Business is like riding a bicycle. Either you keep moving or you fall down.

JAMES BEASLEY SIMPSON

Marketing in the Internet age

CHAPTER four

Chapter objectives

After reading this chapter, you should be able to:

- Identify the major forces shaping the new digital age.
- Explain how businesses have responded to the Internet and other powerful new technologies with e-business strategies and how these strategies are beneficial to both buyers and sellers.
- Describe the four major e-commerce domains.
- Discuss how marketers conduct e-commerce in ways that profitably deliver value to customers.
- Overview the promise and challenges that e-commerce presents for the future.

Mini Contents List

SOURCE: Advertising Archives.

Prelude case Cool Diamonds: are they forever?

The company

Turning Cool Diamonds into the largest Internet-based jewellers in Europe has been an incredible journey for the Einhorn family. The glamorous world of diamond trading is in the blood of the founder of Cool Diamonds' Michel Einhorn. But it was the spilling of blood that prompted his father, Kurt, to become a diamond trader and later inspired his son to follow him into the family business, based in Antwerp.

At the age of 12, Kurt had escaped with his mother from a train bound for Auschwitz. He was hiding among the sacks on a coal merchant's cart, when a border guard began prodding the pile with his bayonet and struck Kurt's hand. But Kurt did not move a muscle and the pair escaped over the border into Switzerland. His mother had used a diamond ring worth £5,000 (€7,500) in today's money, hidden in her hair, to bribe the coal merchant – this saved their lives.

Diamonds are the ultimate statement of ardour and affection.

With 300 members of his family now working in the diamond business based in Belgium, Michel Einhorn has the right credentials when it comes to selling diamond jewellery, as well as a ready supply of high quality gems.

Based in London's Hatton Garden, Michel came up with the innovative idea of selling diamonds on the Web. Together with partner Chris O'Farrell, they formed Cool Diamonds in 1999.

E-diamonds: luxury that won't cost the earth

Diamonds are the ultimate statement of ardour and affection. Diamond jewellery makes a breathtaking gift. But they're not just a girl's best friend. Today, young trendies – from Britney Spears and Mel C to David Beckham and Denise Van Outen – are flashing their belly-button studs and ear studs.

The Internet is changing the face of diamond purchasing. By keeping abreast with the most up-to-date technology supporting the Web, and using the latest JSP-xml language, information loads twice as fast as that of their main US competitor, Bluenile, while remaining accessible to large companies using protective computer firewalls. The cooldiamonds.com site gives customers a three-dimensional view of a piece of jewellery. According to Michel, 'With just one click of the mouse, you can drag the piece from the left and to the right as it rotates before your eyes – the only thing you cannot do is touch it!'. The site now attracts more than 3.1 million hits a month and sells thousands of euros worth of beautiful designer pieces at the click of a button – without the purchaser ever having set eyes on the jewel before it drops on to their doormat. However, it is also possible for the potential customer to make an appointment to visit the Hatton Garden offices if a personal viewing is preferred.

On cooldiamonds.com, visitors can choose from an ever-expanding range of jewellery, including navel studs and toe rings as well as the more conventional bracelets, rings, earrings and pendants. All combine classic elegance with modern design. Cool Diamonds takes the mystique out of diamond buying. Customers can select a design they like and then separately specify the stone according to the four Cs: cut (shape), clarity (from flawless to severely blemished), colour (from white to dirty yellow) and carat (size). There is a fifth C – cost. If they click on 'more expensive', it will go up first by size. If it is too expensive, they can change the clarity or the colour. Customers have more choice because they can select a piece of diamond jewellery 'off-the-peg' or have Cool Diamonds create a bespoke piece just for them.

However, choice is not the only benefit that Cool Diamonds offers customers. A purchase from Cool Diamonds offers good value for money because prices are kept low as there are no expensive overheads, such as prestigious retail premises to maintain. In addition, traditional retail prices carry a huge mark-up, typically reflecting the cost of centrally located outlets, massive stocks and the long chain of middlemen (dealers, cutters, jewellery manufacturers) involved in the trade (also called the diamond pipeline). Moreover, the stock does not need to be duplicated as it is kept in one central location. As such, it can offer the public better value – about 40 per cent of high-street prices. Customers can pay with a credit card over the Internet, which is simple and secure, or they can make a purchase by telephoning Cool Diamonds direct. All diamonds are independently certified, and purchasers have a 10-day money-back guarantee if they change their mind.

Cool Diamonds bucks the trend . . .

While doom and gloom surrounds the luxury goods market, Cool Diamonds is experiencing a huge growth in hits on the site with sales to match. Within three years of setting up online, Cool Diamonds became profitable and has since added to its credibility as the leading designer diamond jewellery site by linking up with well-known names in the world of fashion.

The company is always looking for fresh talent to design for the site. When it undertook a commission from Jasper Conran, the British designer of 'modern classicism', to design stunning accessories for the site, hits on the site shot up to an incredible 853,000 a month, with increased sales. Cool Diamonds also works in partnership with the prestigious Central Saint Martins College of Art and Design. In 2002, the Cool Diamonds Award was launched: an annual presentation aimed at rewarding the best of the up-and-coming British design talent. In 2003, the award went to 22-year-old design student Franky Wongkar of Indonesia for his 'organically' inspired design for a pair of diamond earrings. In 2004, the award focused on pendants. Winning designs are available for sale from the Cool Diamonds website. In addition, since it purchased the *Atelier* collection of haute couture diamond jewellery designed by the late Gianni Versace, the site has attracted more than 1.3 million hits a month, providing an innovative sales outlet for a superb collection of rings, bracelets, necklaces and earrings, retailing from £3,000 to £30,000.

Cool Diamonds forever

Cool Diamonds appears to be doing a good job persuading people that diamonds are forever. They have used a unique combination of skills that underpin their business rather than the millions of pounds of venture funding behind other, now failed, Internet sites. 'We are thriving', says Michel Einhorn.

Cool Diamonds grew the business naturally and has seen a steady increase in hits and sales, which have trebled over the past two years. Creative use of public relations has enabled the company to expand consumer awareness as well as fostering excellent relations with the fashion press. In the past, Cool Diamonds benefited from the positive endorsement given by the UK's Consumers' Association in its *Which*? magazine. However, Cool Diamonds had restricted their advertising spend, relying mainly on word-of-mouth (or word-of-Web) recommendations and PR to communicate their 'sparkle' to the public. It is highly rewarding from the company's perspective to have *Vogue*, *Tatler* and the FT writing features about Cool Diamonds. As the business is growing, the company has recently decided to reinvest all profits in a serious advertising campaign to drive future growth.

In a bid to replicate its success in the UK, Cool Diamonds has also opened an office in France. However, the Cool Diamonds French operation has yet to make a strong impact, with the site attracting around 150,000 hits a month. The founding partners believe that there are lessons to be learnt from the rapid decline of pan-European e-tailer Boo.com – mismanagement as well as trying to expand too quickly without taking time to build local teams. In the UK, customers seem to have developed a strong taste for diamonds, and many are happy to buy through the Internet. However, French consumers appear less than enthusiastic about buying diamond jewellery online.

In the last few years, the company has revolutionised the way in which diamonds are bought. Gone is the mystique. In its place, customers are offered an Internet site that is design-led, fast, friendly and safe, offering an unprecedented amount of choice to a worldwide client base. Meanwhile, as business in the UK booms, Michel Einhorn has to determine how best to proceed to ensure Cool Diamonds, like their stones, will be forever.[1]

Cool Diamonds have revolutionised the way in which diamond jewellery can be purchased.
SOURCE: Molly McKellar Public Relations, London.

Questions

1. Evaluate Cool Diamonds' marketing approach to date. Identify the major factors that have influenced its success. What problems do you see with their current approach?
2. What are the major challenges facing Cool Diamonds in the future?
3. What marketing recommendations would you make to Cool Diamonds, taking into account the ways in which Cool Diamonds can attract people to visit their website and to eventually buy expensive diamond jewellery through their site?
4. Is it a good idea for Cool Diamonds to reinvest all profits in a serious advertising campaign to compound its future growth? Explain your answer. What steps might the company take to sustain planned growth in the UK and its overseas markets?

Introduction

In Chapter 3, we addressed the major environmental forces that affect marketing strategy and practice. We saw why and how marketing strategy and practice have undergone dramatic change during the past decade. One of the major forces in the macroenvironment that challenges marketing strategy and practice is technological change. Indeed, major technological advances, including the explosion of the Internet, have had a major impact on buyers and the marketers who serve them. To thrive in this new Internet age – even to survive – marketers must rethink their strategies and adapt them to today's new environment. Our prelude case – Cool Diamonds – shows how companies have responded to the sweeping changes in the marketing landscape that are affecting marketing thinking and practice.

Recent technological advances, including the widespread use of the Internet, have created what some call a New Economy. Although there has been widespread debate in recent years about the nature and even the existence of such a New Economy, few would disagree that the Internet and other powerful new connecting technologies are having a dramatic impact on marketers and buyers. Many standard marketing strategies and practices of the past – mass marketing, product standardisation, media advertising, store retailing, and others – were well suited to the so-called Old Economy. These strategies and practices will continue to be important in the New Economy. However, marketers will also have to develop new strategies and practices better suited to today's new environment.

In this chapter, we first describe the key forces shaping the new Internet age. Then we examine how marketing strategy and practice are changing to meet the requirements of this new age.

Major forces shaping the Internet age

Many forces are reshaping the world economy, including technology, globalisation, environmentalism and others. Here, we address four specific forces that underlie the new digital era (see Figure 4.1): digitalisation and connectivity, the explosion of the Internet, new forms of intermediaries, and customisation and customerisation.

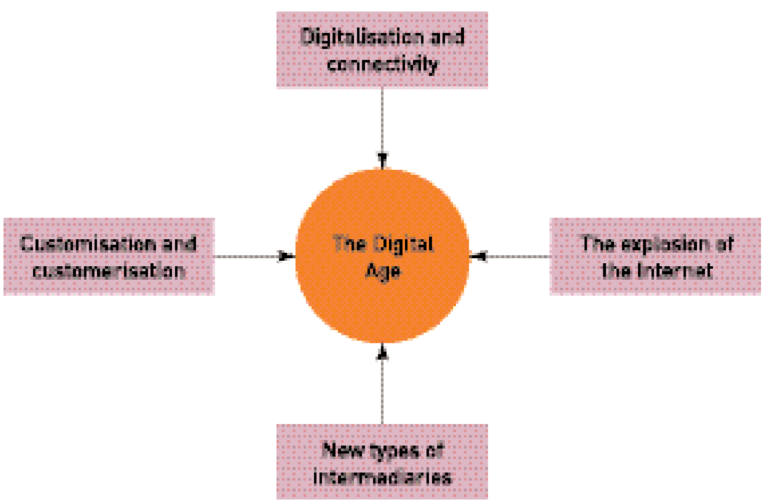


Figure 4.1 Forces shaping the Internet age

Digitalisation and connectivity

Many appliances and systems in the past – ranging from telephone systems, wrist watches and musical recordings to industrial gauges and controls – operated on analogue information. Analogue information is continuously variable in response to physical stimuli. Today a growing number of appliances and systems operate on *digital information*, which comes as streams of zeros and ones, or *bits*. Text, data, sound and images can be converted into *bitstreams*. A laptop computer manipulates bits in its thousands of applications. Software consists of digital content for operating systems, games, information storage and other applications.

For bits to flow from one appliance or location to another requires *connectivity*, a telecommunications network. Much of the world's business today is carried out over networks that connect people and companies. *Intranets* are networks that connect people within a company to each other and to the company network. *Extranets* connect a company with its suppliers, distributors, and other outside partners. And the **Internet**, a vast public web of computer networks, connects users of all types all around the world to each other and to an amazingly large information repository. The Internet makes up one big 'information highway' that can dispatch bits at incredible speeds from one location to another.

Internet (the Net)—A vast public web of computer networks connecting users of all types all around the world to each other and to a large 'information repository'. The Internet makes up one big 'information highway' that can dispatch bits at incredible speeds from one location to another.

The Internet explosion

With the creation of the World Wide Web and Web browsers in the 1990s, the Internet was transformed from a mere communication tool into a certifiably revolutionary technology. During the final decade of the twentieth century, the number of Internet users worldwide grew to almost 400 million. By 2003, Internet penetration in the United States had exceeded 66 per cent. Although the dot-com crash in 2000 led to cutbacks in technology spending, research suggests that the growth of Internet access among the world's population will continue to explode. Internet penetration in the European Union countries varies as shown in Table 4.1. It is highest in Sweden, reaching 76.9 per cent by January 2004, followed by The Netherlands with 66.0 per cent penetration and Denmark with a penetration rate of 62.5 per cent. Internet use in the old 15-nation EU has grown 97.2 per cent between 2000 and 2004, while the new EU members report a whopping increase of 155.1 per cent over the same period. As Table 4.1 shows, there are now over 184 million Internet users in the expanded EU, representing an overall growth of 102.3 per cent between 2000 and 2004. According to Internet World Stats, the number of Web surfers worldwide reached nearly 700 million by 2004 and is expected to approach 1.5 billion by 2007.[2]

Internet access via mobile phones is also growing in popularity, with mobile terminal access in Europe increasing to 300 million users by 2004, compared to 200 million users using PC-based access.[3]

Mobile marketing is taking off as forward-thinking companies have begun to use short messaging service (SMS) to promote their products and services. Examples include HarperCollins (books), Twentieth Century Fox (films), Cadbury's (confectionery) and McDonald's (fast food). Independent research carried out for the UK's Mobile Marketing Association (MMA) suggests that, far from being annoyed by advertising on their phone, consumers like it. According to the research, carried out among a sample of 705 respondents in the UK, Germany and Italy, 43 per cent of respondents said they felt that the messages they received via SMS have a positive impact on the advertised

Table 4.1 Internet usage, growth and penetration in the European Union (March 2004)
SOURCE: Reproduced from Internet World Stats (www.internetworldstats.com); p. 178. Demographic data from World Gazetter, www.gazettezer.de; usage from Nielsen/NetRatings, www.nielsen-netratings.com, ITU, www.itu.net, and local NICs.

