E-Commerce Strategies for Business Markets

Leading-edge firms are using the Internet to transform the way they do business. The Internet provides a powerful platform for conveying information, conducting transactions, delivering innovative services, and building close customer relationships. After reading this chapter, you will understand:

1. the nature of e-commerce in business markets.

2. the role of e-commerce in a firm's marketing strategy.

3. the key issues involved in designing an e-commerce strategy.

Before the Internet, customers had to call Dow Chemical and request a specification sheet for the products they were considering. The information would arrive a few days later by mail. After choosing a product, the customer could then place an order by calling Dow (during business hours, of course). Now, though, such information is available anytime at Dow.com. In turn, a host of more personalized services are available through MyAccount@Dow, which provides information tailored to the customer's requirements.[1] For example, MyAccount@Dow offers secure internal monitoring of a customer's chemical tank levels. When tanks reach a predetermined level, reordering can be automatically triggered. Similarly, Dell's large-enterprise customers can use its online resources to manage the inventory of personal computers across the organization, properly configure and upgrade them for different departments, and control the purchase order process in line with the customer's own budget restrictions.[2]

Dow Chemical and Dell represent just two of thousands of business marketers who have integrated the Internet and electronic commerce into their corporate strategies. E-commerce not only speeds up and automates a company's internal processes but, just as importantly, spreads the efficiency gains to the business systems of its suppliers and customers. For example, Dell customers can shop online using their own Enterprise Resource Planning (ERP) procurement application, route the electronic requisition through the firm's standard ERP workflow where it can be approved electronically, creating a purchase order that is transmitted instantly to Dell. This order then flows directly into Dell's manufacturing system where the equipment is built immediately and shipped, providing the customer with a timely and efficient solution.[3]

In other applications, e-commerce seamlessly moves data and information over open and closed networks, bringing together previously separate groups inside the organization and throughout the supply chain. By integrating suppliers and customers in this way, the Internet and e-commerce provide powerful tools that are ideally suited to the business-to-business (B2B) arena.

Data on the scope and size of business-to-business transactions on the Internet provide perspective: Compared to B2C volume, the most recent data indicate that B2B activity—transactions by manufacturers and merchant wholesalers—accounted for the most e-commerce (93 percent).[4] Manufacturers lead all industry sectors, with e-commerce accounting for 31.2 percent ($1,568 billion) of total shipments, and merchant wholesalers, including manufacturing sales branches and offices, ranked second, with e-commerce accounting for 20.6 percent ($1,148 billion) of total sales.[5] In contrast, retail e-commerce, the type of Internet sales with which most consumers are familiar, totaled only $107 billion in 2006.[6]

As the massive growth in e-commerce continues, significant opportunities and challenges emerge for all firms that market products and services in the business market. Witness the success of Google's search engine. The Internet is also becoming the main way that managers research B2B purchases.[7] For example, instead of lugging

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[1]George S. Day and Katrina J. Bens, "Capitalizing on the Internet Opportunity," *Journal of Business & Industrial Marketing* 20 (4–5, 2005): pp. 160–168.

[2]Don Peppers and Martha Rogers, *Return on Customer* (New York: Currency–Doubleday, 2005), p. 42.

[3]"Dell Business to Business Ecommerce Solutions," http://www.dell.com/content/topics/reftopic.aspx/pub/commerce, 2008.

[4]*E-Stats*: Measuring the Electronic Economy, accessed at http://www.census.gov/estats on May 16, 2008, p. 1.

[5]Ibid., p. 3.

[6]Ibid., p. 3.

[7]Jacob Nielsen, "B-to-B Users Want Sites with B-to-C Service, Ease," *B to B* 90 (June 2005): p. 48.

home piles of brochures from a trade show, prospects look up potential suppliers on the Web to learn more about their products and services. Suppliers must change their communication strategy and develop content for the Web first, and print second—if at all. The Web offers interaction and hypertext and a much better way to communicate complex B2B information tailored to the customer's situation.

Firms that can enter the e-commerce marketplace by leveraging Internet capabilities with information processing, delivery capability, interorganizational collaboration, and flexibility may be able to develop important differential advantages in selected market segments. At the same time, major challenges confront organizations attempting to formulate an e-commerce strategy. These firms must craft a comprehensive e-commerce strategy, radically transform their traditional business models, and deal with rapid changes in e-commerce technology.

This chapter examines the nature of e-commerce, the role it can play in the organization's marketing strategy, the key elements in designing an e-commerce strategy, and the future direction and potential for e-commerce in business marketing.

Defining E-Commerce[8]

E-commerce involves "business communications and transmissions over networks and through computers, specifically the buying and selling of goods and services, and the transfer of funds through digital communications."[9] Who is going to gain an advantage in the customer-empowered, competitive markets that are being reshaped by e-commerce? A recent study suggests that firms that already excel at managing customer relationships were best equipped to capitalize on the opportunities of the Internet. According to the researchers, George S. Day and Katrina J. Bens, "Those leaders were able to anticipate earlier how to use the Internet to connect with their customers, exploited it faster, and implemented the initiative better." Such best-of-breed relationship builders like Dell, Cisco Systems, FedEx, GE Healthcare, and Johnson Controls relish the prospects presented by e-commerce.[10]

Alexander Ellinger and his colleagues describe the range of applications that a successful Web site can deliver: Internet applications range from

> . . . basic sites providing customers with general company information to more complex sites where interactive applications offer customers virtual product catalogs, opportunities to provide feedback, and an array of services including the ability to pay for and fulfill orders online. Successful websites add value because of their ability to present fresh, useful, relevant, and comprehensive information. For example, virtual product catalogs on websites are replacing the laborious and expensive necessity of printing and

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[8]Some authors and business marketing experts have suggested that the more appropriate term is *e-business*, as opposed to *e-commerce*. They reason that *e-commerce* is a broad term that deals with all transactions that are Internet-based, whereas e-business specifically refers to transactions and relationships between organizations. In reality, IBM is given credit for coining the term *e-business* in a major 1997 advertising campaign promoting the notion of e-business. The term was new then but has since become routinely used in the press and marketing campaigns of other companies. This chapter will use *e-commerce*.

[9]David J. Good and Roberta J. Schultz, "E-Commerce Strategies for Business-to-Business Service Firms in the Global Environment," *American Business Review* 14 (June 2002): p. 111.

[10]George S. Day and Katrina J. Bens, "Capitalizing on the Internet Opportunity," p. 164; see also Chuang Ming-Ling and Wade H. Shaw, "A Roadmap for E-Business Implementation," *Engineering Management Journal* 17 (June 2005): pp. 3–13.

updating the physical catalogs that are customarily used in B-to-B sales. Website content can also make information seeking more convenient for customers. Many firms handle common information requests that would normally require access to a service representative by posting customers' most frequently asked questions (FAQs) and the associated answers on their websites.

