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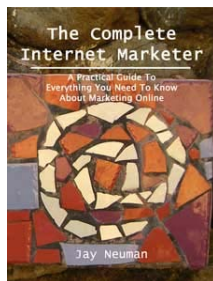
The Complete Internet Marketer

How To Have A Winning Online Business Model

*Chapter 1 from
The Complete Internet
Marketer*

Jay Neuman

This eBook is an excerpt from:



The Complete Internet Marketer

A Practical Guide to Everything
You Need to Know About
Marketing Online

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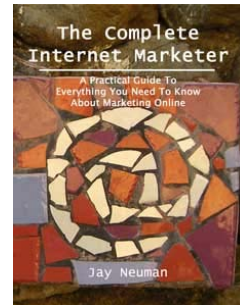
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Part I

How To Create A Successful Internet Marketing Plan

The Dot-Com Revolution took the world by storm in the late 1990's. Hundreds of new Internet businesses raised venture capital and started doing business online. Investors were in a mad frenzy to invest in the latest start-up. No one knew which was going to be the next big thing. Everyone expected many of these new businesses would fail. But, no one was prepared for the wholesale die-off of Internet companies after 2001.

Stories about pioneers of the Dot-Com revolution have since quietly faded into business folklore. Like the heroic tales of ancient China, Dot-Com stories are part adventure and part comedy. Regardless of the outcome, you have to admire the guts of those entrepreneurs. They jumped into the fray before most people even knew what was happening. They raised capital and spun out new innovative businesses as quickly as they could. Their goal was to capture the opportunity before it passed by. It turned out the opportunity only lasted a few years. Today, the rest of us can sit back and learn from their successes and their failures. Some of the mistakes seem obvious to us today - in 20/20 hindsight. We even make jokes about some of them. Do you remember Pets.com, with their sock puppet mascot? Their tag line was, "Because pets can't drive." Unfortunately, pets can't shop online either.

A common theme among those companies who are succeeding even after the crash is that they are the ones who had well thought out strategic plans. They have continued to evaluate and revise those plans on an ongoing basis. As you read the chapters in Part I you will learn how to put together a winning Internet Marketing plan.





A Step-By-Step Guide To Creating Your Internet Marketing Plan

To many people, doing business on the Internet is a mystery. I hear people say things like, "It is one thing to sell widgets. We've got that down pretty well. But when it comes to selling widgets on the Internet, we do not know where to start." It is certainly true that developing an Internet Marketing strategy takes some hard work. It is not for the faint of heart. But it does not have to be so complicated that only a few "gurus" can understand it. The chapters that follow unveil the mystery. You will learn a straightforward, step-by-step approach to putting together a strategic plan for your Internet Marketing program.

To develop a winning Web strategy for your business or organization, there are basically just four things to do.

- Step 1:** Understand your online business model
- Step 2:** Know your customers
- Step 3:** Set effective goals
- Step 4:** Choose the right tactics

The overall process can be represented by the simple diagram shown below.

You will learn . . .

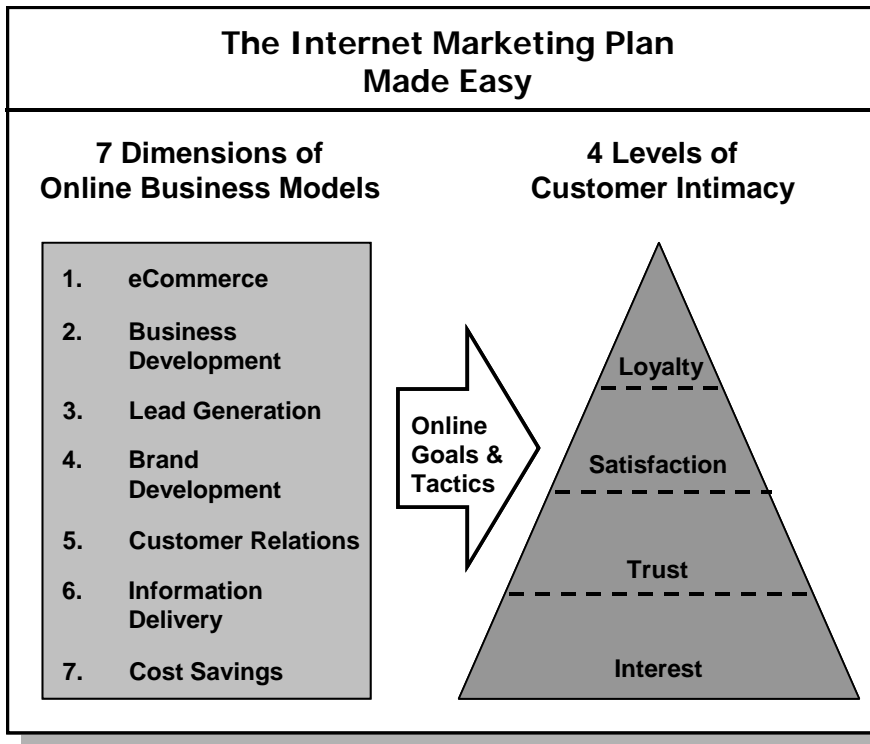
- ✓ That there are only seven dimensions behind all online business models. By identifying which apply to your business, you will be able to easily define how you can use the Internet to make money, or otherwise support the goals of your organization.
- ✓ That you can understand the needs and wants of your online customers in terms of four levels of customer intimacy that all online customers experience.





