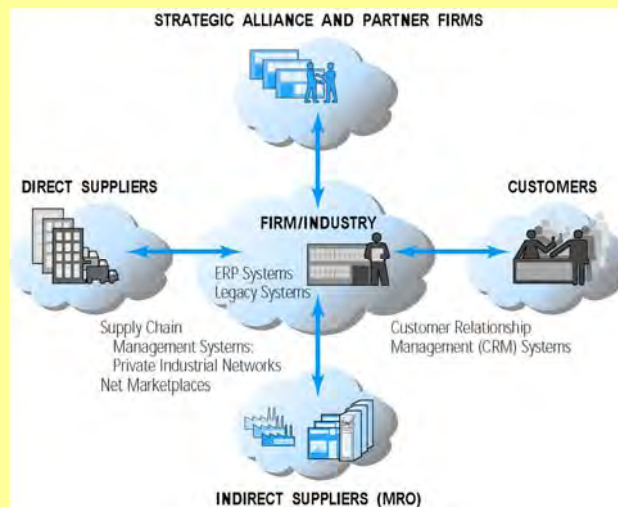
Firm Value Webs

- Networked business ecosystem
- Uses Internet technology to coordinate the value chains of business partners
 - Within an industry
 - Within a group of firms
- Coordinates a firm's suppliers with its own production needs using an Internet-based supply chain management system

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Internet-Enabled Value Web

Figure 2.7, Page 105



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Business Strategy

- Plan for achieving superior long-term returns on the capital invested in a business firm
- Four generic strategies
 1. Differentiation
 2. Cost
 3. Scope
 4. Focus

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DISCUSSION QUESTIONS

1. What is a business model? How does it differ from a business plan?
2. What are the eight key components of an effective business model?
3. Would you say that Amazon and eBay are direct or indirect competitors? (You may have to visit the Web sites to answer.)
4. Describe the five primary revenue models used by ecommerce firms.
5. Besides news and articles, what other forms of information or content do content providers offer?
6. What are four generic business strategies for achieving a profitable business?

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1 .What is a business model? How does it differ from a business plan?

- A **business model** is a set of planned activities (business processes) that are designed to result in a profit in the marketplace.
- A **business plan** on the other hand, is a document that outlines the details of a business model.

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2.What are the eight key components of an effective business model?

- value proposition
- revenue model
- market opportunity for the firm (the marketplace and how big it is)
- competitive environment for the firm (who the competitors are in the marketplace)
- competitive advantage the firm brings to the marketplace (the unique qualities that set the firm apart from others in the marketplace)
- market strategy the firm will use to promote its products and services
- organizational development of the firm that will enable it to carry out its business plan
- capabilities of the management team to guide the firm in its endeavors

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3.Would you say that Amazon and eBay are direct or indirect competitors? (You may have to visit the Web sites to answer.)

- Amazon and eBay are direct competitors because they sell products and services that are very similar, and they sell to the same market segment.
- They both sell books, music, computers and software, games and toys, electronics, tools, movies and DVDs, and camping equipment.
- eBay has a consumer-to-consumer business model while Amazon has a business-to-consumer business model.
- Even though eBay sells new, overstocked, remaindered, and used products at discounted prices, the two compete for essentially the same market segment of consumers.
- eBay may attract the bargain hunter variety of shopper who would not stop at Amazon first, but it is still essentially the same market segment.

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4. Describe the five primary revenue models used by ecommerce firms.

- Advertising revenue model
derives its profit by displaying paid advertisements on a Web site. The goal is to convince advertisers that the site has the ability to attract a sizeable viewership, or a viewership that meets a marketing niche sought by the advertiser.
- Subscription revenue model
offer users access to some or all of their content or services for a subscription fee.
- Transaction fee revenue model
Firms that use TFR model derive profit from enabling or executing transaction, i.e. transaction fees are paid to eBay when a seller is successful in auctioning off a product, and E*Trade receives a transaction fee when it executes a stock transaction for a customer.
- Sale revenue model
Companies draw profit directly from the sale of goods, information, or services to consumers.
- Affiliate revenue model
Sites receive referral fees or a percentage of the revenue from any sales that result from steering business to the affiliate.

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5. Besides news and articles, what other forms of information or content do content providers offer?

- Besides news and articles, content providers may also supply
 - music,
 - photos,
 - video,
 - artwork,
 - educational materials, or
 - games.

2-78

6. What are four generic business strategies for achieving a profitable business?

- **Differentiation** involves setting your firm or product apart from the competition by establishing some unique property or consumption experience that your competitors do not have.
- A firm that adopts a **cost** strategy must have a unique set of business processes, a unique resource, or a low cost supplier. It is essential that other firms in the marketplace do not have access to, or cannot duplicate, this since it will allow them to charge a lower price while still making a profit.
- A **scope** strategy sets out to compete in all markets around the globe, rather than just locally or regionally.
- A **focus** strategy on the other hand, is a plan to compete within a narrow market segment or product segment. Specialization strategists seek to become the premier provider in a small market segment or niche.

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