A major benefit of interactive web-based content is that it makes the provision of customer service less expensive. For example, self-service B-to-B website applications that allow customers automated access to the overall supply chain require fewer service personnel. Interactive web-based applications also facilitate the customization of service and product offerings for individual accounts, creating potential switching costs for customers and offering firms infinite opportunities to learn more about each customer's specific requirements and business operations.[11]

As this discussion suggests, e-commerce is multifaceted and complex. However, the rationale for e-commerce is easy to understand: In certain markets and for selected customers, e-commerce can increase sales volume, lower costs, or provide more real-time information to customers. Ravi Kalkota and Andrew Whinston effectively describe the role of e-commerce for the typical organization:

> Depending on how it is applied, e-commerce has the potential to increase revenue by creating new markets for old products, creating new information-based products, and establishing new service delivery channels to better serve and interact with customers. The transaction management aspect of electronic commerce can also enable firms to reduce operating cost by enabling better coordination in the sales, production, and distribution processes (or better supply chain management), and to consolidate operations and reduce overhead.[12]

In short, e-commerce can be applied to almost all phases of business, with the net effect of creating new demand or making most business processes more efficient. E-commerce can be applied to procuring and purchasing products; managing the process for fulfilling customers' orders; providing real-time information on the status of orders, online marketing and advertising; creating online product catalogs and product information data sets; managing the logistics process; and processing the payment of invoices.[13] The applications are limitless, yet not all products and markets can be effectively served through the e-commerce approach. Later in the chapter we will identify situations that offer the greatest potential for effective application of e-commerce. The different applications of e-commerce are depicted in Figure 12.1. Note that e-commerce can play a pivotal role across all functional areas of the business, yet the most important application from the marketing perspective is how e-commerce facilitates interactions with customers.

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[11]Alexander E. Ellinger, Daniel F. Lynch, James K. Andzulis, and Ronn J. Smith, "B-to-B e-commerce: A Content Analytical Assessment of Motor Carrier Websites," *Journal of Business Logistics* 24 (2003): p. 32.

[12]Ravi Kalkota and Andrew B. Whinston, *Electronic Commerce* (Reading, MA: Addison-Wesley, 1996), p. 5.

[13]Ming-Ling and Shaw, "A Roadmap for E-Business," p. 5.

FIGURE 12.1 | TYPES OF E-COMMERCE

Interorganizational E-Commerce

1. *Supplier management:* helps to reduce the number of suppliers, lower procurement costs, and increase order cycle time.

2. *Inventory management:* instantaneous transmission of information allows reduction of inventory; tracking of shipments reduces errors and safety stock; out-of-stocks are reduced.

3. *Distribution management:* e-commerce facilitates the transmission of shipping documents and ensures the data are accurate.

4. *Channel management:* rapid dissemination of information to trading partners on changing market and customer conditions. Technical, product, and pricing information can now be posted to electronic bulletin boards. Production information easily shared with all channel partners.

5. *Payment management:* payments can be sent and received electronically among suppliers and distributors, reducing errors, time, and costs.

Intraorganizational E-Commerce

1. *Workgroup communications:* e-mail and electronic bulletin boards are used to facilitate internal communications.

2. *Electronic publishing:* all types of company information, including price sheets, market trends, and product specifications can be organized and disseminated instantaneously.

3. *Sales force productivity:* e-commerce facilitates information flow between production and the sales force and between the sales force and the customer. Firms gain greater access to market and competitor intelligence supplied by the sales force.

Business-to-Customer E-Commerce

1. *Product information:* information on new and existing products is readily available to customers on the firm's Web site.

2. *Sales:* certain products can be sold directly from the firm's Web site, reducing the cost of the transaction and allowing customers to have real-time information about their order.

3. *Service:* customers can electronically communicate about order status, product applications, problems with products, and product returns.

4. *Payment:* payment can be made by the customer using electronic payment systems.

5. *Marketing research:* firms can use e-commerce, the Internet, and their own Web sites to gather significant quantities of information about customers and potential customers.

Key Elements Supporting E-Commerce

Intranets and Extranets

The Internet has become an important element in the marketing strategy of many business marketers; two other very important technological elements, however, are integrated with an Internet strategy. **Intranets** are basically company-specific, internal Internets. An intranet links documents on the organization's scattered internal networks together. A firm's intranet allows different functions and people to share databases, communicate with each other, disseminate timely bulletins, view proprietary information, be trained in various aspects of the firm's business, and share any type of information system the company uses to manage its business. For example,

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Extending the Boundaries of E-Commerce: B2M (Business to Machines) E-Commerce

E-commerce is multifaceted, as suggested by the use of intranets and extranets, and the applications are growing. A creative and relatively new application of e-commerce—business to machine e-commerce (B2M)—can provide huge savings. B2M e-commerce provides data that help Ryder negotiate with the business marketers that provide them with parts and equipment warranties.

B2M (Business to Machines) e-Commerce is a fast-emerging area within e-commerce. The general idea is that companies can link to remote machines via the Internet. As an example, consider the $5 billion Ryder Truck Company—Ryder System Inc. When a truck rolls into one of the company's maintenance bays, the attendant need only push a button to instantly determine the status of that vehicle. Specifically, a technician simply touches a probe located on the end of a handheld computer to a coin-shaped disk on the truck's cab, capturing information on engine performance and fuel consumption from electronic sensors under the hood. These sensors track information related to 65 different aspects of the truck from oil life and tire wear to filter life, gas mileage, and much more. Prior to the introduction of this B2M system, the company's mechanics were wrong nearly 50 percent of the time when it came to identifying problems with the trucks. Now the sources of trouble are identified more quickly and a truck's downtime is often cut in half. The company manages almost 10,000 technicians and 175,000 trucks, but with the B2M system, inventory tracking, parts ordering, maintenance scheduling, and personnel scheduling are streamlined. Additionally, Ryder uses the information it collects on engine-part wear to negotiate longer warranties from suppliers. According to Chief Information Officer Dennis M. Klinger, the new system cost $33 million but reportedly paid for itself in just a few years!

SOURCE: "The Many Flavors of E-Commerce," Accounting Software Advisor, http://www.accountingsoftwareadvisor.com, accessed 2008.

Boeing, the world's largest commercial aircraft manufacturer, maintains a company intranet that is available to more than 200,000 Boeing employees worldwide. One segment of its intranet contains an online course catalog for company educational programs in supervisor training and quality control. Intranets can also incorporate outside news. For example, Factiva, an information company, streams news into enterprise intranets. Much of the external information can be precisely tailored news, relevant to a particular firm.[14]

Extranets, on the other hand, are links that allow business partners such as suppliers, distributors, and customers to connect to a company's internal networks (intranets) over the Internet or through virtual private networks. An extranet is created when two organizations connect their intranets for business communications and transactions. The purpose of an extranet is to provide a communication mechanism to streamline business processes that normally take place elsewhere. Hewlett-Packard, for example, has established extranet links to its advertising agencies to speed the review of ad campaigns. Business partners access a company's intranet by means of a unique password. Companies in the printing industry, for example, allow customers access to their internal networks to track print jobs as they move through production

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[14]Marydee Ojola, "Adding External Knowledge to Business Web Sites," *Online* 26 (4, July–August 2002): p. 3.

or to browse databases of images of other media assets.[15] Extranets allow a firm to customize information and interaction with each specific customer who is granted access to its intranet. Hewlett-Packard offers one of the largest medical sites on the Web. To secure customized information, hospital customers have special passwords (based on a profile they provide) that automatically connect them to "special pricing" negotiated through that institution's contracts with Hewlett-Packard.[16]

The Strategic Role of E-Commerce

For the business marketer, the crucial question is: What role does e-commerce assume in the firm's overall marketing strategy? One of the great dangers of e-commerce is the potential for managers to become enamored with the technology and ignore the strategic elements and the role of e-commerce in the firm's overall mission. The Internet and, more specifically, e-commerce are just instruments for accomplishing marketing goals—the need for sound marketing strategy remains.