European Union	Internet users, latest data	Use growth (2000–2004)	Penetration (% population)
Austria	3,340,000	59.0%	41.6%
Belgium	3,769,123	88.5%	36.4%
Denmark	3,375,850	73.1%	62.5%
Finland	2,650,000	37.5%	50.7%
France	22,199,080	161.2%	37.3%
Germany	44,842,759	86.8%	54.3%
Greece	1,704,900	70.5%	15.2%
Ireland	1,319,608	68.3%	32.8%
Italy	19,900,000	50.8%	35.4%
Luxembourg	165,000	65.0%	36.0%
Netherlands	10,806,328	177.1%	66.0%
Portugal	2,000,000	−20.0%	19.2%
Spain	13,600,467	152.4%	32.5%
Sweden	6,913,676	70.8%	76.9%
United Kingdom	34,765,774	125.8%	58.8%
10 new Member States of the EU			
Cyprus	210,000	75.0%	22.1%
Czech Republic	2,600,000	160.0%	25.3%
Estonia	444,000	21.1%	35.9%
Hungary	1,600,000	123.8%	15.8%
Latvia	310,000	106.7%	13.7%
Lithuania	500,000	122.2%	14.3%
Malta	82,900	107.3%	21.6%
Poland	8,800,000	217.1%	23.3%
Slovakia	862,800	32.7%	16.0%
Slovenia	750,000	150.0%	38.4%
European Union	168,012,565	98.4%	44.2%
New members EU	16,239,700	155.1%	21.9%
Total EU (May 2004)	184,252,265	102.3%	40.6%

brand, with only 7 per cent expressing a negative opinion. Sixty-eight per cent of respondents would most likely or definitely recommend that friends receive such messages, and 43 per cent said they would be likely to respond by viewing an ad or visiting the website. But the key to mobile marketing success is to ensure that permission is gained from potential customers who have opted in to receive SMS ads from marketers. Companies who have successfully deployed mobile marketing acknowledge that another ingredient for success is to ensure two-way advertising through implementing interactive campaigns.[4] ”

The proportion of Internet users who conduct online shopping remains relatively low compared to those using conventional sales outlets at the moment, but e-commerce is growing very fast. The proportion of Internet sales to total retail sales varies across the

European markets. According to figures from IMRG, the e-tailing trade body in the UK, the UK online retailing sector outperforms that of its European rivals. In the UK, Internet retail sales grew by 7 per cent between 2002 and 2003, compared to 3.6 per cent reported for all retail sales. Data collected by Visa, the credit card company, suggests that the UK had the lion's share of goods bought online with the credit card.[5]

This explosive worldwide growth in Internet usage forms the heart of the so-called New Economy. The Internet has been *the* revolutionary technology of the new millennium, empowering consumers and businesses alike with blessings of connectivity. For nearly every New Economy innovation to emerge during the past decade, the Internet has played a starring – or at the very least a 'best supporting' – role. The Internet enables consumers and companies to access and share huge amounts of information with just a few mouse clicks. Recent studies have shown that consumers are accessing information on the Internet before making major life decisions. One in three consumers relies heavily on the Internet to gather information about choosing a school, buying a car, finding a job, dealing with a major illness or making investment decisions. As a result, to be competitive in today's new marketplace, companies must adopt Internet technology or risk being left behind.[6]

New forms of intermediaries

New technologies have led thousands of entrepreneurs to launch Internet companies – the so-called dotcoms – in hopes of striking gold. The amazing success of early Internet-only companies, such as AOL, Amazon.com, Yahoo!, eBay, E*Trade, and dozens of others, struck terror in the hearts of many established manufacturers and retailers. For example, computer manufacturers such as Compaq Computer, which sold its computers only through retailers, worried when Dell Computer grew faster by selling online. Established store-based retailers of all kinds – from bookstores, music stores and florists to travel agents, stockbrokers and car dealers – began to doubt their futures as competitors sprung up selling their products and services via the Internet. They feared, and rightly so, being *disintermediated* by the new e-tailers – being cut out by this new type of intermediary.

The formation of new types of intermediaries and new forms of channel relationships caused existing firms to re-examine how they served their markets. At first, the established *brick-and-mortar* firms, such as Tesco, Marks & Spencer, Barnes & Noble and NatWest Bank, dragged their feet, hoping that the assaulting *click-only* firms would falter or disappear. Then they wised up and started their own online sales channels, becoming *click-and-mortar* competitors. Ironically, many click-and-mortar competitors have become stronger than the click-only competitors that pushed them reluctantly onto the Internet (see Marketing Insights 4.1). In fact, although some click-only competitors are surviving and even prospering in today's marketplace, many once-formidable dotcoms, such as eToys, Webvan, Pets.com, Garden.com, and Mothernature.com, have failed in the face of poor profitability and plunging stock values. Other notable dotcom casualties include Swedish-founded Letsbuyit.com, the pan-European business-to-consumer (B2C) retailer selling a comprehensive range of goods from diamond necklaces to electronic equipment, and Intershop, the much-hyped German software company.[7]

Customisation and customerisation

The Old Economy revolved around *manufacturing companies* that mainly focused on standardising their production, products and business processes. They invested large sums in brand building to promote the advantages of their standardised market offerings. Through standardisation and branding, manufacturers hoped to grow demand and take advantage of economies of scale. As a key to managing their assets, they set up command-and-control systems that would run their businesses like machines.

In contrast, the New Economy revolves around *information businesses*. Information has the advantages of being easy to differentiate, customise, personalise and send at incredible speeds marketing insights

4.1 The new dotcom landscape

It's summer 2003, five years on from the launch of Internet service provider Freeserve and the first meetings of the First Tuesday dotcom networkers, and only about 40 people have shown up at a London hotel for Upstart Europe, an annual conference on start-ups and trends.

The absence of dotcoms on the agenda is also instructive. There are only two venture capitalists in the audience and the scope of the conference is widened to include more biotech and life sciences. 'If you look at the VC [venture capital] scene, it's like a hurricane has passed and there's a lot of debris', says Jerome Mol, entrepreneur and conference organiser.

Eventually, 160 people turn up and Mr Mol draws a parallel with the first stirrings of summer. 'The number of deals and financing was extremely low in the first five months of the year but since then it has been ramping up tremendously', he says. 'It's definitely bottomed out. It's been a rollercoaster but we've survived.'

Elsewhere, Mark Rogers, a dotcom chief executive, is giving his annual speech to school leavers at Westminster School. Even the mood of the sixth-formers reflects a sea change in their expectations. 'A year ago, they were still asking me about valuations but today it was not so much about making a fortune – it was more about doing useful things.'

The utilitarian approach has become predominant – whether it is the focus on solid technologies such as search engines and wi-fi wireless Internet connections, or on websites that just do their job well and produce real profits. Futuristic business plans have been replaced by a return to basics, and inexperienced chief executives have been swept away by conventional companies exploiting a medium whose acceptance among users has quietly accelerated.

Rebecca Jennings, of Forrester Research, says: 'There's been continued growth in the market since the beginning and it will top $10bn (£6.3bn) in the UK this year: $200m was spent in the UK last year on online advertising and 55 per cent of adults, about 30m people, now have regular Internet access.'

Familiarity has bred confidence among users about buying online and their increasing sophistication has led to the popularity of sites that improve their searching, compare prices and aggregate offers.

'Before they bought books and DVDs', says Mrs Jennings. 'Now that's been extended to higher-ticket items such as travel.'

A campaign in July to promote Internet shopping saw consumers spend £1.15bn online that month – up 208 per cent on July 2002, according to IMRG, the e-retail industry body.

The Internet is looking more like the traditional high street, says Nigel Reynolds, who was involved in two of the first four dotcom flotations for PwC, the accounting firm. 'It's very much the old, traditional businesses that are starting to trade as dotcoms', he says. What were once labelled the dinosaurs are now rethinking their

...4.1

Internet strategies. Old brick-and-mortar retailers such as Sainsbury's and Tesco are cleaning up amid the rubble of the fallen dotcoms. Tesco learnt the lessons from the Internet meltdown. By 2002, it became the world's biggest Web grocer. But, unlike fallen dotcom star Webvan in the US, the British retailer decided to initially fill Web orders from existing Tesco supermarkets rather than dedicated, money-guzzling warehouses. Webvan failed because of reckless spending.

Simon Chamberlain, general manager of Hitwise, which monitors net use, says there are dominant players in some sectors, such as Autotrader in the automotive category or eBay in auctions, but small players can survive as users become more familiar with Web tools and comparison sites such as search engine Google and the French online shopping web site Kelkoo, recently acquired by Yahoo!.

'There are almost 2,000 travel sites in the UK and more than 500 online recruitment sites. We have seen some consolidation but the good news is that there are a lot of niche players getting business because people are searching for very specific things', says Chamberlain. Sites that have built a community and attained a critical mass of users are most likely to endure. For example, Friendsreunited, Faceparty and dating sites are thriving, as are betting exchanges, while travel hubs such as cheapflights.co.uk are essential destinations for their aggregation of what is on offer.

Two founders still running their self-financed travel business are Richard Coundley and Marcelle Speller, a husband and wife team that set up holiday-rentals.com before the bubble in 1996. It puts holidaymakers in direct contact with private property owners and was a winner at the New Media Age industry awards this year.

Ms Speller says: 'It took six years to break even and venture capitalists would have given up on it. But founding it ourselves, we weren't going to do that. We've now reached critical mass. It's very hard to become another eBay but we feel we are offering something of real benefit.'

The Internet is a fast, exciting world. No one can deny that, not least yesterday's dotcom stars. 'Here today, gone tomorrow' seems to best describe the pace of cyber activity and the lifespan of many of Europe's once optimistic Internet start-ups.

The e-revolution may not be completely over. The venture capital scene may never feel like the good old days of the dotcom boom either. But, as the storm calms, the dotcom industry wakes up to a new challenge. This time the battle will be fought and won where real and virtual worlds unite.

The late arrivals at the Internet party – the so-called Old Economy companies – are set to dominate the e-commerce landscape. And, as the rubble is cleared, investors can now tell good clicks from bad.

SOURCES: Based on Chris Nuttall, 'Dotcom takes on the bustle of the high street', *Financial Times* (1 September 2003), p. 3. Information on successful dotcom pioneers based on 'Internet pioneers', *The Economist* (3 February 2001), pp. 91–3; 'Party like it's 1999', *The Economist* (23 February 2002), pp. 87–8; and 'Off their trolleys', *The Economist* (23 November 2002), pp. 80–1; see also Andrew Edgecliffe-Johnson, 'E-revolution shelved', *Financial Times* (3 August 2000), p. 16; Susanna Voyle, 'E-tailers find their perfect partner on the high street', *Financial Times* (7 April 2000), p. 25; 'Europe's dot.bombs', *The Economist* (5 August 2000), p. 20; 'Only the strong survive after the storm', in 'The Internet revolution, Special report', *Financial Times* (16 October 2000), p. 14.

over networks. With rapid advances in Internet and other connecting technologies, companies have grown skilled in gathering information about individual customers and business partners (suppliers, distributors, retailers). In turn, they have become more adept at individualising their products and services, messages and media.

Dell Computer, for example, lets customers specify exactly what they want in their computers and delivers customer-designed units in only a few days. On its Reflect.com website, Procter & Gamble allows people to reflect their needs for, say, a shampoo by answering a set of questions. It then formulates a unique shampoo for each person.[8]

Customerisation—Leaving it to the individual customers to design the marketing offering – allowing customers to be prosumers rather than only consumers.

Customisation differs from *customerisation*. Customisation involves taking the initiative to customise the market offering. For example, a Levi's salesperson takes the person's measurements and the company customises the jeans at the factory. In **customerisation**, the company leaves it to individual customers to design the offering. For example, jeans customers may take their own measurements and add specific features that they may want in their jeans, such as colourful patches. Such companies have become facilitators and their customers have moved from being consumers to being *prosumers*.[9]

Marketing strategy in the new digital age

For many companies, conducting business in the new digital age will call for a new model for marketing strategy and practice. According to one strategist: 'Sparked by new technologies, particularly the Internet, the corporation is undergoing a radical transformation that is nothing less than a new industrial revolution. . . . To survive and thrive in this century, managers will need to hard-wire a new set of rules into their brains. The 21st century corporation must adapt itself to management via the Web.'[10] Suggests another, the Internet is 'revolutionizing the way we think about . . . how to construct relationships with suppliers and customers, how to create value for them, and how to make money in the process; in other words, [it's] revolutionizing marketing.'[11]

Some strategists envisage a day when all buying and selling will involve direct electronic connections between companies and their customers. The new model will fundamentally change customers' notions of convenience, speed, price, product information, and service. This new consumer thinking will affect every business. Comparing the adoption of the Internet and other new marketing technologies to the early days of the aeroplane, Amazon.com CEO Jeff Bezos says 'It's the Kitty Hawk era of electronic commerce.' Even those offering more cautious predictions agree that the Internet and e-business will have a tremendous impact on future business strategies.