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- ✓ The key to putting together a winning online strategy is to set goals and choose tactics that match up the dimensions of your online business model with the needs and wants of your customers along these four dimensions.



You will learn a process that anyone can follow. The basic concepts of putting together an Internet Marketing plan are presented in a way that highlights the issues especially important to marketing on the Internet. There is not time in this book to go into a complete discussion on the planning process. However, if you follow the steps presented in the following chapters, you will put together a back-of-the-envelope plan that will allow you to have a successful program. You need no formal training. Anyone can do it.





Chapter 1

Understanding Your Online Business Model

In this chapter, you will learn . . .

- The seven dimensions behind all online business models
- How to define your online business model
- How to be profitable

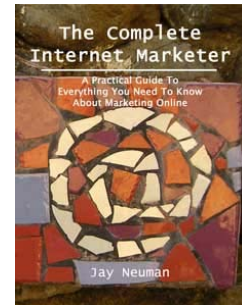
You are ready to go full steam ahead and use the Internet to support the sales and marketing goals of your organization. To many people this means no more than, “We are going to build a website” or “We are going to give our website a facelift and add some new features.” But simple statements like these are deceptive. They can mean many things. For a retail store, it may mean selling your products online. To a manufacturer, it may mean promoting your brand and offering customer service online. Government and nonprofit agencies are using the Internet to provide information and access to public services. The first step to effective Internet Marketing is to understand *how* you can use the Internet to help your business succeed.

Your Business Model vs. Your Online Business Model

It is important to distinguish between your company’s business model and the business model for your website. Every business has a business model (although some do not take the time to figure out what it is). It is how your company makes money by selling products and/or services to a target market. In the case of government or

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- ✓ Understanding your business model

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nonprofit organizations, the business model is how to meet the objectives of the organization by delivering goods and/or services to a target population. Your online business model is simpler than this.

Your online business model is how you use the Internet to support the sales and marketing objectives of your business model.

The Seven Dimensions Of Online Business Models

Luckily, your online business model is easier to figure out than the business model for your company. There are basically just seven ways companies and organizations use the Internet to support the sales and marketing goals of their business models. Knowing this will give you an easy way to define your online business model. Simply identify which of these seven applies to your business. These are the *dimensions of your online business model*.

Now let us take a look at the seven dimensions.

Dimension #1: eCommerce

eCommerce takes place whenever goods or services are exchanged for an electronic payment through a website. In other words, selling things online. The most basic form of eCommerce is simple transactions through an eRetail website. In this case, products are listed for sale and a simple shopping cart mechanism allows purchases to be made. We are all familiar with this type of website. More complex forms of eCommerce include such things as online auctions, where multiple buyers compete against each other in bidding for the purchase.





You have an eCommerce dimension to your online business model if a monetary transaction occurs on your website.

Dimension #2: Business Development

Business Development takes place when the website is being used as a tool to support a larger sales process. The most basic form of Business Development is simply collecting contact information from prospective customers. This could be done through a simple “contact us” form. Other ways to collect prospect information are through a needs assessment form or to offer a useful download that first requires contact information to be entered. More complex forms of business development services include allowing prospective customers to schedule a follow up call from a sales person or submit a request for proposal (RFP).

You have a Business Development dimension to your online business model if you are collecting sales leads for your business or otherwise supporting a sales process which goes beyond transactions on the website.