E-Commerce as a Strategic Component

The use of e-commerce and, more specifically, the Internet is just like any other element the business marketer uses to accomplish the firm's mission: It must be focused, based on carefully crafted objectives, and directed at specific target segments. For the marketer, the Internet can be viewed as:

1. a communication device to build customer relationships;

2. an alternative distribution channel;

3. a valuable medium for delivering services to customers;

4. a tool for gathering marketing research data;

5. a method for integrating supply chain members.

In short, the Internet usually does not replace existing distribution channels; rather, it supports or supplements them. In a similar way, the Internet does not eliminate the selling function; rather, it facilitates the salesperson's efforts and enhances the effectiveness and efficiency of the sales function. Likewise, B2B e-commerce should be viewed as an end-to-end business process, involving the entire supply chain.[17]

According to Hank Barnes, to be successful, business marketers must integrate the Internet and e-commerce into the "fabric of their traditional business operations, leveraging it as a communications tool that can increase sales, satisfaction and service levels."[18] Essentially, e-commerce extends a firm's reach but does not change the fundamentals of how a firm acquires, responds to, and satisfies its customers. Andy Grove, a legendary Intel executive, aptly concludes, "Implementing the new e-commerce model does not mean simply selling something over the Internet, but incorporating

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[15]"Extranets Enhance Customer Relations," *Graphic Arts Monthly* (January 1999): p. 89.

[16]Curt Werner, "Health Care E-Commerce, Still in Its Infancy, But Growing Fast," *Health Industry Today* 8 (September 1998): p. 9.

[17]Judith Lamont, "Collaborative Commerce Revitalizes Supply Chain," *KM World* 14 (July–August 2005): pp. 16–18.

[18]Hank Barnes, "Getting Past the Hype: Internet Opportunities for B-to-B Marketers," *Marketing News*, February 1, 1999, p. 11.

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UPS Delivers the Goods Using Sophisticated E-Commerce Technology

UPS (United Parcel Service Inc.) is an express carrier, package delivery company, and a global provider of specialized transportation and logistic services. Over more than 90 years, the firm has expanded from a small regional parcel delivery service into a global company. The company's primary business is the time-definite delivery of packages and documents throughout the United States and more than 200 other countries and territories. UPS is a leading adopter of e-commerce applications, offering new services like UPS online tools and many other service applications to customers through its logistics group at http://www.e-logistics.ups.com and at http://www.upslogistics.com.

As the Internet was taking shape, UPS made a financial commitment to transform its operations to meet the changing needs of the digital economy by establishing electronic connectivity with its extensive base of customers. UPS is responding to the challenge of meeting these changing needs as the e-business evolution continues to unfold. The company has a variety of business solutions that give customers productive ways to manage, grow, and even transform their businesses to stay on course in a fast-changing, competitive market.

UPS uses a carefully crafted e-commerce strategy to deliver the goods quickly, reliably, and securely. Customers can obtain accurate account and shipping information in real time. Consistently meeting or exceeding service expectations enhances customer satisfaction and loyalty. Every day, UPS links 1.8 million sellers to 7 million buyers all over the world and delivers $1.5 billion worth of packages, including more than 55 percent of all the goods ordered online. The company has formed alliances with the leading e-commerce software providers and helps customers build or improve their Web sites so they, in turn, can better serve their customers. UPS e-Logistics, a subsidiary of UPS, provides integrated, end-to-end supply-chain management services to e-commerce businesses and dot.com divisions of established companies. Whether the customers' orders come via Web site, phone, mail, or other channel, UPS e-Logistics can manage the entire fulfillment process from inventory management to shipping—providing clients with new capabilities for managing information, moving inventory, and advancing customer loyalty.

SOURCE: Nabil Alghalith, "Competing with IT: The UPS Case," *Journal of American Academy of Business* 7 (September 2005): pp. 7–15.

the Net into the day-to-day functioning of the company, in particular, as a mode for B2B transactions and for building customer relationships."[19] From the perspective of the entire supply chain, a key issue is to include further use of e-commerce to automate and reduce the cost of transactions and to increase the quality of product data flows throughout the supply chain.[20]

What the Internet Can Do

Before exploring the strategic elements of e-commerce, let's explore the important benefits of an effectively developed e-commerce strategy. The Internet is a powerful tool when used properly, and the advantages are significant in terms of more effectively serving customers, communicating useful information, and lowering the cost of doing business.

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[19]As quoted in David Troy, "E-Commerce: Foundations of Business Strategy," Caliber Learning Systems, http://www.caliber.com.

[20]Aislinn McCormick, "Meeting Global Supply Demands," *Bookseller*, September 16, 2005, pp. 12–13.

The Internet: Strategy Still Matters[21]

As an important new technology, many executives, entrepreneurs, and investors assumed that the Internet would change everything and render many of the old rules about competition obsolete. Michael Porter, the noted strategist, argues persuasively that the old rules still apply and the fundamentals of strategy remain unchanged. Indeed, caught up in the excitement over Internet technology, many firms—dot-coms and established firms alike—made bad decisions. For example, some firms have shifted the basis of competition toward price and away from traditional factors like quality, features, and service. Under such conditions, all competitors in an industry struggle to turn a profit. Alternatively, other firms forfeited important proprietary advantages by rushing into misguided partnerships and outsourcing relationships.

The lesson for business marketers is that the Internet is an enabling technology—a powerful set of tools that complements, rather than replaces, traditional ways of competing. So, the key decision is not whether to use Internet technology, but rather how to deploy it. Successful companies integrate Internet initiatives directly into established operations rather than setting these strategies apart in a specialized e-commerce unit. Michael Porter provides this incisive forecast:

> Basic Internet applications will become table stakes—companies will not be able to survive without them, but they will not gain any advantage from them. The more robust competitive advantages will arise from traditional strengths such as unique products, proprietary content, distinctive physical activities, superior product knowledge, and strong service and relationships. . . . Ultimately, strategies that integrate the Internet and traditional competitive advantages and ways of competing should win in many industries.[22]

Enhanced Customer Focus, Responsiveness, and Relationships The Internet allows business marketers to align with their customers on order management and also on product configuration and design, resulting in better customer service and more satisfied customers. Because the Internet creates direct links between customers and factories, corporate buyers can tailor products to meet their exact requirements. Many business marketers now encourage customers to customize products exactly to their specifications right on the Web site.

Reduced Transaction Costs When customers use the Internet to communicate with suppliers, the supplier is able to provide low-cost access to both order entry and order tracking 24 hours a day, seven days a week. Transactions that do not require in-person services can be handled in a cost-effective manner on a Web site, and the firm can devote more staff to working with higher-margin customers requiring personal attention. In effect, e-commerce transfers operations to "self-service," allowing customers to download materials themselves and reducing costs for all involved. Some companies report that by automating transactions over the Internet, the cost of a purchasing transaction has declined from $150 to $25.[23]

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[21]This section is based on Michael Porter, "Strategy and the Internet," *Harvard Business Review* 79 (March 2001): pp. 63–78.

[22]Ibid., p. 78.

[23]Dave Rumar, "Electronic Commerce Helps Cut Transaction Costs, Reduce Red Tape," *Computing Canada* 25 (32, 1999): p. 24.