The fact is that today's economy requires a mixture of Old Economy and New Economy thinking and action. Companies need to retain most of the skills and practices that have worked in the past. But they will also need to add major new competencies and practices if they hope to grow and prosper in the new environment. Marketing should play the lead role in shaping new company strategy.

E-business, e-commerce and e-marketing

E-business or electronic business—The use of electronic platforms – intranets, extranets and the Internet – to conduct a company's business.

E-business involves the use of electronic platforms – intranets, extranets and the Internet – to conduct a company's business. The Internet and other technologies now help companies to carry on their business faster, more accurately, and over a wider range of time and space. Countless companies have set up websites to inform about and promote their products and services. They have created intranets to help employees communicate with each other and access information found in the company's computers. They have set up extranets with their major suppliers and distributors to assist information exchange, orders, transactions and payments. Companies such as Cisco, Microsoft and Oracle run almost entirely as e-businesses, in which memos, invoices, engineering drawings, sales and marketing information – virtually everything – happen over the Internet instead of on paper.[12]

Electronic commerce is more specific than e-business. E-business includes all electronics-based information exchanges within or between companies and customers. In contrast, e-commerce involves buying and selling processes supported by electronic means, primarily the Internet. *E-markets* are 'market*spaces*' rather than physical 'market*places*'. Sellers use e-markets to offer their products and services online. Buyers use them to search for information, identify what they want, and place orders using credit or other means of electronic payment.

Electronic commerce—A general term for a buying and selling process that is supported by electronic means.

E-commerce includes *e-marketing* and *e-purchasing* (*e-procurement*). **E-marketing** is the marketing side of e-commerce. It consists of company efforts to communicate about, promote and sell products and services over the Internet. Thus, easyJet.com, Nokia.com and Dell.com conduct e-marketing at their websites. The flip side of e-marketing is e-purchasing, the buying side of e-commerce. It consists of companies purchasing goods, services and information from online suppliers.

Electronic marketing—The marketing side of e-commerce – company efforts to communicate about, promote and sell products and services over the Internet.

In business-to-business buying, e-marketers and e-purchasers come together in huge e-commerce networks. Examples include e-cement.com which operates a business-to-business e-commerce network for the cement making industry; milkquota.com for the agricultural sector; efoodmanager.com, the pan-European online purchasing network for the food industry; and GE Global eXchange Services (GXS). The latter represent one of the world's largest business-to-business e-commerce networks (www.gegxs.com). More than 100,000 trading partners in 58 countries, including giants such as 3M, DaimlerChrysler, Sara Lee, and Kodak, use the GXS network to complete some 1 billion transactions each year, accounting for $1 trillion (€0.83 trillion) worth of goods and services.[13]

E-commerce and the Internet bring many benefits to both buyers and sellers. Let's review some of these major benefits.

Benefits to buyers

Internet buying benefits both final buyers and business buyers in many ways. It can be convenient: customers don't have to battle traffic, find parking spaces and trek through stores and aisles to find and examine products. They can do comparative shopping by browsing through mail catalogues or surfing websites. Direct marketers never close their doors. Buying is easy and private: customers encounter fewer buying hassles and don't have to face salespeople or open themselves up to persuasion and emotional pitches. Business buyers can learn about and buy products and services without waiting for and tying up time with salespeople.

In addition, the Internet often provides buyers with greater *product access and selection*. For example, the world's the limit for the Web. Unrestrained by physical boundaries, cybersellers can offer an almost unlimited selection. Compare the incredible selections offered by Web merchants such as Amazon.com or eBay to the more meagre assortments of their counterparts in the brick-and-mortar world.

Beyond a broader selection of sellers and products, e-commerce channels also give buyers access to a wealth of comparative *information* about companies, products and competitors. Good sites often provide more information in more useful forms than even the most solicitous salesperson can. For example, Amazon.com offers top-10 product lists, extensive product descriptions, expert and user product reviews and recommendations based on customers' previous purchases.

Finally, online buying is *interactive* and *immediate*. Buyers often can interact with the seller's site to create exactly the configuration of information, products or services they desire, then order or download them on the spot. Moreover, the Internet gives consumers a greater measure of control. Like nothing else before it, the Internet has empowered consumers. For example, computer or car buyers can go online before showing up at a retailer or dealership, arming themselves with both product and cost information. This is the new reality of consumer control.

Benefits to sellers

E-commerce also yields many benefits to sellers. First, the Internet is a powerful tool for *customer relationship building*. Because of its one-to-one, interactive nature, the Internet is an especially potent marketing tool. Companies can interact online with customers to learn more about specific needs and wants. With today's technology, an online marketer can select small groups or even individual consumers, personalise offers to their special needs and wants and promote these offers through individualised communications.

In turn, online customers can ask questions and volunteer feedback. Based on this ongoing interaction, companies can increase customer value and satisfaction through product and service refinements. One expert concludes: 'Contrary to the common view that Web customers are fickle by nature and will flock to the next new idea, the Web is actually a very sticky space in both business-to-consumer and business-to-business spheres. Most of today's online customers exhibit a clear [tendency] toward loyalty.'[14]

The Internet and other electronic channels yield additional advantages, such as *reducing costs* and *increasing speed and efficiency*. As seen in the case of Cool Diamonds, e-marketers avoid the expense of maintaining a store and the related costs of rent, insurance and utilities. E-tailers such as Amazon.com reap the advantage of a negative operating cycle: Amazon.com receives cash from credit card companies just one day after customers place an order. Then it can hold on to the money for 46 days until it pays suppliers, book distributors, and publishers.

By using the Internet to link directly to suppliers, factories, distributors and customers, businesses such as Dell Computer and Cool Diamonds are cutting costs and passing savings on to customers. Because customers deal directly with sellers, e-marketing often results in lower costs and improved efficiencies for channel and logistics functions such as order processing, inventory handling, delivery, and trade promotion. Finally, communicating electronically often costs less than communicating on paper through the mail. For instance, a company can produce digital catalogues for much less than the cost of printing and mailing paper ones.

E-marketing also offers greater *flexibility*, allowing the marketer to make ongoing adjustments to its offers and programmes. For example, once a paper catalogue is mailed to final consumer or business customers, the products, prices and other catalogue features are fixed until the next catalogue is sent. However, an online catalogue can be adjusted daily or even hourly, adapting product assortments, prices and promotions to match changing market conditions.

Finally, the Internet is a truly *global* medium that allows buyers and sellers to click from one country to another in seconds. GE's GXS network provides business buyers with immediate access to suppliers in 58 countries, ranging from the United States and the United Kingdom to Hong Kong and the Philippines. A Web surfer from Paris or Hong Kong can access an online Marks & Spencer catalogue as easily as someone living in London, the international retailer's home town. Thus, even small e-marketers find that they have ready access to global markets.

E-commerce domains

The four major Internet domains are shown in Figure 4.2 and discussed below. They include B2C (business to consumer), B2B (business to business), C2C (consumer to consumer) and C2B (consumer to business).

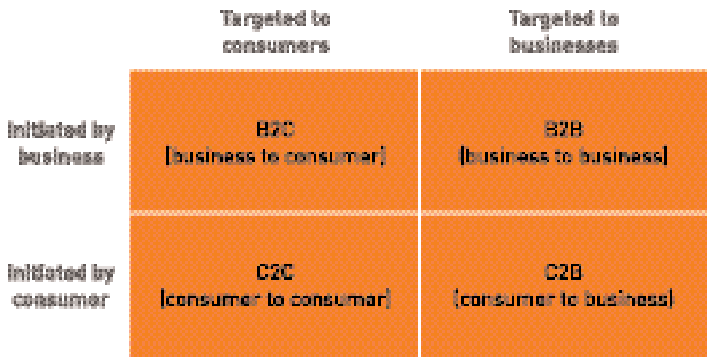


Figure 4.2 E-marketing domains

B2C (business to consumer)

The popular press has paid the most attention to B2C (**business-to-consumer**) **e-commerce** – the online selling of goods and services to final consumers. Despite some gloomy predictions, online consumer buying continues to grow at a healthy rate. As we saw in Marketing Insights 4.1, online retail sales in countries such as the UK are growing steadily, while consumers are shifting purchases from lower-value items such as books, videos and DVDs to higher-ticket items such as travel. In this chapter's opening case, we also saw how consumers have taken to the Internet to buy expensive items costing thousands of euros, such as diamond jewellery. In the US, consumers spent more than $112 billion (€92.6 billion) online in 2002, up 56 per cent from the previous year. The largest categories of consumer online spending include travel services, clothing, computer hardware and software, consumer electronics, books, music and video, health and beauty, home and garden, flowers and gifts, sports and fitness equipment, and toys.[15]

B2C (business-to-consumer) e-commerce—The online selling of goods and services to final consumers.

Online consumers

When people think of the typical Internet user, some still mistakenly envisage a pasty-faced computer nerd or 'cyberhead', others a young, techy, up-market male professional. Such stereotypes are sadly outdated. As more and more people find their way onto the Internet, the cyberspace population is becoming more mainstream and diverse. 'The Internet was, at first, an elitist country club reserved only for individuals with select financial abilities and technical skills', says an e-commerce analyst. 'Now, nearly every socioeconomic group is aggressively adopting the Web.'[16] The Internet provides e-marketers with access to a broad range of demographic segments. In recent research conducted among 3,600 individuals who play online games, the US Digital Marketing Services found that American females over 40 years old spend the most time per week playing online games (e.g., word and puzzle, casino, trivia and arcade games) at 9.1 hours, which accounts for 41 per cent of their connection time. By contrast, female teenagers spend 7.4 hours per week playing games, while females under 40 years log 6.2 hours. Although findings from comparable research among their European counterparts are not to hand, the American survey sheds light on the evolving nature of the contemporary Web user.[17]

Growing Internet diversity will open new e-commerce targeting opportunities for marketers. For example, the Web now reaches consumers in all age groups including children and teens. Thus, these 'net kids' and teens segments have attracted a host of e-marketers. America Online offers a Kids Only area featuring homework help and online magazines along with the usual games, software and chatrooms. The Microsoft Network site carries Disney's Daily Blast, which offers kids games, stories, comic strips with old and new Disney characters, and current events tailored to pre-teens. BeingGirl.com is a site for teens, offering information on relationships, boys, periods and much more. Leading girls' entertainment software publishers also joined forces to offer a special website (just4girls.com) that promotes stories, games, dolls and accessories targeted at 8–12-year-old girls.[18]

Although Internet users are still younger on average than the population as a whole, consumers aged 50 and older make up almost 20 per cent of the online population. Whereas younger groups are more likely to use the Internet for entertainment and socialising, older Internet surfers go online for more serious matters. For example, 24 per cent of people in this age group use the Internet for investment purposes, compared with only 3 per cent of those aged 25–29. Thus, older 'Netizens' make an attractive market for Web businesses, ranging from florists and automotive retailers to financial services providers.[19]

Internet consumers differ from traditional offline consumers in their approaches to buying and in their responses to marketing. The exchange process in the Internet age has become more customer initiated and customer controlled. People who use the Internet place greater value on information and tend to respond negatively to messages aimed only at selling. Traditional marketing targets a somewhat passive audience. In contrast, e-marketing targets people who actively select which websites they will visit and what marketing information they will receive about which products and under what conditions.

Internet directories, such as Yahoo! NodeWorks and Lycos, and 'search engines', such as Google, AltaVista, Excite, AlltheWeb and many others, give consumers access to vast and varied information sources, making them better informed and more discerning shoppers. AlltheWeb, developed by Finnish firm Fast Search & Transfer and touted to be a serious rival to the US-spawned Google, was able at the time of writing to index some 2,112,188,990 Web pages on its home page on a day, running neck to neck with Google, with a listing of 2,469,940,685 Web pages! As technology advances, these search engines are able to take the information from several billion of these Web pages, integrating them with hot-off-the-press news from thousands of news sources across the globe and hundreds of millions of multimedia, video, software and compressed MP3 sound files, all in a single search result![20]

In fact, online buyers are increasingly creators of product information, not just consumers of it. As greater numbers of consumers join Internet interest groups that share product-related information, 'word-of-Web' is joining 'word-of-mouth' as an important buying influence. Thus, the new world of e-commerce will require new marketing approaches.

B2C websites

Consumers can find a website for buying almost anything. The Internet is most useful for products and services when the shopper seeks greater ordering convenience or lower costs. The Internet also provides great value to buyers looking for information about differences in product features and value. However, consumers find the Internet less useful when buying products that must be touched or examined in advance. Still, even here there are exceptions. For example, who would have thought that people would order expensive jewellery from cooldiamonds.com or computers from Dell or Gateway without seeing and trying them first?