Dimension #3: Lead Generation

Lead Generation takes place when the website is used as a way to collect qualified traffic who will be sent to another website, usually for a fee. We are all familiar with lead generation websites. The most common are search engines. Whenever you search for something in a search engine, you are identifying an interest you have. Chances are that someone has something they want to sell to people with that interest. If you click on a “Sponsored Link” you become a qualified lead to that website. This is Lead Generation in action.

Another common form of Lead Generation are websites who rely on revenue generated from banner ads or other





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online advertisements placed on their website. Perhaps the most complex of the Lead Generation models is the Business-to-Business Exchange. In these “online market-places,” multiple sellers compete to make a sale in some form of online bidding process.

You have a Lead Generation dimension to your online business model if an important reason for your website to exist is to redirect traffic to other websites.

Dimension #4: Customer Relations

Customer Relations takes place when the website provides online services to existing customers thus enhancing their ability to do business with the company. The most basic form of Customer Relations is to provide online customer service. This could be as simple as a customer service phone number and email. It could also include self-service customer service tools, technical manuals, FAQs or online chat with a live person. Another form of Customer Relations is when service companies allow their customers to manage aspects of their service program online. An online banking website is perhaps the most common example of this. Loyalty rewards programs are also a form of Customer Relations if they are administered through the website.

You have a Customer Relations dimension to your online business model if servicing existing customers online is an important part of what your website is intended to accomplish.

Dimension #5: Brand Development

Brand Development takes place when the website is used to build customer affinity to the brand, but not necessarily to sell products and services directly to the end customer. Brand Development is especially important for companies





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who do not sell directly to the end consumer, but through channel partners. In this case, the website acts as an information resource promoting the products and the company. In many cases, manufacturers will use their website to provide information that will be used by their retail partners to help make sales. Another place where Brand Development is especially important is for nonprofit agencies who rely on donations. In this case, the website promotes the agency's cause and promotes the credibility of the agency to meet the needs of their target population.

You have a Brand Development dimension to your online business model if you expect people to come to your website seeking information about your company or products outside of the sales or customer relations process. Also, as a result of that information, you hope they will be more likely to purchase your products or use your services in the future.

Dimension #6: Information Delivery

Information Delivery takes place when information itself is being provided as a value-added service. Government agencies and nonprofit organizations often have information delivery as a primary part of their online business model. Personal blogs are also information delivery websites.

Online businesses with a Lead Generation business model often use information delivery as the means to attract web users to their website. In this case, when users come to the website, they self-select themselves as being interested in the targeted content they are searching for or viewing online. In most cases, the Information Delivery dimension is a free service of the website. However, there are cases where the information itself is the product being sold. These "content provider" websites may charge a fee for information ranging from teaching aids, to white papers, to syndicated news.





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You have an Information Delivery dimension to your online business model if customers come to your website specifically to view information for its own sake and if providing that information is an important reason for your site to exist.

Dimension #7: Cost Savings

Cost Savings takes place when processes are performed or services delivered online which otherwise incur higher costs in another medium. The most common Cost Savings measures are when customers are encouraged to obtain customer service or make catalog purchases online. These steps save money otherwise spent on supporting call center operations and printing/ mailing catalogs. Other Cost Savings measures can range from such things as online delivery of billing statements to online procurement and supply chain management.

You have a Cost Savings dimension to your online business model if revenue is being realized through your website by reducing costs in other areas of your business.

How To Define Your Online Business Model

You have learned the seven dimensions of online business models. To determine your online business model, simply identify which of these seven apply to your Internet Marketing program. Figure 1.1 gives you a simple checklist you can use. Just check the dimensions that apply to your website.

Once you have identified which dimensions apply, the easiest way to define your online business model is to put together a simple one-page summary. For each of the





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dimensions of your online business model, write a short description of how each applies to your business. By using this simple format, you can define your online business model on a single page. This will give focus to the rest of the planning process.

Identifying The Dimensions of Your Online Business Model		
✓	Dimension	Criteria
	1. eCommerce	We sell products online
	2. Business Development	We capture sales leads and support the sales process
	3. Lead Generation	We direct qualified sales leads to other businesses, for a fee
	4. Brand Development	We provide value added services and information to promote loyalty to the brand
	5. Customer Relations	Our customers interact with the business and receive automated services online
	6. Information Delivery	We deliver informational content, for a fee or gratis
	7. Cost Savings	We reduce operational costs by performing certain actions electronically

Figure 1.1

How To Be Profitable

The main reason for defining your online business model is to figure out how to make your Internet Marketing program profitable. As you have probably guessed by now, you can do this by determining how revenue will be generated by each of the dimensions of your online business model. Once you have identified your dimensions, you

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will need to determine the source of revenue generated by each dimension. This will allow you to calculate a return on investment (ROI) from your Internet Marketing efforts.