Integration of the Supply Chain   The Internet allows companies to electronically link far-flung constituencies, including customers, suppliers, intermediaries, and alliance partners, in spite of organizational, geographical, and functional boundaries. All the supply chain participants can be linked by a common database that is shared over the Internet, making the entire value-adding process seamless and more efficient. The key to effective supply chain operations is the sharing of vital information: sales forecasts, production plans, delivery schedules, tracking of finished product shipments through the distribution network, inventory levels at various points in the supply chain, final sales versus planned sales, and the like.

QAD, Inc., is the developer of *Total eCommerce Solution*, which provides a menu of software and services that help companies more consistently integrate global partners into their back-end systems. The *Total eCommerce Solution* lets users extend supply chain processes to partners, providing the ultimate in business integration. QAD's services include capabilities for communications, translation, application integration, business process management, and business activity management.[24]

Focus on Core Business   The Internet makes it easier for companies to focus on what they do best and spin off or contract out other operations to third parties that are tied to them through the Internet. In this way, the Internet helps companies develop a "virtual company" that contracts with other firms to perform such functions as manufacturing to warehousing. Boeing developed its latest airplane, the Boeing 777, with a portfolio of relationships among subcontractors and lead customers that were linked electronically.[25] This approach allows Boeing to devote more assets and human resources to the critical area of product design.

Access Global Markets   E-commerce provides a powerful means for B2B firms to penetrate far-flung global markets. Using the latest in IT technology, firms can exploit and expand their customer base all over the world by implementing order and procurement management systems, as well as sales, marketing, and customer support functionality.[26] By relying on an e-commerce solution, there is no need to invest in a sales force or "bricks-and-mortar" assets in every potential market—the Web provides the necessary coverage. The approach requires a highly effective Internet strategy and the logistics capacity to efficiently make products available to customers in a timely fashion. Once markets are established through e-commerce, the sales volume in a particular geographic area may, in fact, justify the presence of a sales force, offices, and logistics operations.

Crafting an E-Commerce Strategy

Developing a B2B strategy for e-commerce is no different from developing any other type of marketing strategy. The process begins with an evaluation of the company's products, customers, competitive situation, resources, and operations to better understand how all of these elements mesh with an e-commerce strategy. Figure 12.2 provides a valuable framework that outlines important strategic and tactical questions

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[24]Renee Boucher Ferguson, "E-com Gets Integration Help," *eWeek*, September 9, 2005, pp. 25–35.

[25]N. Venkatraman and John C. Henderson, "Real Strategies for Virtual Organizing," *Sloan Management Review* 40 (Winter 1999): p. 5.

[26]"E-commerce Market in Asia Still Hot after Dotcom Burst," *Xinhua*, July 31, 2002, accessed at WorldSources, Inc., Online.

FIGURE 12.2 | QUESTIONS TO GUIDE E-COMMERCE STRATEGY FORMULATION

1. Customers and Markets

What are we already doing on the Internet, and how do our activities align with customer needs?

How can we use the Internet to provide better customer service?

How can we use the Internet to make our sales channels more effective?

2. Competitive Threats

How might traditional competitors and e-business startups change market dynamics and take away market share or customers?

Will failure to act now precipitate a crisis within the next two years in any of our lines of business?

Can we ignore the Internet if our competitors are using it to gain attention and pricing advantages?

3. People and Infrastructure

Do our management teams and technical staff have the skills to run an Internet business?

What will it cost to fix weaknesses—exposed by our Internet business strategy—in our processes, infrastructure, and enterprise systems?

What are appropriate business and financial structures for managing Internet business risk?

4. Sources and Operations

Are we blinding ourselves by making assumptions based on our old way of doing business that doesn't fit with the Internet?

What are the Internet-relevant models that match ours, threaten us, or are suitable ways to conduct business?

How can we use the Internet to make supply chains more efficient?

How can we use the Internet to lower our operating costs? How long will it take?

SOURCE: "A CEO's Internet Business Strategy Checklist: The Leading Questions," *Business Technology Journal—Recent Research*, accessed at http://gartner112.gartnerweb.com on April 19, 1999.

that surround e-commerce strategies. Answering these questions helps the business marketing manager to carefully define what the firm hopes to accomplish through an e-commerce strategy and to assess several important resource issues associated with implementing the strategy.

Some business marketers find that e-commerce is becoming so sophisticated and technical that they need assistance in both creating and then managing their e-commerce efforts. As a result, many third-party companies have emerged to provide sophisticated solutions to e-commerce applications, and business marketers may find outsourcing an effective strategy. According to Stanford University's Global Supply Chain Forum, companies using outsourced B2B solutions experience a return nearly 2.5 times their annual investment.[27] A recent study showed that outsourced e-commerce strategies led to marked improvements in customer satisfaction. One other tangible benefit of outsourcing e-commerce applications is that using a single B2B solution helps to provide a single focused approach to e-commerce, thus helping to integrate multidivision companies with a common e-commerce vision.

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[27]Frank O. Smith, "Stanford Forum Unearths Big Benefits in B2B Outsourcing," *Manufacturing Business Technology* 25 (December, 2007): p. 11.

Delineating E-Commerce Objectives

A guiding principle in formulating an Internet strategy is to understand that the Internet and the associated technology are nothing more than *tools* the business marketing strategist uses in satisfying the customer at a profit: "It is not a competitive strategy or the capability to deliver the strategy."[28] Often, there is a temptation to think that the Internet can eliminate the need for salespeople, reduce expenditures on trade advertising, or totally replace traditional distribution channels and marketing intermediaries. For most firms, the Internet *supplements* the company's traditional marketing strategy, making it more effective or less costly, or both.

In the channels area, for example, many companies find it beneficial to use the Web to support their dealers' e-business efforts by providing Web-based information to them, offering Web co-op advertising dollars, and allowing the dealers to build a front-end site onto the company's site.[29] Moreover, firms have found that a sales force remains vital in forging customer relationships once an Internet strategy is implemented. In fact, the Internet can make the sales force more productive. For example, PSS WorldMedical is a huge medical products distributor with a sales force of over 700 people. The company developed a closed Customer Link system that allows customers to order products online. The system does not replace the sales force; rather, sales reps continue to earn commissions on Customer Link sales from their accounts. The salespeople can then concentrate more fully on higher-profit capital equipment sales.

Synchronizing the Web with Strategy   Just as important as enhancing effectiveness and efficiency, the Internet is often used to reach an entirely new or different target market. Many experts consider Dell the "poster child for business-to-business e-commerce" because of its legendary success in controlling costs effectively by providing custom-designed personal computers through the Internet.[30] Yet what makes Dell a great Internet marketer is its ability to take its customer-obsessed direct-sales practices and enhance them using the Web. Says Eryn Brown in *Fortune*, "There isn't anything the company does online that it doesn't do in the physical world. Yet Dell and its customers know that nothing beats the Web for taking care of the 'annoying stuff.'"[31] Dell serves as an excellent model for any B2B marketer seeking to fully synchronize an Internet strategy with its traditional salesperson-based strategy. The key to Dell's success is understanding the Internet's role and its relationship to all other elements of the firm's marketing strategy.