B2B (business to business)

B2B (business-to-business) e-commerce—Using B2B trading networks, auction sites, spot exchanges, online product catalogues, barter sites and other online resources to reach new customers, serve current customers more effectively and obtaining buying efficiencies and better prices.

Although the popular press has given the most attention to business-to-consumer (B2C) websites, consumer goods sales via the Web are dwarfed by **B2B (business-to-business) e-commerce**. One study estimates that B2B e-commerce will reach $4.3 trillion (€3.6 trillion) in 2005, compared with just $282 billion (€233 billion) in 2000. Another estimates that by 2005, more than 500,000 enterprises will use e-commerce as buyers, sellers, or both.[21] B2B exchanges are now found in a host of industries ranging from motor car, aerospace and petroleum, to chemicals, food, energy, pharmaceuticals and many others. Firms are using B2B trading networks, auction sites, spot exchanges, online product catalogues, barter sites and other online resources to reach new customers, serve current customers more effectively and obtain buying efficiencies and better prices.

Most major business-to-business marketers now offer product information, customer purchasing, and customer support services online. B2B exchanges enable buyers to gain efficiencies on many levels, from the identification of new sources of supply and negotiations, to carrying out transactions and payments and supply chain management functions such as production line planning and collaborative product design and development. An increasing number of manufacturers, for example, have been able to accelerate the product development process by using the Internet to share designs for component or assemblies with suppliers or to pass design work on from teams in one time zone to another.[22]

Open trading networks—Huge e-marketspaces in which B2B buyers and sellers find each other online, share information and complete transactions efficiently.

Much B2B e-commerce takes place in **open trading networks** – huge e-marketspaces in which buyers and sellers find each other online, share information and complete transactions efficiently. For example, ECeurope (www.eceurope.com) is part of a huge business-to-business trading trading network and there are almost 100 trade sites in this network including eceurope.com, worldbid.com, the Fita Buy/Sell Exchange etc. It represents one of the largest sources of international trade leads and tender opportunities from companies and government organisations around the world. Over 300,000 businesses have registered with the site in the hope of increasing their sales, reducing supplier costs and finding new business contacts. Other international e-trading networks include Global Business Web (www.globalbusinessweb.com), a free global site where companies from hosts of industries can make contact, conduct research, promote their business and trade. A host of barter exchange sites have also emerged in recent years. Examples include BarterNet Corp, iBart and Barter Directory. Others include Antwerpes (www.antwerpes.com), an Internet services company that operates one of Germany's largest online shopping sites for medical products. Through its DocCheck® Shop (www.doccheck.com), it offers pharmaceutical companies the opportunity to set up buying groups for their sales departments or to integrate complete shops with an individual product range into their Internet operation.[23]

Trading networks: Worldbid.com offers businesses the chance to search for qualified B2B trade leads in their industry.
SOURCE: Worldbid.com.

Private trading networks (PTNs)—B2B trading networks that link a particular seller with its own trading partners.

Despite the increasing popularity of such e-marketspaces, one Internet research firm estimates that 93 per cent of all B2B e-commerce is conducted through private sites. Increasingly, online sellers are setting up their own **private trading networks (PTNs)**.

Open trading networks facilitate transactions between a wide range of online buyers and sellers. In contrast, private trading networks link a particular seller with its own trading partners. Rather than simply completing transactions, PTNs give sellers greater control over product presentation and allow them to build deeper relationships with buyers and sellers by providing value-added services.

The firm can set up its own private exchange, which allows its customers to browse, buy equipment, schedule deliveries and process warranties.

> For example, ChemConnect assists customers in optimising their purchasing and sales processes for chemicals, plastics and related products through a unique combination of exchanging market information, industry expertise, e-commerce solutions and an active network of trading partners. More than 7,500 member companies in multiple industries around the world can use ChemConnect's highly efficient tools and services to streamline transactions and lower costs.[24] ”

A PTN of this sort may enable the firm to operate with greater efficiency and trim processing costs, without losing control of the presentation of its brand name or running the risk of rubbing elbows with competitors in an open exchange.

C2C (consumer to consumer)

C2C (consumer-to-consumer) e-commerce—Online exchanges of goods and information between final consumers.

Much **C2C (consumer-to-consumer) e-commerce** and communication occurs on the Web between interested parties over a wide range of products and subjects. In some cases, the Internet provides an excellent means by which consumers can buy or exchange goods or information directly with one another. Such C2C sites give people access to much larger audiences than the local flea market or newspaper classifieds (which, by the way, are now also going online). For example, QXL, Alando, eBay, auctions.Amazon, bid-up and other auction sites offer popular marketspaces for displaying and selling almost anything, from art and antiques, coins, stamps and jewellery to computers and consumer electronics. eBay's C2C online trading community of more than 42 million registered users worldwide transacted more than €7 billion ($9 billion) in trades last year. The company's website hosts more than 2 million auctions each month for items in more than 18,000 categories. eBay maintains auction sites in several countries, including Japan, the United Kingdom and Germany.[25]

In other cases, C2C involves interchanges of information through forums and Internet newsgroups that appeal to specific special-interest groups. Such activities may be organised for commercial or non-commercial purposes. *Forums* are discussion groups located on commercial online services such as Freeserve, AOL and CompuServe. A forum may take the form of a library, a 'chatroom' for real-time message exchanges, and even a classified ad directory. For example, AOL boasts some 14,000 chatrooms, which account for a third of its members' online time. It also provides 'buddy lists' which alert members when friends are online, allowing them to exchange instant messages.

Newsgroups are the Internet version of forums. However, such groups are limited to people posting and reading messages on a specified topic, rather than managing libraries or conferencing. Internet users can participate in newsgroups without subscribing. There are tens of thousands of newsgroups dealing with every imaginable topic, from healthy eating and caring for your Bonsai tree to collecting antique cars or exchanging views on the latest soap opera happenings.

C2C means that online visitors don't just consume product information – increasingly, they create it. They join Internet interest groups to share information, with the result that 'word of Web' is joining 'word of mouth' as an important buying influence. Word about good companies and products travels fast. Word about bad companies and products travels even faster.

C2B (consumer to business)

The final e-commerce domain is **C2B (consumer-to-business) e-commerce**. Thanks to the Internet, today's consumers are finding it easier to communicate with companies. Most companies now invite prospects and customers to send in suggestions and questions via company websites. Beyond this, rather than waiting for an invitation, consumers can search out sellers on the Web, learn about their offers, initiate purchases and give feedback. Using the Web, consumers can even drive transactions with businesses, rather than the other way around. For example, using Priceline.com, would-be buyers can name their own price for airline tickets, hotel rooms, rental cars, and even home mortgages, leaving the sellers to decide whether to accept their offers.

C2B (consumer-to-business) e-commerce—Online exchanges in which consumers search out sellers, learn about their offers, and initiate purchases, sometimes even driving transaction terms.

Consumers can also use websites such as PlanetFeedback.com to ask questions, offer suggestions, lodge complaints or deliver compliments to companies. The site provides letter templates for consumers to use based on their moods and reasons for contacting the company. The site then forwards the letters to the customer service manager at each company and helps to obtain a response. Last year, PlanetFeedback.com forwarded more than 330,000 consumer letters composed on their site. Not all of the letters were complaints. One-quarter of them offered compliments, while another one-fifth made suggestions for product or service improvements.[26]

C2B e-commerce: services such as Priceline enable consumers to 'name their own price' when building a holiday, resulting in huge savings on hotels and flights.
SOURCE: www.priceline.co.uk.

Conducting e-commerce

Companies of all types are now engaged in e-commerce. In this section, we first discuss the different types of e-marketers. Then we examine how companies go about conducting marketing online.

Click-only versus click-and-mortar e-marketers

The Internet gave birth to a new species of e-marketers – the *click-only* dotcoms – which operate only online without any brick-and-mortar market presence. In addition, most traditional *brick-and-mortar* companies have now added e-marketing operations, transforming themselves into *click-and-mortar* competitors.

Click-only companies

Click-only companies—The so-called dotcoms which operate only online without any brick-and-mortar market presence.

Click-only companies come in many shapes and sizes. They include *e-tailers*, dotcoms that sell products and services directly to final buyers via the Internet. Examples include Amazon.com, Egg (financial services) and eBookers (travel). The click-only group also includes *search engines and portals* such as Yahoo!, Google and Excite, which began as search engines and later added services such as news, weather, stock reports, entertainment and storefronts, hoping to become the first port of entry to the Internet.

Internet service providers (*ISPs*) such as AOL, Freeserve, Earthlink and others are click-only companies that provide Internet and email connections for a fee. *Transaction sites*, such as auction site eBay, take commissions for transactions conducted on their sites. Various *content sites*, such as Financial Times (www.ft.com), New York Times on the Web (www.nytimes.com) and ESPN.com (www.ESPN.com), provide financial, research and other information. Finally, *enabler sites* provide the hardware and software that enable Internet communication and commerce.

The hype surrounding such click-only Web businesses reached astronomical levels during the 'dotcom gold rush' of the late 1990s, when avid investors drove dotcom stock prices to dizzying heights. However, the investing frenzy collapsed in 2000 and many high-flying, overvalued dotcoms came crashing back to earth. Boo.com (sportswear), Boxman.com and Clickmango (healthcare) were among the high-profile e-tail casualties. Other such as World Online (Internet service provider) faced disastrous flotations in the wake of disinterested financial markets. Survivors such as Amazon.com and Priceline.com saw their stock values plunge.

Dotcoms failed for many reasons. Some rushed into the market without proper research or planning. Often, their primary goal was simply to launch an initial public offering (IPO) while the market was hot. Many relied too heavily on spin and hype instead of developing sound marketing strategies. Flush with investors' cash, the dotcoms spent lavishly offline on mass marketing in an effort to establish brand identities and attract customers to their sites. For example, during the fourth quarter of 1999, prior to the dotcom crash, the average e-tailer spent an astounding 109 per cent of sales on marketing and advertising.[27] As one industry watcher concluded, many dotcoms failed because they 'had dumb-as-dirt business models, not because the Internet lacks the power to enchant and delight customers in ways hitherto unimaginable.'[28]

The dotcoms tended to devote too much effort to acquiring new customers instead of building loyalty and purchase frequency among current customers. In their rush to cash in, many dotcoms went to market with poorly designed websites that were complex, hard to navigate and unreliable. When orders did arrive, some dotcoms found that they lacked the well-designed distribution systems needed to ship products on time and handle customer

Table 4.2 Sources of e-commerce revenue

Product and service sales income	Many e-commerce companies draw a good portion of their revenues from markups on goods and services they sell online.
Advertising income	Sales of online ad space can provide a major source of revenue. At one point, Buy.com received so much advertising revenue that it was able to sell products at cost.
Sponsorship income	A dotcom can solicit sponsors for some of its content and collect sponsorship fees to help cover its costs.
Alliance income	Online companies can invite business partners to share costs in setting up a website and offer them free advertising on the site.
Membership and subscription income	Web marketers can charge subscription fees for use of their site. Many online newspapers (*Wall Street Journal* and *Financial Times*) require subscription fees for their online services. Auto-By-Tel receives income from selling subscriptions to auto dealers who want to receive hot car buyer leads.
Profile income	Websites that have built databases containing the profiles of particular target groups may be able to sell these profiles if they get permission first. However, ethical and legal codes govern the use and sale of such customer information.
Transaction commissions and fees	Some dotcoms charge commission fees on transactions between other parties who exchange goods on their websites. For example, eBay puts buyers in touch with sellers and takes from 1.25 to 5 per cent commission on each transaction.
Market research and information fees	Companies can charge for special market information or intelligence. For example, NewsLibrary charges a dollar or two to download copies of archived news stories. LifeQuote provides insurance buyers with price comparisons from approximately 50 different life insurance companies, then collects a commission of 50 per cent of the first year's premium from the company chosen by the consumer.
Referral income	Companies can collect revenue by referring customers to others. Edmunds receives a 'finder's fee' every time a customer fills out an Auto-By-Tel form at its Edmunds.com website, regardless of whether a deal is completed.

enquiries and problems. Finally, the ease with which competitors could enter the Web, and the ease with which customers could switch to websites offering better prices, forced many dotcoms to sell at margin-killing low prices.

No doubt, many click-only dotcoms are surviving and even prospering in today's marketspace. Others are showing losses today but promise profits tomorrow. Leading online retailers such as Amazon.com took six years from inception to make a pro forma profit – profit excluding losses on investments in other Internet companies and other items. But Amazon has grown and expanded relatively quickly, dominating the online e-tailing sector it has entered and earning over $3 billion of sales a year. Thus, for many dotcoms, including Internet giants such as Amazon.com, the Web is not an instant, vast moneymaking proposition. Companies engaging in e-commerce need to describe to their investors how they will eventually make profits. They need to define a revenue and profit model. Table 4.2 shows that a dotcom's revenues may come from any of several sources.