The basic formula for calculating your online ROI is shown in figure 1.2. This formula is presented in its most general form to show how easy the concept really is. You will adapt the basic formula to the specific online tactic you are measuring.

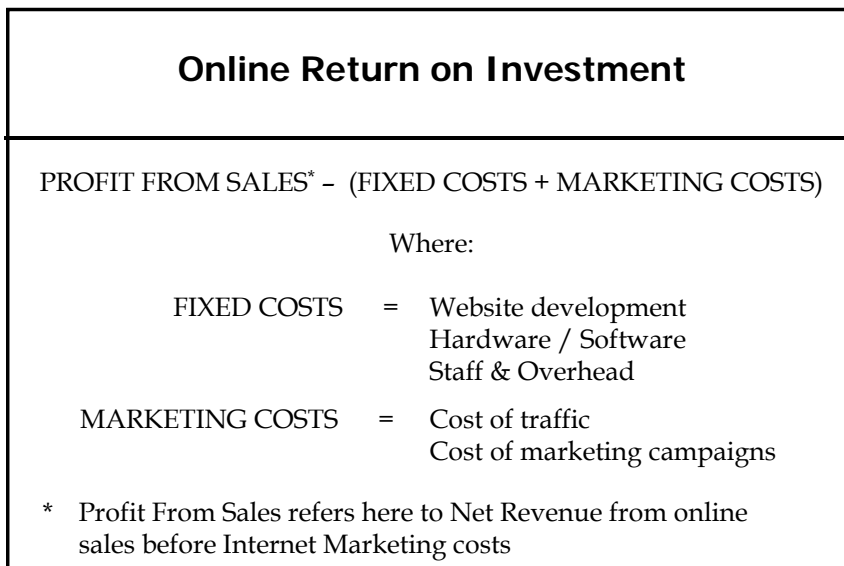


Figure 1.2

A simple example will show how you can use this formula to make the most out of your Internet Marketing investment. Assume you are measuring the ROI for your marketing efforts to generate sales through your eCommerce site. This example assumes the only thing that matters to your online business model is getting traffic to your website. You calculate the three metrics of our ROI formula as follows:





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<i>Profit From Sales:</i> (Net Revenue before online costs)	Assume you are averaging one sale, yielding \$50 net revenue (before online costs), for every 100 customers who click on your website. That equates to \$0.50 per click to your website.
<i>Fixed Costs:</i>	Assume you spend \$10,000 per year to maintain your website and support for online transactions and customer service.
<i>Internet Marketing Costs:</i>	Assume you spend, on average, \$0.40 per click to bring traffic to your website (from search engines, email, and online ads)

From these three numbers, you can calculate what it will take to make your online store profitable. Figure 1.3 shows what your net revenues will be as you generate more and more traffic to your website.

- If the numbers remain constant, you will be earning \$0.10 from each click to the website. ($(\$0.50 \text{ net revenue} - \$0.40 \text{ marketing costs}) = \0.10)
- At this rate, you will become profitable when you generate 100,000 visits to your website. ($\$0.10 * 100,000 = \$10,000$) That will cover the \$10,000 fixed costs.
- Every sale to your website above and beyond that is profitable.

But notice that if your average cost per click goes up to \$0.50, you will never be able to recover your fixed costs. ($\$0.50 \text{ net revenue} - \$0.50 \text{ marketing costs} = \0.0)

If your average revenue per click is not greater than your cost per click, you will never be profitable. Your average net revenue per click is a ceiling that you cannot go over.





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A common mistake is to calculate ROI using total revenue from sales instead of net revenue (i.e. profit before online costs). This will overestimate your ROI and can result in a net loss.