Specific Objectives of Internet Marketing Strategies

The Internet can be effective in providing information as well as in stimulating customer action. Internet marketing objectives resemble those of any type of communication strategy in the business marketplace. The Internet can be used to focus on cognitive objectives like stimulating awareness and knowledge of the company, creating a favorable attitude toward the firm, or stimulating the buyer to purchase. Note the Web site for "Custom-Printed Post-it Notes" displayed in Figure 12.3. In this case, 3M allows the customer to use its Web site to create the exact personalized Post-it note desired. This site also illustrates how easy it is for customers to customize the product to their

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[28]Day and Bens, "Capitalizing on the Internet Opportunity," p. 167.

[29]Ginger Conlon, "Direct Impact," *Sales & Marketing Management* 151 (December 1999): p. 57.

[30]Eryn Brown, "Nine Ways to Win on the Web," *Fortune*, May 17, 1999, p. 114.

[31]Ibid., p. 114.

FIGURE 12.3 | **3M's Web Site Makes It Easy to Personalize Post-it Notes**

requirements and place an order online to create the product. By visiting http://promote.3m.com/index.jsp;jsessionid=akURBYBb9vN8, you can experience firsthand how easy it is to use this online service. The following are some of the most common objectives that business marketers may have for the e-commerce portion of their business:[32]

1. Target a specific market or group of customers.

2. Build recognition of the company name and brands.

3. Convey a cutting-edge image.

4. Conduct market research.

5. Interact with existing customers and cultivate new ones.

6. Provide real-time information on products, services, and company finances to customers and supply chain partners.

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[32]Adapted from Neal J. Hannon, *The Business of the Internet* (Cambridge, MA: International Thomson Publishing Company, 1998), p. 210.

B2B TOP PERFORMERS

GE Healthcare: Using the Web to Create New Services

GE Healthcare discovered a way to use the Web to capture data from its medical equipment and create valuable new services for its customers. The resulting service application, called eCenter, monitors and transmits patient data from MRI machines and other GE medical equipment directly to the radiologist (the customer). In addition to enhancing a patient's care, GE can also provide valuable information that can enhance the productivity of a health-care organization. GE can analyze the data from one customer and compare it to that of other customer sites to see how productive a specific radiology department is compared with others that use the same equipment.

Building on the success of this initiative, GE has developed similar eCenter applications for other GE divisions. To illustrate, GE Power Systems customers, such as utilities, can analyze the performance of their turbines versus others in the industry. By viewing information technology as a strategic capability rather than a support function, GE is enhancing its products and co-creating new value with customers.

SOURCE: C. K. Prahalad and Venkat Ramaswamy, *The Future of Competition: Co-Creating New Value with Customers* (Boston: Harvard Business School Press, 2004), p. 223.

7. Sell products and services.

8. Sell in a more efficient manner.

9. Advertise in a new medium.

10. Generate leads for the sales force.

11. Provide a medium for customer service.

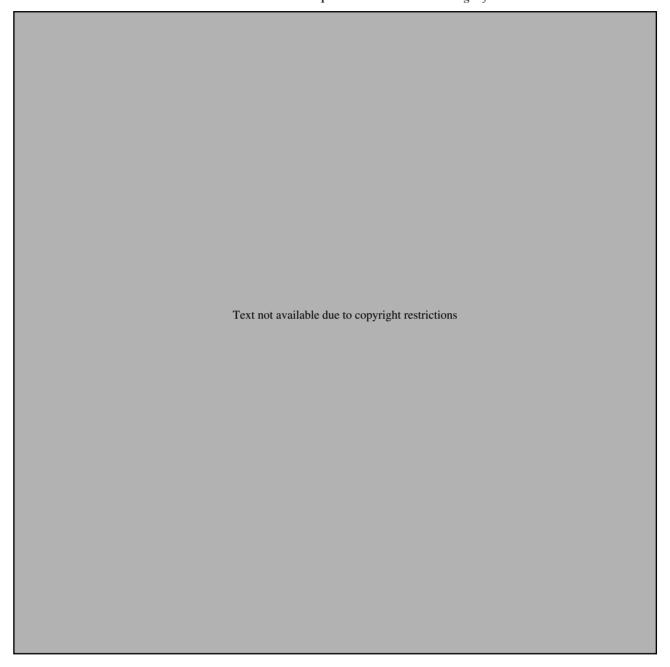12. Build strong relationships with customers.

The specific objectives for a firm's Internet business dictate the issues it must deal with in formulating its strategy. For example, if the objective is to create new sales volume, critical attention must be given to creating systems for handling transactions and providing logistical and service support. Internet strategies vary dramatically based on the objectives.

Internet Strategy Implementation

With the Internet objectives fully delineated, the business marketer is positioned to develop an Internet strategy. As with any marketing process, the Internet strategy must carefully address product, promotion, channels, and pricing. Discussion of strategy implementation begins by examining the important product-related dimensions.

The Internet Product

The Internet product is a complex array of physical elements, software, hardware, extranets, intranets, services, and information. The Web site is the major product element in a company's e-commerce strategy. Even though it may include other dimensions, the heart of an e-commerce strategy is the company's Web site, for here all interactions with the customer are most cost-effectively handled.

Text not available due to copyright restrictions

As indicated, a Web site has to be developed on the basis of a careful delineation of company objectives, and it is rare that a Web site is developed on the basis of a single objective. Thus, the design of the Web site becomes more complicated as top management articulates additional objectives. Other obvious ingredients in the planning process are the needs of the targeted Web site visitors. A focus on both dimensions assures that both the company and the customer are accommodated.

Observe from Figure 12.4 how W. W. Grainger uses its Web site to make it easy for customers to look for products and place an order. If the customer wants to browse through different product lines, that can be done with a single click. For a

INSIDE BUSINESS MARKETING

"Borrow Best Tactics From Consumer E-Commerce To Revamp Your B2B Site"

Stuck in a B2B rut? To boost lead generation and e-Commerce transactions, one marketer looked at best practices in consumer marketing. When they retooled their site, changes included:

- Adding lots more images

- Creating unique landing pages for top brand name searches

- Calculating shipping costs

The result is that site traffic increased 587%, and the new lead generation feature created millions of dollars in additional revenue. In turn, new customer segments were identified, such as universities and research labs. When Bob Schneider redesigned the Web site for Ellsworth Adhesives, an industrial adhesive and specialty chemical distributor, his goal was to boost e-commerce sales and lead generation for their field sales reps. But to achieve those B2B goals, Schneider and his team borrowed techniques from the most successful *consumer* e-commerce sites. "If you aren't thinking B2C and are just thinking you're a B2B site, you're not going to be everything you can be. A lot of the B2B sites that we looked at expected a lot of their users," says Schneider, the company's former Webmaster who now consults for Ellsworth Adhesives.

B2B purchasers are also consumers, who likely have come to expect certain things from the online shopping experience based on their personal purchases at Amazon.com and other top consumer sites. Keeping those shoppers in mind during the redesign, Schneider's team applied a consumer focus to the site's design, content, features, and search engine optimization strategy.

Tactic 1. Provide full product information and supporting documents

Tactic 2. Calculate actual shipping costs for orders

Tactic 3. Show photographs of every product

Tactic 4. Provide experts to answer questions

Tactic 5. Create unique landing pages for top brand name searches

Tactic 6. Use negative keywords to filter out consumers

SOURCE: Marketing Sherpa, accessed at http://www .marketing sherpa.com/article.php?ident=30113 on August 30, 2007.

repetitive order, the customer simply types in the product number and quantity desired. To pick up a product immediately at a Grainger location, the customer only needs to click on "find a branch."