Click-and-mortar companies

Many established companies moved quickly to open websites providing information about their companies and products. However, most resisted adding e-commerce to their sites. They felt that this would produce *channel conflict* – that selling their products or services online would be competing with their offline retailers and agents. For example, computer manufacturers such as Compaq Computer, Toshiba and Acer feared that their retailers would drop their computers if they sold the same computers directly online. Store-based booksellers including Waterstones and Barnes & Noble delayed opening their online site to challenge Amazon.com.

These companies struggled with the question of how to conduct online sales without cannibalising the sales of their own stores, resellers or agents. However, they soon realised that the risks of losing business to online competitors were even greater than the risks of angering channel partners. If they didn't cannibalise these sales, online competitors soon would. Thus, many established brick-and-mortar companies are now prospering as **click-and-mortar companies**. For example, the British Tesco, a traditional brick-and-mortar grocery retailer, became the world's biggest web-grocer in late 2002. Its success is a stark contrast to the first generation of hopeful Internet start-ups in the American food business, such as Webvan, Peapod and Streamline – all now spectacularly bust or reduced to a marginal existence.[29]

Click-and-mortar companies—Traditional brick-and-mortar companies that have added e-marketing to their operations.

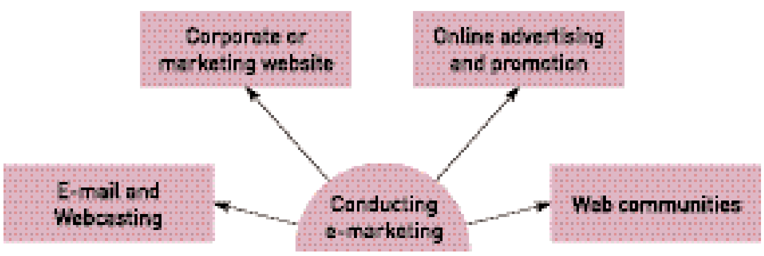
Most click-and-mortar marketers have found ways to resolve the resulting channel conflicts.[30] For example, in its home and overseas markets, Avon worried that direct online sales might cannibalise the business of its Avon representatives, who had developed close relationships with their customers. Fortunately, Avon's research showed little overlap between existing customers and potential Web customers. Avon shared this finding with the reps and then moved into e-marketing. As an added bonus for the reps, Avon also offered to help them set up their own websites.

What gives the click-and-mortar companies an advantage? Established companies have known and trusted brand names and greater financial resources. They have large customer bases, deeper industry knowledge and experience and good relationships with key suppliers. By combining e-marketing and established brick-and-mortar operations, they can offer customers more options. For example, consumers can choose the convenience and assortment of 24-hour-a-day online shopping, the more personal and hands-on experience of in-store shopping, or both. Customers can buy merchandise online, then easily return unwanted goods to a nearby store. For example, those wanting to buy diamond jewellery from Cool Diamonds can call the London office on the phone, go online to the company's website or visit the company's premises in London. In the final analysis, customers can call, click or visit.

Setting up an e-marketing presence

Clearly all companies need to consider moving into e-marketing. Companies can conduct e-marketing in any of the four ways shown in Figure 4.3: creating a website, placing ads online, setting up or participating in Web communities or using online e-mail or webcasting.

Figure 4.3 Setting up for e-marketing



Creating a website

For most companies, the first step in conducting e-marketing is to create a website. However, beyond simply creating a website, marketers must design attractive sites and find ways to get customers to visit the site, stay around and come back to the site frequently.

Types of website

Websites vary greatly in purpose and content. The most basic type is a **corporate website**. These are designed to handle interactive communication *initiated by the consumer*. They seek to build customer goodwill and to supplement other sales channels rather than to sell the company's products directly. For example, the corporate websites of Nokia and IKEA typically offer a rich variety of information and other features in an effort to answer customer questions, build closer customer relationships and generate excitement about the company. Corporate websites generally provide information about the company's history, its mission and philosophy, and the products and services that it offers. They might also tell about current events, company personnel, financial performance and employment opportunities. Many corporate websites also provide exciting entertainment features to attract and hold visitors. Finally, the site might also provide opportunities for customers to ask questions or make comments through email before leaving the site.

Corporate website—A site set up by a company on the Web, which carries information and other features designed to answer customer questions, build customer relationships and generate excitement about the company, rather than to sell the company's products or services directly. The site handles interactive communication initiated by the consumer.

Other companies create a **marketing website**. These sites engage consumers in an interaction that will move them closer to a purchase or other marketing outcome. With a marketing website, communication and interaction are *initiated by the marketer*. Such a site might include a catalogue, shopping tips and promotional features such as coupons, sales events or contests. Companies aggressively promote their marketing websites in traditional, offline, print and broadcast advertising, and through 'banner-to-site' ads that pop up on other websites.

Marketing website—A site on the Web created by a company to interact with consumers for the purpose of moving them closer to a purchase or other marketing outcome. The site is designed to handle interactive communication initiated by the company.

> For example, Toyota operates a marketing website at www.toyota.com. Once a potential customer clicks in, the carmaker wastes no time trying to turn the enquiry into a sale. The site offers plenty of entertainment and useful information, from cross-country trip guides and tips for driving with kids, to golf and outdoor events. But the site is also loaded with more serious selling features, such as detailed descriptions of current Toyota models and information on dealer locations and services, complete with maps and dealer Web links. Visitors who want to go further can use the Shop@Toyota feature to choose a Toyota, select equipment and price it, then contact a dealer and apply for credit. Or they fill out an online order form for brochures and a free interactive CD-ROM that shows off the features of Toyota models. The chances are good that before the CD-ROM arrives, a local dealer will call to invite the prospect in for a test drive.[31]

B2B marketers also make good use of marketing websites. For example, customers visiting ABB's website (www.abb.com) can draw on pages and pages of information to get answers about the company's products anytime and from anywhere in the world. FedEx's website (www.fedex.com) allows customers to schedule their own shipments, request a courier and track their packages in transit.

B2B companies have adopted Web marketing. Customers visiting ABB's website (www.abb.com) can draw on thousands of pages of information to get answers about the company's products anytime and from anywhere in the world.
SOURCE: www.abb.com.

Designing attractive websites

Creating a website is one thing; getting people to *visit* the site is another. The key is to create enough value and excitement to get consumers to come to the site, stick around and come back again.

A recent survey of fervent online surfers shows that people's online expectations have skyrocketed over the last few years. Today's Web users are quick to abandon any website that doesn't measure up. 'Whether people are online for work reasons or for personal reasons', says the chairman of the firm that ran the survey, 'if a website doesn't meet their expectations, two-thirds say they don't return – now or ever. They'll visit you and leave and you'll never know. We call it the Internet death penalty.'[32]

This means that companies must create sites that are easy to read and navigate as well as constantly update their sites to keep them current, fresh and exciting. Doing so involves time and expense, but the expense is necessary if the online marketer wishes to cut through the increasing online clutter. In addition, many online marketers believe that they cannot build a brand simply on the Internet, but have to spend heavily on good old-fashioned advertising and other offline marketing avenues to attract visitors to their sites. At the same time, one study reported that 37 per cent of online purchases were through referred websites and 13 per cent through email marketing, compared to only 6 per cent being inspired by offline advertisements. These results imply that marketers need to create a core of Net users who can spread the word about the company or its brands through the Internet itself.[33]

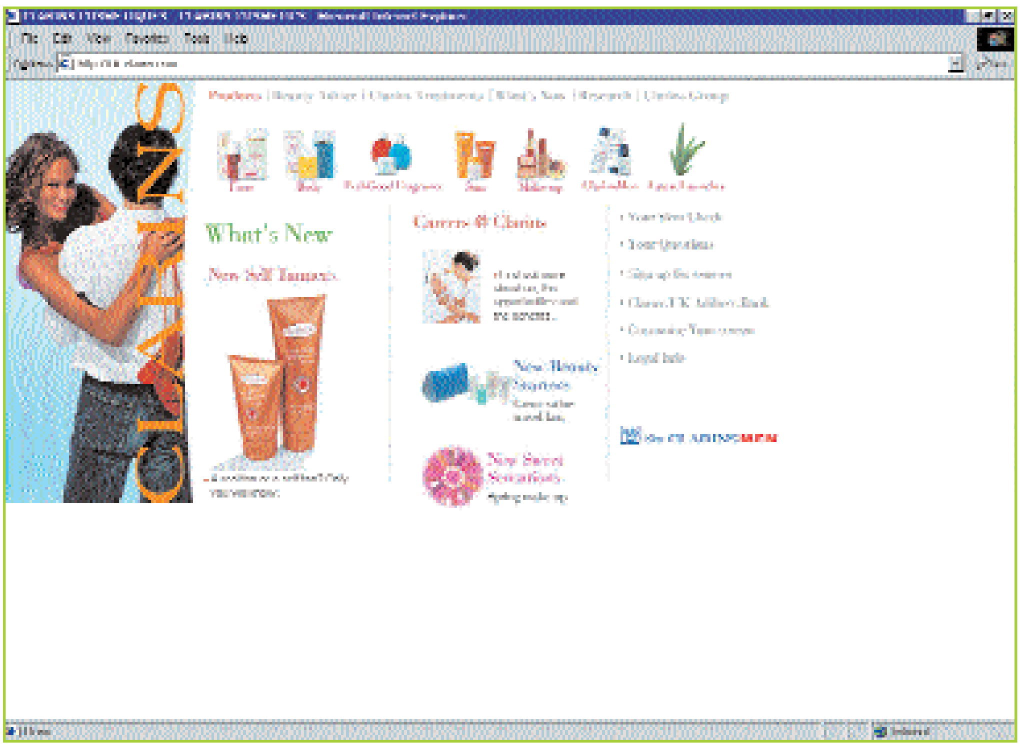
For some types of product, attracting visitors is easy. Consumers buying new cars, computers or financial services will be open to information and marketing initiatives from sellers. Marketers of lower-involvement products, however, may face a difficult challenge in attracting website visitors. As one veteran notes: 'If you're shopping for a computer and you see a banner that says, "We've ranked the top 12 computers to purchase", you're going to click on the banner. [But] what kind of banner could encourage any consumer to visit dentalfloss.com?'[34] For such low-interest products, the company should create a corporate website to answer customer questions and build goodwill, using it only to supplement selling efforts through other marketing channels.

A key challenge is designing a website that is attractive on first view and interesting enough to encourage repeat visits. The early text-based websites have largely been replaced in recent years by graphically sophisticated websites that provide text, sound and animation (for examples, see www.sonystyle.com, www.cadbury.com or www.disney.com). To attract new visitors and to encourage revisits, suggests one expert, e-marketers should pay close attention to the seven Cs of effective website design:[35]

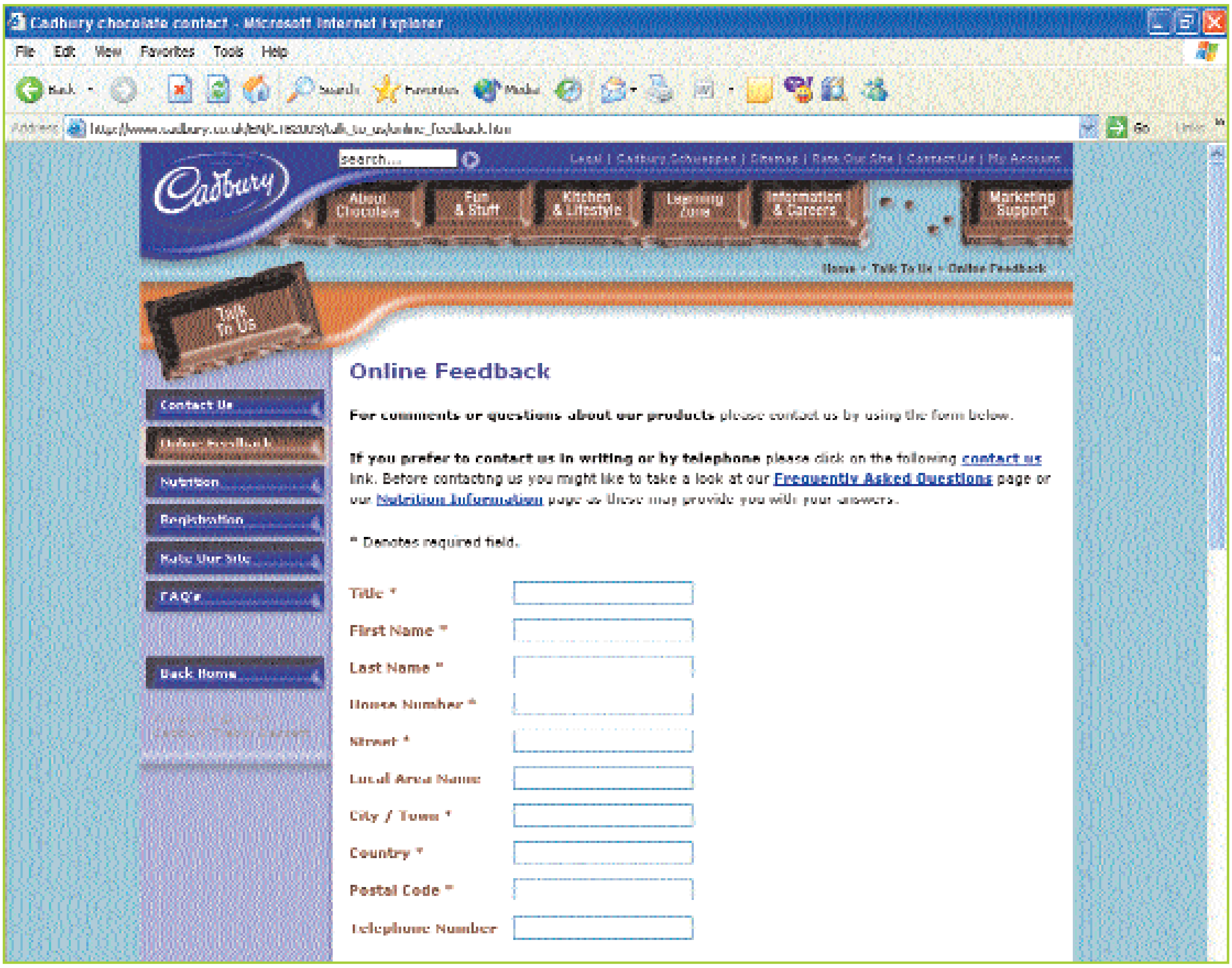
- *Context*: site layout and design
- *Content*: text, pictures, sound, and video that the website contains
- *Community*: the ways in which the site enables user-to-user communication
- *Customisation*: the site's ability to tailor itself to different users or to allow users to personalise the site
- *Communication*: the ways in which the site enables site-to-user, user-to-site, or two-way communication
- *Connection*: the degree to which the site is linked to other sites
- *Commerce*: the site's capabilities to enable commercial transactions.