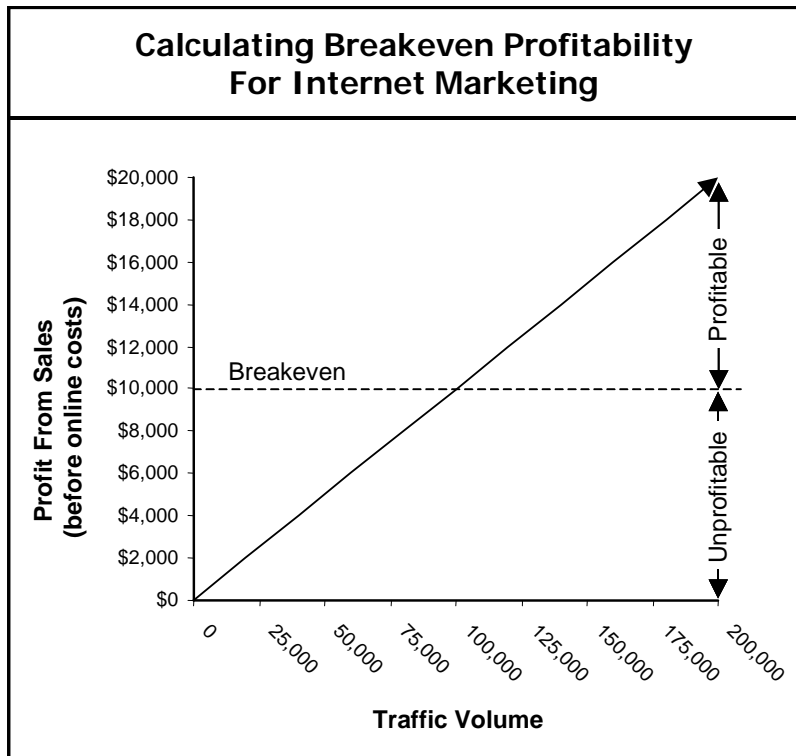


Figure 1.3

In actual practice, things get more complicated than this simple example. For example, you may have multiple revenue generating aspects to your Internet Marketing program. You will probably want to create an ROI calculation for each one. Then you will balance them to find the best mix of budget dollars to be invested into each one. Nevertheless, once you get this basic concept down, the exercise loses its intimidation. With a little patience, you will be able to determine the best way to turn your online investment into profitability.

As you put this into practice, you will quickly discover two of the first keys to successful Internet Marketing:





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Two Keys to Successful Web Marketing

(1) Traffic, Traffic, Traffic

Once you reach your breakeven point, all additional traffic is profitable. So get all you can!

(2) Maximize Revenue Per Click

You must identify how much revenue you earn per click by averaging total revenue by total number of clicks. This will give you the maximum cost per click you are able to spend to get traffic. Above this number, it is impossible to become profitable.

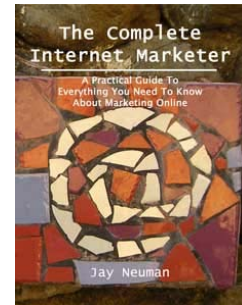
Figure 1.4

Sources Of Internet Revenue

When you are calculating your return on investment, you will need to identify how revenue will be realized from your Internet Marketing Program. Figure 1.5 shows the most common sources of revenue from each of the seven dimensions. You can use this as a reference when you are figuring out how to calculate your ROI. The chapters in Part IV, *How To Build A Winning Website For Your Business Model*, will go into more detail about how to calculate the ROI for different sources of revenue.

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Sources of Internet Revenue		
✓	Dimension	Source of Revenue
	1. eCommerce	Profit from sales
	2. Business Development	Lifetime value of new customers
	3. Lead Generation	Revenue per redirect from sale of leads
	4. Brand Development	Protect & grow market share
	5. Customer Relations	Increase customer loyalty & prevent defection
	6. Information Delivery	Increase return visits (or a subsidized public service)
	7. Cost Savings	Net cost savings

Figure 1.5

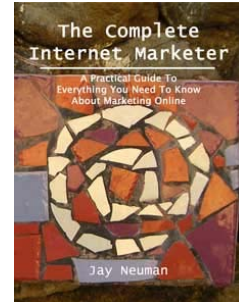
Conclusion

In this chapter, you have learned how to define what your business or organization needs to be successful online. We have called this your online business model. Once you have defined your online business model, you can clearly map out what *you are trying to accomplish* online.

In Chapter 2, you will learn how to understand who your prospective customers are and what *they want to accomplish* when they go online.

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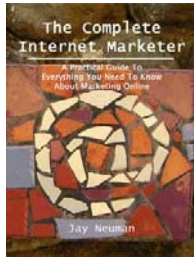


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