Successful Web Site Design   To effectively develop a Web site, the designer needs to think like a user—to anticipate how the customer will use the site and the features that will make it easy to use. To use the Internet as a marketing tool, the Web site should allow customers to easily move along the sales process, provide a quick and easy way to find the product they desire, and determine whether the products fit their needs. If the site can accomplish these goals, then the next function is to ease the financial transaction. Speed, ease of use, and security are central to completing the sales transaction and meeting the customer's service expectations.

Internet Catalogs   One of the first applications of e-commerce for many business marketers that sell components, materials, and maintenance and operating resources

is to develop an electronic catalog on their Web sites. Rather than leafing through thousands of pages, the user can define exact requirements and easily locate the appropriate item in the catalog. Moreover, the catalog can be continuously updated.

As Chapter 3 indicated, many firms have embraced e-purchasing applications. They have found that electronic purchasing dramatically enhances the effectiveness of buyers and reduces the time and expense they spend searching for operating resources or nonproduction goods. Firms without Internet catalogs will probably be unable to compete in the future because of the great savings buyers can glean through e-purchasing.

Reverse Auctions   Reverse auctions, which involve one buyer and many sellers, have been embraced by purchasing managers across business market sectors, including government. Why? Many companies such as Quaker Oats and GlaxoSmithKline report millions of dollars of savings with reverse auctions compared with traditional buying methods. FreeMarkets, Inc.—now a part of Ariba—organizes reverse auctions for manufacturers like United Technologies. Here suppliers bid on purchase contracts for component parts, raw materials, and commodities. Firms that sell commodity items face the greatest threat. Experts suggest that reverse auctions can damage long-standing buyer-seller relationships.

Some purchasers have realized that continuously pressing for deeper price cuts might backfire by inhibiting collaboration. If profit margins continually decline, suppliers might be forced to consolidate, thereby enhancing their power.[33] Chapter 14 details particular strategies that the business marketer can implement with customers that utilize reverse auctions.

Private Exchanges[34]   A new form of reverse auction has emerged—private exchanges, which are invitation-only networks that connect a single company to its customers, suppliers, or both. Private exchanges can do what open exchanges (reverse auctions) could not: Since they provide secure, one-on-one communication, they enhance shared supply chain processes, such as inventory management, production planning, and order fulfillment. Some suppliers are using the process improvements generated by their participation in exchanges to build closer relationships with customers. Research suggests that private exchanges can offer competitive advantages to most large suppliers if companies understand what these networks offer and what they demand in return. Unlike open B2B marketplaces and industry consortia, private exchanges keep control in the hands of an active participant—an arrangement that helps focus activity on process rather than price. Because suppliers on a private exchange are either invited guests or hosts, buyers have already chosen to do business with them and often have completed price negotiations. In fact, a private exchange is chiefly an information exchange: Though buyers can shop for a better price elsewhere, it has been shown that they are rarely inclined to do so. Customer relationships built on trust (and supported by nondisclosure agreements) are essential if, for example, suppliers are given access to a customer's sales and inventory information and forecast product demand for that customer, assuring the delivery of goods or services as needed. Private exchanges offer promise for enhancing buyer-supplier relationships and for improving the efficiency of supply chains.

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[33]Sandy D. Jap, "An Exploratory Study of the Introduction of Online Reverse Auctions," *Journal of Marketing* 67 (July 2003): pp. 96–107.

[34]William Hoffman, Jennifer Keedy, and Karl Roberts, "The Unexpected Return of B2B," *The McKinsey Quarterly*, July 25, 2008, p. 1.

Channel Considerations with Internet Marketing

Firms that develop an Internet strategy must consider several important distribution channel issues. An Internet marketing presence requires the manager to evaluate the following: the effect on channel efficiencies, current marketing intermediaries, and information sharing among channel members; the ability to rapidly deliver product; and the need to consider the outsourcing of some key channel functions.

Channel Efficiencies   One significant benefit of B2B Internet marketing is its positive impact on efficiency in the channels of distribution. The Internet uses low-cost communications technology to automate all kinds of business transactions. As a result, much of the back-office paperwork and tasks required in dealing with channel members that once occupied the time of several employees can now be automated. By linking information systems with channel members through the Web, a firm helps intermediaries more effectively monitor inventory and the flow of goods through their warehouses.

For example, a large tool distributor uses an e-commerce platform from *PartsWatch*.[35] The architecture enables many innovative benefits like central price updating and automatic catalog updates—without the need to send or receive disks. The primary effect on the channel is that a company has real-time information on demand at every level of distribution. Customers can use the system to direct and manage the channel and efficiently provide real-time central services for all channel partners. These types of networks allow purchase order transactions, order acknowledgments, and shipment notices to flow seamlessly between distributors and their suppliers.

Effect on Current Intermediaries   Internet strategies pose interesting questions about the structure of a firm's distribution channel. Depending on the nature of the manufacturer's Internet strategy, the role of current channel members may be expanded, unchanged, or dramatically reduced. The key variable is how much value the channel member adds to the process of marketing and physically distributing products. In some instances, the channel members may be called on to serve target markets that cannot be effectively covered through an Internet approach. Traditional channel members have often been relegated to the role of serving very small niche markets that cannot be efficiently served through direct or Internet marketing approaches. Others have been able to expand their role because of a manufacturer's new Internet strategy. Because many Internet transactions involve one or a few items, a real need exists for someone to handle the process of physically fulfilling orders, and hence a new opportunity is presented to a distributor who can perform this function effectively.

Disintermediation   Because the Internet improves connectivity among firms, it dramatically reduces the cost of communication and coordination in exchange transactions. In a networked channel, firms can bypass intermediaries who have traditionally facilitated the flow of information and goods between firms and their customers. This situation is referred to as **disintermediation**, and indications are that it is taking hold in several B2B sectors. Large travel agencies that sell airline tickets to corporate accounts are experiencing disintermediation as airlines have created their own Web sites that provide as much or more information to the corporate traveler as did the

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[35]Chris Miller, "E-commerce Advances," *Aftermarket Business* 115 (September 2005): p. 14.

agencies. Itineraries, including hotels, rental cars, and airline tickets, can be arranged with the click of a mouse, and payment can be processed through a secure channel right on the Web site. In fact, because of the success of these Internet strategies, the airlines have reduced or eliminated travel agent commissions, forcing many to either go out of business or focus on leisure travel segments.

The Internet as a Channel Alternative

The Internet can be a very effective "channel" of distribution for reaching selected target markets. Rarely do business marketers rely solely on the Internet as their only approach for contacting customers and consummating sales. Rather, the Internet is but one channel or method for doing business with target markets. At AMP, the large manufacturer of electronic connectors, its Internet catalog complements traditional channels such as the sales force, distributors, and in-house customer service representatives. The catalog simply gives customers another avenue for doing business with the company.[36]

In some cases, the Internet is particularly effective for "distributing" certain types of products like software and written material. The software industry pioneered the use of the Internet for product distribution. Computer software firms like Adobe Systems and Microsoft take advantage of the new Web distribution channels to sell and distribute software electronically. The advantage is that companies of any size, with very small marketing budgets, can take advantage of the Web to create and distribute new products. Anything that can be digitized can be transmitted over the Internet, which offers numerous advantages to marketers desiring to distribute printed materials. In short, the Internet broadens the reach of marketers, providing them with an efficient channel to serve customers on a global scale.