At the very least, a website should be easy to use and physically attractive. Beyond this, however, websites must also be interesting, useful and challenging. Ultimately, it's the value of the site's *content* that will attract visitors, get them to stay longer and bring them back for more.

Effective websites contain deep and useful information, interactive tools that help buyers find and evaluate products of interest, links to other related sites, changing promotional offers and entertaining features that lend relevant excitement. For example, in addition to convenient online purchasing, Clarins.com offers in-depth information about Clarins products and treatments, the latest product launches, beauty tips and advice, an interactive tool for determining the browser's skin type and promotional treats.



Effective websites offer more than just a directory of products and pricing information. Instead, like this Clarins website, visitors are presented with deep and useful information and interactive tools for finding and evaluating the company's offerings.
SOURCE: Clarins UK Ltd.



Here, companies such as Cadbury's seek to improve their website by getting visitors to rate their satisfaction with it.
SOURCE: Cadbury Trebor Bassett.

From time to time, a company needs to reassess its website's attractiveness and usefulness. One way is to invite the opinion of site design experts. But a better way is to have users themselves evaluate what they like and dislike about the site. For example, visitors to the following websites are invited to rate their satisfaction with the company's website by completing an online questionnaire: construction equipment manufacturer JCB (www.jcb.com); car manufacturer Peugeot (www.Peugeot.com); insurance company Direct Line (www.directline.com); and Cadbury's (www.cadbury.com).

Online advertising—Advertising that appears while consumers are surfing the Web, including banner and ticker ads, interstitials, skyscrapers and other forms.

Placing ads and promotions online

E-marketers can use **online advertising** to build their Internet brands or to attract visitors to their websites. Here, we discuss forms of advertising promotion and their future.

Forms of online advertising and promotion

Online ads pop up while Internet users are surfing online services or websites. Such ads include banner ads and tickers (banners that move across the screen). For example, a Web user who is looking up airline schedules or fares might find a flashing banner on the screen exclaiming 'Rent a car from Europcar and get up to two days free!'. To attract visitors to its own website, Toyota sponsors Web banner ads on other sites, such as ESPN SportZone (www.espn.com).

New online ad formats include *skyscrapers* (tall, skinny ads at the side of a Web page) and rectangles (boxes that are much larger than a banner). *Interstitials* are ads that pop up between changes on a website. You may have noticed these ads, which appear as a separate window displaying a different product or service, when you visit a particular website. For example, at the UCAS website (www.ucas.co.uk), students viewing information about university applications and placements in the UK would confront pop-up ads featuring product offers and advice from banks and insurance companies. Visitors to www.msnbc.com's sports area may suddenly be viewing a separate window featuring wireless video cameras. Or, when you visit www.msm.com, you may find yourself suddenly browsing a separate window linked to handbag.com, which advertises women's handbags, as well as offering fun advice for females! Sponsors of *browser ads* pay viewers to watch them. For example, in the US, Alladvantage.com downloads a view bar to users where ads are displayed to targeted users. Viewers earn 20 cents to $1 per hour in return.

Content sponsorships are another form of Internet promotion. Companies can gain name exposure on the Internet by sponsoring special content on various websites, such as news or financial information. The sponsor pays for showing the content and, in turn, receives recognition as the provider of the particular service on the website. Sponsorships are best placed in carefully targeted sites where they can offer relevant information or service to the audience.

E-marketers can also go online with *microsites*, limited areas on the Web managed and paid for by an external company. For example, an insurance company might create a microsite on a car-buying site, offering insurance advice for car buyers and at the same time offering good insurance deals. Internet companies can also develop alliances and affiliate programmes in which they work with other online companies to 'advertise' each other. For example, BT Openworld and AOL have created many successful alliances with other companies and mention their names on their site. Amazon.com has more than 350,000 affiliates across the globe who post Amazon.com banners on their websites.

Finally, e-marketers can use **viral marketing**, the Internet version of word-of-mouth marketing. Viral marketing involves creating an e-mail message or other marketing event that is so infectious that customers will want to pass it on to their friends. Because customers pass the message or promotion on to others, viral marketing can be very inexpensive. And when the information comes from a friend, the recipient is much more likely to open and read it. The aim is to get the company's customers to do your marketing for you (see Marketing Insights 4.2).[36]

Viral marketing—The Internet version of word-of-mouth marketing – e-mail messages or other marketing events that are so infectious that customers will want to pass them on to friends.

The future of online advertising

Online advertising serves a useful purpose, especially as a supplement to other marketing efforts. However, the Internet will not soon rival the major television and print media, in spite of its early promise. Neither will it be a substitute for these traditional advertising channels. Many marketers still question the value of Internet advertising as an effective tool. Costs are reasonable compared with those of other advertising media but Web surfers can easily ignore such advertising and often do. Although many firms are experimenting with Web advertising, it plays only a minor role in most promotion mixes.

As a result, online advertising expenditures still represent only a small fraction of overall advertising media expenditures. In the UK, annual online marketing amounted to marketing insights

4.2 Viral boosters for Virgin

When we hear about a virus spreading online, we often think about those awful blaster worms, sobig viruses and the like that spread like wildfire, infecting hundreds and thousands of PC systems at the click of a mouse. However, online viral phenomena can take a very different form – one of which is claimed to have lain at the heart of many B2C dotcom marketing successes. The phenomenon is called viral marketing – an activity that facilitates and encourages people to pass along a marketing message. Taking advantage of the speed and global reach afforded by Internet communications, companies have begun to tap the enormous potential of viral marketing. At the heart of the B2C boom, it seemed as if every online start-up had a viral component to its strategy, or, at least, claimed to have one.

Viral marketing depends on a high pass-along rate from person to person. If a large percentage of recipients forward the message to a large number of friends, the overall growth snowballs very quickly. If the pass-along numbers get too low, the overall growth quickly fizzles.

Consider the following examples. Digital Media Communications (DMC) was commissioned to help Virgin Mobile plan, seed and track its new Virgin Mobile online viral and buzz marketing campaign. The campaign supported the 'Flash-It' in-store promotion that enabled Virgin Mobile customers to gain £1 of free airtime for every £10 they spend in any Virgin Megastore or Virgin Megastore Xpress, simply by flashing their Virgin Mobile phones at the till when they pay. James Kydd, brand director for Virgin Mobile, explains: 'The Flash-It promotion has been running for several months and is proving such a success that we've decided to give it further support. We're using DMC's online viral marketing expertise to widen awareness of the promotion with this booster viral campaign targeted at the culture-driving, technology-savvy online audience.'

The entertaining campaign features two digital film clips created by Rainey Kelly Campbell Roalfe/Y&R. The films encourage Virgin Mobile customers to stop trying to impress Virgin Megastore staff with their flashing antics, and simply show them their phones for free airtime. The first film, 'Bendy Babe', shows an attractive blonde customer displaying her flexible skills to a bewildered store assistant who doesn't quite know where to look. The second film, 'Deep Throat', shows a second customer swallowing a coat hanger in an attempt to impress the same poor store assistant. Both films urge viewers to forget their flashing antics and 'Just show us your phone!'. They also invite viewers to click through to the Virgin Mobile website where they can find out more about the promotion.

The viral campaign is being seeded as *advertainment* content via DMC's online influencer network, as well as being featured on sports, music and lifestyle websites.

...4.2

The online film-tracking system also provides real-time accountability of the films' views and hotlinks in order to quantify the impact the campaign has on brand awareness. Footage showing Virgin Mobile customers behaving badly was put out as three viral executions at the end of October 2003, distributed by DMC, rather than on television. Word of mouth has worked to the extent that the 'bendy babe' spot tops the chart of Lycos' most viewed viral ads.

Another example of successful viral marketing is provided by MTV's 'Gift' campaign which was run in 2001. The campaign aimed to cut through all the Christmas 'noise' and produce a high-profile MTV viral Christmas card, to promote and generate goodwill for the MTV brand over the Christmas season and to provide entertainment value to MTV fans and non-fans alike. A clip based on a Christmas setting and using advanced special effects was developed. Along with an MPEG file, a QuickTime version of the clip was released. Once released, the viral spread was tracked. In the first three weeks after release, 30,000 people downloaded the clip from two seed sites; 280,585 people watched the QuickTime file. An estimated 6.6 million watched the MPEG file. By summer 2002, the MPEG file became world famous and MTV brand and attitude was spread by fans to millions of other fans worldwide.

Viral marketing is not new. Offline, it has been referred to as word-of-mouth influence, creating a buzz, leveraging the media, network marketing and so forth. Not all viral marketing strategies work and some may offend. However, on the Internet, experts suggest that effective viral marketing campaigns bear many if not all of the following hallmarks:

- they give away free products or services;
- they provide for effortless transfer of messages to others;
- the transmission method must be rapidly scalable from small to very large (i.e. mail servers must be added rapidly to facilitate the exponential growth of message exposure);
- they exploit common human motivations and behaviour that drive the urge to communicate messages;
- they place messages into recipients' existing communication networks; and
- they leverage others' resources such as affiliate programmes to place text or graphic links and news releases onto other websites.

SOURCES: 'DMC helps Virgin Mobile encourage flashers', accessed at www.dmc.co.uk, 27 March 2004; Ralph F. Wilson, 'The six principles of viral marketing', *Web Marketing Today*, 70 (1 February 2000), accessed at www.wilsonweb.com, 27 March 2004; MTV Case Study: Gift, accessed at www.theviralfactory.com/casestudyMTV.htm, 27 March 2004.

£200 million (€300 million) in 2002, or 2 per cent of overall spend; in Europe, the total spend of nearly €800 million accounts for an even smaller proportion – 1.3 per cent. Even in the US, online advertising spending amounted to just $7.2 billion (€5.95 billion), a mere 3.1 per cent of overall spend offline. Experts argue that the industry has yet to develop good measures of advertising impact – of who clicks on Web ads and how the ads affect them. Thus, although many firms are experimenting with Web advertising, it still plays only a minor role in their promotion mixes.[37] Despite the recent setbacks, some industry insiders remain optimistic about the future of online advertising. Although the growth of online advertising spending has slowed after the burst of the dotcom bubble in 2000, more recently the signs are that Internet advertising is steadily making a come-back.

Whatever its future, companies are now seeking more effective forms and uses for Web advertising and marketing. Nonetheless, to make the best use of the Internet as a communications tool, marketers and advertisers alike have to devise ways to harness fully the Internet's interactivity and potential for ultra-precise targeting – two of its most potent qualities.[38] More importantly, online advertising should not be a mere 'add-on', but an integrated part of the firm's marketing efforts.

Creating or participating in Web communities

Web communities—Websites upon which members can congregate online and exchange views on issues of common interest.

The popularity of forums and newsgroups has resulted in a rash of commercially sponsored websites called **Web communities**, which take advantage of the C2C properties of the Internet. Such sites allow members to congregate online and exchange views on issues of common interest. They are the cyberspace equivalent to a Starbucks coffeehouse, a place where everybody knows your email address.

Online communities have mushroomed in the last few years. Today, people, irrespective of their age, gender and interests, can join online communities, ranging from sites focusing on entertainment, movies and health, to ones devoted to home and families, lifestyles, and

Web communities: at sites such as these, fans re-live the magic in Harry Potter's online world.

money and investments. For example, mymovies.net is a forum for people who like movies, and where they can cruise the net for online movie trailers and share views on films. Scores of sites are now available where Harry Potter fans can 'hang out' online (e.g. www.groups.msn.com/harrypotteruk/), not to mention the communities of 'Elven Realm' where anyone who is interested in *Lord of the Rings* can join to recapture a spot of magic on the Net (e.g. Follow the Quest, and the Elven Realm of Mirkwood, accessed at www.MSNGroups.com). Others include iVillage.com, a Web community in which women can exchange views and obtain information, support, and solutions on families, food, fitness, relationships, relaxation, home and garden, news and issues, or just about any other topic. The site draws 393 million page views per month, putting it in a league with magazines such as *Cosmopolitan*, *Glamour* and *Vogue*.[39]

Visitors to these Internet neighbourhoods develop a strong sense of community. Such communities are attractive to advertisers because they draw consumers with common interests and well-defined demographics. Moreover, cyberhood consumers visit frequently and stay online longer, increasing the chance of meaningful exposure to the advertiser's message. For example, iVillage provides an ideal environment for the Web ads of companies such as Procter & Gamble, Revlon, Kimberly-Clark, Clairol and others who target women consumers.