Digital Channel Advantages   By providing an effective mechanism for contacting potential buyers, the Internet offers some advantages over traditional channels of distribution for business products. According to Judy Strauss and Raymond Frost, the Internet adds value for several reasons:[37]

1. The contact can be customized to the buyer's needs.

2. The Internet provides a wide range of referral sources such as Web pages, search engines, shopping agents, newsgroups, chat rooms, and e-mail.

3. The Internet is always open for business: Buyers can contact the site 24 hours a day, seven days a week.

Using the Internet, business marketers can create customized solutions for customers. For example, Staples (http://www.staples.com) offers customized catalogs for its corporate clients. Such a strategy would be costly to implement through traditional channels. The Internet provides Staples with unparalleled flexibility in creating just the type of catalog a particular organization desires. Other firms have developed

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[36]Jim Kesseler, "Defining the Future of Business-to-Business Electronic Commerce," *Journal of Global Information Management* 6 (1, 1999): p. 43.

[37]Judy Strauss and Raymond Frost, *Marketing on the Internet* (Upper Saddle River, NJ: Prentice Hall, 1997), p. 168.

online stores to more efficiently reach small and medium-sized businesses that are unprofitable for resellers. The Internet channel, if targeted properly and integrated with traditional channel partners, can be a cost-effective approach for serving selected business market segments.

The Effect of the Internet on Pricing Strategy

By providing buyers with easier access to information about products and suppliers, the Internet bolsters the buyer's bargaining power. The major impact has been to substantially reduce the business marketer's control over price. Says Michael Porter,

> The great paradox of the Internet is that its very benefits—making information widely available; reducing the difficulty of purchasing, marketing, and distribution; allowing buyers and sellers to find and transact business with one another more easily—also makes it more difficult for companies to capture these benefits as profits.[38]

Where sellers may have enjoyed selected geographical advantages because of the lack of nearby competition, the Internet has opened up markets to many new suppliers, resulting in downward pressure on prices. The pressure on price is particularly severe for any products or services that buyers perceive as "commodities." These are precisely the types of items for which buyers are using reverse auctions. The net effect is that business marketers of raw materials, components, and supplies that can be priced and sold on the Internet must carefully rethink their pricing approach by developing a more efficient way of competing on price or by creating new service-enriched offerings that add value in the eyes of potential customers.

The Internet and Customer Communication

The Internet expands the business marketer's communication capabilities. Providing real-time, up-to-date, low-cost information is one of the salient features of an Internet strategy. Within seconds and with a few keystrokes, an entire database can be corrected, updated, and appended, and the information can be shared with potential buyers all over the world. The scope of the communications capability of the Internet is illustrated by the different phases of electronic commerce through which companies typically move.[39] At the most basic level, a firm might offer simple *online information*, like their product catalog, facilitating access to information and enhancing product search capabilities. The limitation is the inability to help the user search for information on the basis of predefined criteria—the catalog simply exists in an electronic format. In the next phase of e-commerce, *database publishing*, the user is provided with search capabilities. Using a search engine, the customer can scan the catalog database and target particular requirements. The third phase, *customer self-service*, provides customized information for specific users. Here customers can download search-assisted catalogs and service diagnostics, along with information on

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[38]Porter, "Strategy and the Internet," p. 66.

[39]Kesseler, "Defining the Future of Business-to-Business Electronic Commerce," p. 43; see also, D. Eric Boyd and Robert Spekman, "Internet Usage Within B2B Relationships and Its Impact on Value Creation: A Conceptual Model and Research Propositions," *Journal of Business-to-Business Marketing* 11 (1–2, 2004): pp. 9–32.

price and product availability. The final, and most complex, phase of e-commerce, *transactions*, provides for full transactions, from information gathering to purchase to fulfillment to billing to secure payment, all in a single environment.

These categories of Internet communication capability match directly with a recent study of what typical engineers look for when browsing the Web. According to a GlobalSpec Engineering Trends Survey, 91 percent of engineers use the Internet to find components and suppliers, 87 percent use it to obtain product specifications, 72 percent use it for news and information, 68 percent use it for research, 64 percent use it to find pricing information, and 60 percent use it to search for technical application ideas.[40] As this study demonstrates, the Internet is a powerful communication tool that can deliver desired information to customers at a critical point in the purchase decision-making process.

Meet the Customer's Requirements   Compared with traditional, paper-based approaches, each phase or level of e-commerce improves the way business marketers interact with their customers and potential customers. Reflecting this fact is the recent move of the venerable *Thomas Register* to online availability *only*.[41] The Thomas Publishing Company will no longer print its multivolume directories—the *Thomas Register of American Manufacturers* and *The Thomas Register of Regional Buying Guides*—which have been staples for decades at North American industrial facilities. After 2006, Thomas—which was founded more than 100 years ago—will make these directories available exclusively online at http://www.thomasnet.com. The move to online directories resulted from requests from customers. Increasingly, users were opting against the print format and for the online version because the online directories offer search functionality, immediate access to vendor catalogs, direct links to vendor Web sites, e-commerce capability, and a library of CAD drawings. ThomasNet.com contains information on more than 650,000 manufacturers, distributors, and service companies indexed by 67,000 product and service categories.

Of course, Internet communication often merely complements personal contact between buyers and sellers, particularly for complex, expensive products that require customer-specific engineering and customization, extensive negotiations, and long-term contractual arrangements. For example, Boeing's Web site is used more to describe the company and how it is organized, explain each of its aircraft models, describe and explain the firm's full range of services, and outline how potential buyers can work with the company in creating a product for their specific requirements. However, for many firms that market supplies, standard components, repair parts, and the like, e-commerce provides the greatest potential for reducing transaction costs while making marketing communications more efficient and effective.

To recap, the Internet is just one component of the business marketer's overall strategy: It simply extends the firm's reach, and it must be integrated into the overarching strategy the firm uses to reach and interact with its customers. Even at Dell, where the firm operates at the phase-four level of e-commerce—full transaction capability—the Internet is just one approach to the marketplace. According to Chairman Michael Dell, "We work with customers face-to-face, on the telephone,

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[40]Greg Jarboe, "Meet The B2B Search Engines," *Search Engine Watch*, September 29, 2005, p. 1.

[41]Sean B. Callahan, "Thomas Plans to Drop Print Directories," *B to B* 90 (June 2005): p. 6.

or over the Internet. Depending on the customer, some or all of those techniques will be used; they're all intertwined."[42]

The Role of the Sales Force   Many firms find that the Internet simply makes sales representatives more effective because they can concentrate on solving customer problems and building customer relationships. The Internet streamlines the sales process and eliminates order-processing details for customers and salespersons alike. Although the Internet will supplant some sales that were once the province of the sales force, Internet strategies generally *support* sales-force efforts. By using customer relationship management systems (CRM) (see Chapter 4), the salesperson can customize presentations, respond to specific customer idiosyncrasies, and fend off competitive challenges. Successful companies have developed approaches for integrating sales-force strategies with Internet strategies and for compensating salespeople so that they support online initiatives.[43]

Promotion   To capitalize on the investment in creating and maintaining a Web site, promotions highlighting a site need to be run frequently and in a variety of media to stimulate use. An 18-month analysis of small-, medium-, and large-company B2B Web sites indicated that the number of hits is directly related to the amount of off-line advertising and sales promotion.[44] Advertising in trade publications and handouts at trade shows and conferences appear to be especially effective in stimulating the use of business Web sites. Based on the success of leading search engines like Google and Yahoo, keyword advertising has also become a central element in the promotional budgets of B2B firms—reaching potential customers at a critical point in the purchase decision process. Search-engine marketing and other interactive marketing communication tools are examined in Chapter 15.