Using email and webcasting

Email has exploded onto the scene as an important e-marketing tool and is becoming a mainstay for both B2C and B2B marketers. The company can encourage prospects and customers to send questions, suggestions and complaints to the company via email. Customer service representatives can quickly respond to such messages. The company may also develop Internet-based electronic mailing lists of customers or prospects. Such lists provide an excellent opportunity to introduce the company and its offerings to new customers and to build ongoing relationships with current ones. Using the lists, online marketers can send out customer newsletters, special product or promotion offers based on customer purchasing histories, reminders of service requirements or warranty renewals, or announcements of special events. Emailing is becoming one of the cheapest and most effective means of bringing an offer or product information direct to customers, with response rates of between 5 and 10 per cent. Forrester Research estimates that emails account for around 15 per cent of US and European online marketing spend in 2001; the proportion is forecast to reach some 30 per cent by 2006.[40]

However, to compete effectively in this increasingly cluttered email environment, marketers are designing 'enriched' email messages – animated, interactive and personalised messages full of streaming audio and video. Then they are targeting these attention-grabbers more carefully to those who want them and will act upon them.

Companies can also sign on with any of a number of **webcasting** services which automatically download customised information to recipients' PCs. An example is Internet Financial Network's Infogate, which sends up-to-date financial news, market data and real-time stock quotes to subscribers in the financial services industry for a fee. Infogate frames the top and bottom inch of subscribers' computer screens with personalised news and other information tailored to their specific interests. Rather than spending hours scouring the Internet, subscribers can sit back while Infogate automatically delivers information of interest to their desktops.[41] The major commercial online services also offer webcasting to their members. For example, AOL offers a feature called Driveway that will fetch information, Web pages and email-based articles on members' preferences and automatically deliver it to their PCs.

Webcasting (push programming)—The automatic downloading of customised information of interest to recipients' PCs, affording an attractive channel for delivering Internet advertising or other information content.

Also known as 'push' programming, webcasting affords an attractive channel through which online marketers can deliver their Internet advertising or other information content. However, as with other types of online marketing, companies must be careful that they do not cause resentment among Internet users who are already overloaded with 'junk email' or 'spam', offering anything from 'prescription-free Viagra' and cheap loans to pornography and get-rich-quick schemes. Spam as a percentage of total email traffic has jumped from 8 per cent in September 2001 to 45 per cent by early 2003, according to one source.[42]

Hence, email marketers walk a fine line between adding value for consumers and being intrusive. Companies must beware of irritating consumers by sending unwanted email to promote their products. Netiquette, the unwritten rules that guide Internet etiquette, suggests that marketers should ask customers for permission to email marketing pitches. They should also tell recipients how to 'opt-in' or 'opt-out' of email promotions at any time. This approach, known as permission-based marketing, has become a standard model for email marketing. However, as spam has become an increasing nuisance, there is growing pressure from anti-spammers for government action to curb it. Although legal remedies will not present the ultimate solution to spam, new rules are currently enforced to curb this unsavoury marketing practice. For example, from October 2003, all EU nations have to implement legislation which bans the sending of email unless the recipient has specifically 'opted in' to receive it, in line with an EU directive passed in July 2003.

The promise and challenges of e-commerce

E-commerce continues to offer both great promise and many challenges for the future. We now look at both the promises of e-commerce and the 'darker side' of the Web.

The continuing promise of e-commerce

Its most ardent apostles still envisage a time when the Internet and e-commerce will replace magazines, newspapers and even stores as sources for information and buying. However, such 'dotcom fever' has cooled recently and a more realistic view has emerged. 'It's time for Act II in the Internet revolution', suggests one analyst. 'The first act belonged to dotcoms with big visions and small bank accounts. Now the stages will be taken by big companies that move their factories, warehouses and customers onto the Web.'[43]

To be sure, online marketing will become a successful business model for some companies, Internet firms such as Amazon.com, eBay and Egg, and direct-marketing companies such as Dell Computer. Michael Dell's goal is one day 'to have *all* customers conduct *all* transactions on the Internet, globally'. And e-business will continue to boom for many B2B marketers – companies such as Cisco Systems, General Electric and IBM.

However, for most companies, online marketing will remain just one important approach to the marketplace that works alongside other approaches in a fully integrated marketing mix. Eventually, as companies become more adept at integrating e-commerce with their everyday strategy and tactics, the 'e' will fall away from e-business or e-marketing. 'The key question is not whether to deploy Internet technology – companies have no choice if they want to stay competitive – but how to deploy it', says business strategist Michael Porter. He continues: 'We need to move away from the rhetoric about "Internet industries", "e-business strategies", and a "new economy", and see the Internet for what it is: . . . a powerful set of tools that can be used, wisely or unwisely, in almost any industry and as part of almost any strategy.'[44]

The Web's darker side

Along with its considerable promise, there is a 'darker side' to Internet marketing. Here, we examine two major sets of concerns: Internet profitability and legal and ethical issues.

Internet profitability

One major concern is profitability, especially for B2C dotcoms. For many online marketers, including Internet superstars such as Amazon.com, the Web is not an instant money-making proposition. According to one report, fewer than half of the websites surveyed at the height of the dotcom boom were profitable.[45] In another study, of the 456 Internet companies that went public since 1994, only 11 per cent are still in business and profitable. Of those still in business and not acquired by another company, only 25 per cent are profitable.[46]

One problem is that the Internet still offers limited consumer exposure and skewed user demographics. Although expanding rapidly, online marketing still reaches only a limited marketspace. And although the Web audience is becoming more mainstream, online users still tend to be somewhat more upmarket and better educated than the general population. This makes the Internet ideal for marketing financial services, travel services, computer hardware and software and certain other classes of products. However, it makes online marketing less effective for selling mainstream products. Moreover, in most product categories, users still do more window browsing and product research than actual buying.

Finally, the Internet offers millions of websites and a staggering volume of information. Thus, navigating the Internet can be frustrating, confusing and time consuming for consumers. In this chaotic and cluttered environment, many Web ads and sites go unnoticed or unopened. Even when noticed, marketers will find it difficult to hold consumer attention. One study found that a site must capture Web surfers' attention within eight seconds or lose them to another site. That leaves very little time for marketers to promote and sell their goods.

Legal and ethical issues

From a broader societal viewpoint, Internet marketing practices have raised a number of ethical and legal questions. In previous sections, we've touched on some of the negatives associated with the Internet, such as unwanted email and the annoyance of pop-up ads. Here we examine concerns about consumer online privacy and security and other legal and ethical issues.

Online privacy and security

Online privacy is perhaps the number-one e-commerce concern. Most e-marketers have become skilled at collecting and analysing detailed consumer information. Marketers can easily track website visitors, and many consumers who participate in website activities provide extensive personal information. This may leave consumers open to information abuse if companies make unauthorised use of the information in marketing their products or exchanging databases with other companies. Many consumers and policy makers worry that marketers have stepped over the line and are violating consumers' right to privacy.[47]

Many consumers also worry about *online security*. They fear that unscrupulous snoopers will eavesdrop on their online transactions or intercept their credit card numbers and make unauthorised purchases. In turn, companies doing business online fear that others will use the Internet to invade their computer systems for the purposes of commercial espionage or even sabotage. There appears to be an ongoing competition between the technology of Internet security systems and the sophistication of those seeking to break them.

In response to such online privacy and security concerns, governments in countries such as the US and in the EU have passed legislation to regulate how Web operators obtain and use consumer information. For example, online privacy legislation being passed in the US would require online service providers and commercial websites to get customers' permission before they disclose important personal information. That would include financial, medical, ethnic, religious, and political information, along with Social Security data and sexual orientation. In the EU, an anti-spam and online privacy directive passed in May 2002 establishes 'opt-in' as the default rule for commercial email – consumers must give prior permission to marketers before being sent e-communications. All commercial email communications also must have an 'opt-out' feature. The directive also states that Web surfers must be told ahead of time about sites' cookie procedures, giving consumers the right to refuse cookie-based data collection. It also specifies that users must give explicit permission for their personal data to be included in public directories. Although the directive has been approved by the EU Parliament, it still remains for the EU member states to individually pass the regulation as part of their own national laws – a process that no doubt can take years.[48]

Of special concern are the privacy rights of children. Many websites directed towards children collect personal information from children, but not all such sites may include any disclosure of their collection and use of such information. As a result, governments have passed online privacy protection laws, which require website operators targeting children to post privacy policies on their sites. In most cases, they must also notify parents about the information they're gathering and obtain parental consent before collecting personal information from children under 13.[49] In addition, smart companies must respond to consumer privacy and security concerns with actions of their own. For example, they can conduct voluntary audits of their privacy and security policies. They can also strive to exceed any government-mandated privacy regulations, for example by giving away so-called personal firewall software to online customers.

Still, examples of companies aggressively protecting their customers' personal information are few and far between. However, Jupiter Media Metrix forecasts that in 2006 almost $25 billion (€20.6 billion) in revenues will be lost as a result of US consumers' privacy concerns. Moreover, they predict, online sales in 2006 would be as much as 25 per cent higher if consumers' concerns were adequately addressed.[50] Comparable figures for the European Union member states are not available, but, if the US findings are anything to go by, it becomes clear that the costs of inaction could be astronomical on a global scale. Finally, if Web marketers don't act to curb privacy abuses, legislators most probably will.

Other legal and ethical issues

Beyond issues of online privacy and security, consumers are also concerned about *Internet fraud*, including identity theft, investment fraud and financial scams. There are also concerns about *segmentation and discrimination* on the Internet. Some social critics and policy makers worry about the so-called *digital divide* – the gap between those who have access to the latest Internet and information technologies and those who don't. They are concerned that, in this information age, not having equal access to information can be an economic and social handicap. The Internet currently serves the socio-economically better-off consumers. However, poorer consumers still have less access to the Internet, leaving them increasingly less informed about products, services and prices. Some people consider the digital divide to be a national crisis; others see it as an overstated non-issue.[51]

A final Internet marketing concern is that of *access by vulnerable or unauthorised groups*. For example, marketers of adult-oriented materials have found it difficult to restrict access by minors. In a more specific example, sellers using eBay.com, the online auction website, recently found themselves the victims of a 13-year-old boy who'd bid on and purchased more than $3 million worth of high-priced antiques and rare artworks on the site. eBay has a strict policy against bidding by anyone under 18 but works largely on the honour system. Unfortunately, this honour system did little to prevent the teenager from taking a cyberspace joyride.[52]

Despite these challenges, companies large and small are quickly integrating online marketing into their marketing mixes. As it continues to grow, online marketing will prove to be a powerful tool for building customer relationships, improving sales, communicating company and product information, and delivering products and services more efficiently and effectively.

Summary

This chapter introduces the forces shaping the new Internet environment and how marketers are adapting. Four major forces underlie the Internet age: digitalisation and connectivity, the explosion of the Internet, new types of intermediaries, and customisation and customerisation. Much of today's business operates on digital information, which flows through connected networks. Intranets, extranets and the Internet now connect people and companies with each other and with important information. The Internet has grown explosively to become *the* revolutionary technology of the new millennium, empowering consumers and businesses alike with the benefits of connectivity.

The Internet and other new technologies have changed the ways in which companies serve their markets. New Internet marketers and channel relationships have arisen to replace some types of traditional marketers. The new technologies are also helping marketers to tailor their offers effectively to targeted customers or even to help customers customise their own marketing offers.

Conducting business in the digital age will call for a new model of marketing strategy and practice. Companies need to retain most of the skills and practices that have worked in the past, but must also add major new competencies and practices if they hope to grow and prosper in the New Economy. E-business is the use of electronic platforms to conduct a company's business. E-commerce involves buying and selling processes supported by electronic means, primarily the Internet. It includes e-marketing (the selling side of e-commerce) and e-purchasing (the buying side of e-commerce).

E-commerce benefits both buyers and sellers. For buyers, e-commerce makes buying convenient and private, provides greater product access and selection, and makes available a wealth of product and buying information. It is interactive and immediate and gives the consumer a greater measure of control over the buying process. For sellers, e-commerce is a powerful tool for building customer relationships. It also increases the sellers' speed and efficiency in addition to offering greater flexibility and better access to global markets.

Companies can practise e-commerce in any or all of four domains. B2C (business-to-consumer) e-commerce is initiated by businesses and targets final consumers. Despite recent setbacks following the 'dotcom gold rush' of the late 1990s, B2C e-commerce continues to grow at a healthy rate. Although online consumers are still somewhat higher in income and more technology-oriented than traditional buyers, the cyberspace population is becoming much more mainstream and diverse. This growing diversity opens up new e-commerce targeting opportunities for marketers.

B2B (business-to-business) e-commerce dwarfs B2C e-commerce. Most businesses today operate websites or use B2B trading networks, auction sites, spot exchanges, online product catalogues, barter sites or other online resources to reach new customers, serve current customers more effectively and obtain buying efficiencies and better prices. Business buyers and sellers meet in huge marketspaces, or open trading networks, to share information and complete transactions efficiently, or they set up private trading networks that link them with their own trading partners.

Through C2C (consumer-to-consumer) e-commerce, consumers can buy or exchange goods and information directly from or with one another. Examples include online auction sites, forums and Internet newsgroups. Finally, through C2B (consumer-to-business) e-commerce, consumers are now finding it easier to search out sellers on the Web, learn about their products and services, and initiate purchases. Using the Web, customers can even drive transactions with companies, rather than the other way around.

summary discussing the issues

The Internet gave birth to the *click-only* dotcoms, which operate only online. In addition, many traditional brick-and-mortar companies have now added e-marketing operations, transforming themselves into *click-and-mortar* competitors. Many click-and-mortar companies are now having more online success than their click-only competitors.

Companies can conduct e-marketing in any of four ways: creating a website, placing ads and promotions online, setting up or participating in Web communities or using online email or webcasting. The first step typically is to set up a website. Corporate websites are designed to build customer goodwill and to supplement other sales channels, rather than to sell the company's products directly. Marketing websites engage consumers in an interaction that will move them closer to a direct purchase or other marketing outcome. Beyond simply setting up a site, companies must make their sites engaging, easy to use, and useful in order to attract visitors, hold them, and bring them back again.

E-marketers can use various forms of online advertising to build their Internet brands or to attract visitors to their websites. Beyond online advertising, other forms of online marketing include content sponsorships, microsites, and viral marketing, the Internet version of word-of-mouth marketing. Online marketers can also participate in Web communities, which take advantage of the C2C properties of the Web. Finally, email marketing has become a hot new e-marketing tool for both B2C and B2B marketers.

We reviewed the promise and challenges that e-commerce presents for the future. E-commerce continues to offer great promise for the future. For most companies, online marketing will become an important part of a fully integrated marketing mix. For others, it will be the major means by which they serve the market. However, e-commerce also faces many challenges. One challenge is Web profitability – surprisingly few companies are using the Web profitably. The other challenge concerns legal and ethical issues – issues of online privacy and security, Internet fraud and the 'digital divide'. Despite these challenges, companies large and small are quickly integrating online marketing into their marketing strategies and mixes.

Discussing the issues

1. List and discuss the four major forces that are shaping the Internet age.
2. Make a list of products or services that you have purchased via the Internet. What were the factors that influenced your decision to make the purchases online? If these products or services could also be purchased from an offline reseller or retail outlet, would the buying experience be different? How?
3. Imagine that you are the information services manager for a company that develops customised tours for senior citizens interested in visiting exotic, foreign locations. Explain how you could use intranets, extranets and the Internet to increase your company's communication with its target market segment and expand its business.
4. The growth of the Internet has spawned click-only and click-and-mortar e-tailers. Which type of e-marketer do you think will be the more successful in the future? Explain.
5. In the past year there has been a dramatic increase in the number of Web communities. If you were (a) Adidas, (b) Nokia, (c) British Airways or (d) Sony, what type of Web communities would you be interested in sponsoring? What would be the possible advantages and disadvantages of doing this? Find a Web community and evaluate its site. Discuss your conclusions.

Applying the concepts

1. Pick a favourite website. Visit your selected site. While you have logged on to the site, take some time to explore the site.
   - Analyse the site and rate it on the seven Cs of effective website design.
   - How might the site be improved? Be specific, please.
   - Justify your recommendations.
2. Firms in the new digital era will increasingly use open and private trading networks and electronic exchanges. B2B purchasing managers will need to be more 'Web smart' to stay even with competitors.
   - List the advantages and disadvantages of using open and private trading networks and electronic exchanges for purchasing goods and services.
   - Consider a consumer appliances retailer of your choice and the electronic exchanges and trading networks that the selected firm potentially purchases goods and services from. What type of companies found on these trading networks and electronic exchanges might want to sell to the consumer appliance retailer? Explain.
   - Among the usual items that firms initially purchase through trading networks and electronic exchanges are operational supplies and services. Why?
   - Would open networks be a good place for this retailer to buy goods?
   - Would a handshake with a long-time vendor be more important than a cyber exchange or open trading network? Explain.

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WEB RESOURCES

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references

Concluding concept 4
eBay: connecting in China

A rare success

Legend has it that Pierre Omidyar, a young engineer, concocted the idea for eBay in 1995 so that his girlfriend would have an easy way to meet and trade with fellow Pez dispenser collectors. Omidyar envisioned eBay's Internet site as becoming a place where a network of buyers and sellers could connect, forming a community. Bill Cobb, the company's global marketing director, calls eBay a step towards 'the first worldwide economic democracy'.

eBay is just a step in one sense. The company pales in comparison to, for example, Wal-Mart. Wal-Mart raked in about €182 billion in sales in 2001 from its network of 3,000 stores, 1.3 million workers, and countless warehouses. By comparison, eBay generated only $749 million in revenue from sales fees and advertising on the $9.3 billion in goods sold through 170 million transactions using its system – less than 4 per cent of Wal-Mart's sales. However, eBay has no stores or warehouses or inventory and accomplished its results with fewer than 3,000 employees. Further, unlike most of the dotcoms that sprouted in the late 1990s, eBay is profitable, having produced a net profit of $138 million in 2001.

> eBay is a step towards 'the first worldwide economic democracy'.

eBay, however, is no flash-in-the-pan. Analysts predict that its revenues will double to about $1.5 billion by the end of 2003 and profits will more than double to about $318 million. Investors seemed to believe the predictions, as eBay's stock was trading at an astounding 113 times earnings at the end of 2001, despite the stock market's depressed condition.

How eBay works

The idea for eBay's business model is simple – and old. Residents in rural and urban communities have for centuries gathered in town squares and marketplaces to buy, sell, and exchange goods and services. The modern-day flea market is a throwback to these markets.

eBay simply took this old idea and removed the need for a physical meeting between buyer and seller. The Internet provided the cyberspace where the marketing exchange could take place. eBay simply created the software programs to enable the transactions. The eBay system, however, improves on the old market system in that the seller can 'display' his or her items to a huge number of potential customers at the same time. Given that there may be more than one person interested in the item, the seller can hold a virtual auction, hoping that demand for the item will produce a higher price than a typical market where the number of potential buyers would be more limited or even non-existent. Obviously, the process also depends on modern transportation for the product's physical delivery, as eBay plays no role in closing the transaction.

eBay charges the sellers insertion fees for listing an item, final-value fees upon a sale, and listing-upgrade fees. The following table presents the impact of the final value fee structure at various closing values:

Auction's gross closing value	Final value fee	Final value fee as a percentage of gross closing value
$25	$1.31	5.25%
$50	$2.00	4.00%
$100	$3.38	3.38%
$1,000	$28.13	2.81%
$10,000	$163.13	1.63%

SOURCE: eBay website and Merrill Lynch analysis.

In 2001, eBay's transaction fees accounted for all but $84 million of its revenues, with the remainder coming from third-party advertising charges.

Because eBay does not take title to anything sold over its system, it has a gross margin of 82 per cent. In 2001, eBay's operating expenses totalled 57.8 per cent of revenues, with sales and marketing accounting for 33.8 per cent, product development for 10 per cent, and general and administrative expenses for 14 per cent. Even with eBay's projected growth, analysts predicted that its sales and marketing expense would hold at 30 per cent of revenues.

eBay's average auction lasted 6.55 days as of the first quarter of 2002, and the average gross value per auction was $22.50. As of early 2002, the average seller sponsored three auctions and produced $1.72 in net revenue for eBay per auction. eBay classified its offerings into 18,000 categories, with high-priced merchandise, like cars and computers, continuing to grow as a percentage of total sales value. In fact, eBay Motors was the company's fastest-growing category in early 2002. Collectibles, like the Pez dispensers, accounted for only about one-third of eBay's items.

eBay's members, or users (never called customers), would tell you that one reason the system has been so successful is that they feel like 'winners' whenever they are successful at an auction. The members police themselves, providing feedback points to each other so that disreputable buyers and sellers are quickly identified. Members also communicate directly with eBay's staff to point out problems and suggest solutions. In addition, it is very easy for members to use eBay's system.

A new CEO

In 1997, eBay recruited Meg Whitman to become the company's CEO. Whitman had worked at Disney and Hasbro, but was not an Internet junkie. She had degrees from Princeton and Harvard and brought with her a marketing background built on a commitment to customer satisfaction. When Whitman took over, the company had only $49 million in merchandise sales. She helped the company go public in 1998.

Whitman has led eBay through many changes. Recently, the company instituted a 'buy-it-now' pricing system that lets a seller set a fixed price at which a buyer can purchase the item without going through the traditional auction process. Whitman estimates that this type of purchase will increase from 20 per cent to 33 per cent of eBay's sales.

Although the company began as a way for individuals to buy and sell, many people have realised that it is a perfect vehicle for their own businesses. As a result, analysts estimate that there are over 200,000 businesses that exist only on eBay.

New frontiers

eBay has announced that its goal is to achieve sales of $3 billion by 2005. To reach this lofty target, Whitman realises that eBay must develop international markets – especially in the light of analysts' suggestions that the company's core US market growth rate is slowing and advertising revenues are down due to the economic slowdown.

eBay has already ventured into international markets. It has operations in Australia, Austria, Canada, France, Germany, Ireland, Italy, New Zealand, Switzerland, and the United Kingdom. In the first quarter of 2002, international revenues accounted for 21 per cent of eBay's revenues, up from 18 per cent in the last quarter of 2001; and its 2001 international revenue reached $115 million, up from $34 million a year earlier.

Despite eBay's progress in international markets, all has not gone well. Yahoo! Japan beat eBay to the punch by offering online auctions in Japan in September 1999. eBay entered Japan five months later, but those five months were critical. eBay charged a fee for each transaction, which Yahoo! did not, and required users to provide a credit card number. Many young Japanese do not use credit cards, preferring to pay by cash or bank draft. Further, although many observers thought online auctions would not work in Japan due to Japanese reluctance to buy used goods from strangers, its economic recession and the emergence of environmental awareness helped to overcome this reluctance. Plus, Yahoo! users could adopt Internet nicknames for their transactions, removing some of the stigma. Then, observers suggested, eBay was slow to adopt local touches, like horoscopes and newsletters, that it needed to attract users. eBay compounded all this by taking a low-key approach to promotion, while Yahoo! bought billboards and opened an Internet café with Starbucks.

All these missteps, analysts argue, resulted in the 'network effect'. Sellers want to go where there are buyers, and buyers want to go where there is a large selection, i.e. sellers. Once this network reaches a critical mass, it becomes very difficult for a competitor to succeed. Sellers and buyers flocked to Yahoo!, and by mid-2001 Yahoo! had captured 95 per cent of the $1.6 billion online market – eBay had only 3 per cent. By early 2002, eBay threw in the towel and announced its withdrawal from Japan.

Within weeks, however, eBay announced it had purchased 33 per cent of a Chinese Internet auction site, EachNet, for $30 million. Two young entrepreneurs who met at Harvard Business School started EachNet in 1999. Shao Yibo and Tan Haiyin studied Internet businesses as part of a class project and decided that the eBay model was the only one that would work in Asia. With support from Asian venture capitalists, they launched their site, which by 2002 had 3.5 million registered users and 50,000 items listed for sale.

Although eBay executives argue that the eBay model has universal application, the company's experiences in

Japan and China highlight key differences as companies move from one national market to another. In China, for example, EachNet's customers hurried to the site to trade practical items like apparel or cellular phones, not the collectibles that fuelled growth in the US market. Rather than use the postal or courier systems to make payment, as one might do in the United States, Chinese traders mostly sell within their own cities. Although transportation systems are improving, they are still creaky by US standards, so shipping an item is not easy or reliable. Many Chinese still don't feel comfortable doing business online, especially when they are dealing with other individuals rather than companies. Moreover, e-commerce companies have also been concerned about regulation by the Chinese government. In early 2002, the government blocked access to foreign-based news and information sites.

China represents the world's fifth largest online economy, with 27 million Internet users. Of these, some 32 per cent indicate they made purchases online in the past year. Yet 30 per cent of users say they rarely visit an e-commerce site. With a population of over 1 billion people, however, there certainly is plenty of room for growth.

Meg Whitman and eBay's other executives know that to meet their sales and revenue targets, they must be successful in international markets – especially in China. eBay is the world's largest person-to-person trading community. Whitman hopes that China, with the world's largest population, will be a perfect fit for eBay's business model.

Questions

1. What are the forces shaping the development of Internet businesses like eBay in the United States? How are these forces similar or different in the EU and in other countries, such as Japan or China?
2. How do the text's terms 'customisation' and 'customerisation' apply to eBay's marketing strategy?
3. How does eBay create value for the members of its community?
4. What marketing recommendations would you make to eBay to help it be successful as it enters the Chinese market?

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