For business marketers, the Internet provides a powerful vehicle for demonstrating the value of offerings and customizing them for individual customers. Rosabeth Moss Kanter states that e-commerce pacesetters "embrace the Internet as an opportunity for questioning their existing models and experimenting with new ways technology can improve their businesses."[45]

Summary

Business marketers of all types, whether manufacturers, distributors, or service providers, are integrating the Internet and electronic communications into the core of the business marketing strategies. *E-commerce* is the broad term applied to communications, business processes, and transactions that are carried out through electronic technology—mainly the Internet. E-commerce can be applied to almost any aspect of business to make all processes more efficient. Based on Internet technologies, an intranet is an internal network accessible only to company employees and other authorized users. By contrast, an extranet is a private network that uses Internet-based

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[42]*Financial Times Guide to Digital Business* (Autumn 1999), p. 11.

[43]Stewart Alsop, "E or Be Eaten," *Fortune*, November 8, 1999, p. 87.

[44]Carol Patten, "Marketers Promote Online Traffic through Traditional Media, with a Twist," *Business Marketing* 84 (August 1999): p. 40.

[45]Rosabeth Moss Kanter, "The Ten Deadly Mistakes of Wanna-dots," *Harvard Business Review* 79 (January 2001): p. 99.

technology to link companies with suppliers, customers, and other partners. Extranets allow the business marketer to customize information for a particular customer and to seamlessly share information with that customer in a secure environment.

For business marketers, the Internet has been effective as a powerful communication medium, an alternative channel, a new venue for a host of services, a data-gathering tool, and a way to integrate the supply chain. To be successful, the Internet strategy must be carefully woven into the fabric of the firm's overall marketing strategy. The Internet offers important benefits, including reduced transaction costs, reduced cycle time, supply chain integration, access to information, and closer customer relationships. Given the failure of many dot-com companies, the lesson for business marketers is that the Internet is an enabling technology—a powerful set of tools that complements, rather than replaces, traditional ways of competing.

The e-commerce strategy must be carefully crafted, beginning with a focus on objectives. Once a firm has established objectives, it can formulate an Internet strategy. Included in the strategy is a consideration of the product-related dimensions of the Internet offering, the most visible of which is the firm's Web site. Extranets, electronic catalogs, and customer information must also be integrated into the "product." Several fundamental channel-of-distribution issues must be evaluated, including the effect of the Internet on present channels and channel partners, channel efficiencies, and the Internet as a separate channel to the market. Pricing issues are also significant, particularly in light of the effect of trading communities and auction sites. Finally, marketing communication strategies consider the extent to which the firm provides transactional capabilities on the Web site and how the Internet strategy is integrated with other promotional vehicles. To an important degree, the Internet provides a powerful medium for developing a one-to-one relationship with business market customers.

Discussion Questions

1. How do the different definitions of e-commerce apply to the marketing tasks of a typical business marketer?

2. Discuss how Internet buying may lower the cost of procurement for a large company like Raytheon, the manufacturer of business aircraft.

3. What advantages do Internet marketing strategies have over traditional strategies?

4. A large industrial distributor of power transmission equipment embarks on a project to develop an e-commerce strategy. What lessons could it learn from consumer marketers in the design and operation of its Internet site?

5. The Crespy Company makes control systems that regulate large gas turbine engines. Describe the key elements of the Internet product Crespy might develop for its customers.

6. Find a business marketing company's Web site and evaluate how easy it is for a potential customer to move through the site and eventually purchase a product.

7. What are the key challenges that electronic purchasing via electronic catalogs pose for the typical marketer of office products?

8. Evaluate this statement: The most important determinant of the profit potential of a digital marketplace is the power of buyers and sellers in the particular product arena. Agree or disagree? Explain.

9. Comment on the following: Internet marketing strategies will eventually wipe out most business-to-business intermediaries.

10. Will the Internet result in stiffer price competition in the business-to-business marketplace? Explain.

Internet Exercise

1. Many B2B firms use Google's AdWords product as a component of their integrated marketing communications strategy. Go to http://www.google.com and describe the benefits this product might offer to a B2B firm. Describe how Xerox Corporation might use AdWords to reach prospective customers for its new line of network color printers.

Using the Internet at W. W. Grainger

W. W. Grainger is one of the largest B2B distributors in the world. With nearly 600 branch locations throughout North America, over 2 million customers, 1,900 customer service associates, and a robust line of 500,000 products (tools, pumps, motors, safety and material handling products, and lighting, ventilation, and cleaning items), Grainger is the leading industrial distributor of products that allow organizations of all types to keep their facilities and equipment running smoothly. Grainger's objective is to grow by capturing market share in the highly fragmented North American facilities maintenance market. For the longer term, the company is focused on these goals:

Accelerate sales growth and increase market share by

- capturing a greater share of the business of existing accounts;
- targeting high-potential customer segments.

Increase operating leverage through

- accelerating sales growth;
- targeting high-potential customer segments;
- reconfiguring the logistics network to improve efficiency and customer service;
- enhancing internal processes with technology.

Improve return on invested capital by

- growing those business units that earn more than the cost of capital;
- improving the profitability of business units that earn less than the cost of capital.

Its large sales force and product line allow Grainger to meet customer needs in a highly responsive manner. From its nearly 600 branch locations, products can be delivered to customers within hours of a call. In 2008, the company's major strategic focus was on offering a multichannel approach for purchasing maintenance and operating supplies. This involved providing consistent service through its branches, service centers, and distribution centers. Investments in sales training and a revamped logistics/distribution network were at the heart of this effort. The company's goal of "zero carryovers"—meaning that all orders received by 5:00 p.m. are shipped that day—is very demanding and provides a severe challenge to regularly achieve. Grainger was recently cited by *Industrial Distribution Magazine* as "the strongest brand in the industrial distribution industry—because customers believe Grainger can get them what they need when they need it, you can find a Grainger catalog in virtually every purchasing agent's office in North America." In 2007, Grainger was ranked 375th on the *Fortune* 500 list and was included in *Fortune*'s list of "Most Admired Companies."

Discussion Questions

1. What role would the Internet play in Grainger's strategy, given the firm's past success, the nature of its product line (rather "'stodgy" basic industrial items), the organization of the firm (a 500,000-item catalog, a 1,900-person sales force, and 600 branch locations), and 2 million customers? Visit http://www.grainger.com to see the special services that Grainger offers on its Web site.

2. By providing a very brief description of 500,000 items, a Grainger catalog is massive—weighing several pounds. In the past, Grainger executives worried that the catalog could get too heavy for the average person to lift and, therefore, limited product descriptions to a couple of lines. Go to the firm's Web site, select a particular item, and evaluate the extensive amount of information that is now accessible for each item on the Web.

3. Internet sales for Grainger are the most profitable of all types of sales in its business. In addition, Internet sales account for about 20 percent of its total volume. Explain why Grainger would have such high volume for Internet sales and why these sales are more profitable than those made through conventional methods.