Introduction to Internet Marketing

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INTRODUCTION

How significant is Internet marketing to businesses? Today, the answer to this question varies dramatically for different products and markets. For companies such as electronics equipment manufacturer Cisco (www.cisco.com), the answer is 'very significant' – Cisco now gains over 90% of its multi-billion dollar global revenue online. It also conducts many of its other business processes such as new product development and customer service online. Similarly, easyJet (www.easyjet.com), the low-cost European airline gains 90% of its tickets sales online and aims to fulfill the majority of its customer service requests via the Internet. However, the picture is quite different for the manufacturers of high-involvement purchases such as cars or fast-moving consumer goods (FMCG) brands. Here the impact is less significant – the majority of their consumer sales still occur through traditional retail channels. However, the influence cannot be described as insignificant any longer since the Internet is becoming increasingly important in *influencing* purchase decisions - many new car purchasers will research their purchase online, so manufacturers need to `invest in Internet marketing to persuade customers of the features and benefits of their brands. The FMCG manufacturer finds that consumers are spending an increasing proportion of their time on the Internet and less time using other media so the Internet has become an effective way of reaching its target markets. The Internet can be used to increase the frequency and depth of interactions with the brand, particularly for brand loyalists who are the advocates of these brands. For example, drinks brand Tango (www.tango.com) uses competitions and games on its web site to encourage interactions of the consumer with the brand.

The media portrayal of the Internet often suggests that it is merely an alternative for traditional advertising or only of relevance for online purchases of books or CDs. In fact, the Internet can be readily applied to all aspects of marketing communications and can and will need to support the entire marketing process. The e-marketing imperative is also indicated by recent research in financial services, media and entertainment, consumer goods and retail organisations with a turnover of £25 million conducted for E-marketing (www.emarketing.com). This showed that online marketing has become a significant part of the marketing mix in many organisations. The organisations in the study were increasing their online marketing spending to an average of around 8% of total marketing budget. Eighty per cent of respondents had increased the amount they spend on online marketing during the last year and 75% expect to increase their spend again over the next year.

The Internet and the marketing concept

In this section, we introduce the marketing concept, and then consider its relationship to more recent concepts such as Internet marketing, e-commerce and e-business. The word marketing has two distinct meanings in modern management practice. It describes:

1 *The range of specialist marketing functions* carried out within many organisations. Such functions include market research, brand/product management, public relations and customer service.

2 *An approach or concept that can be used as the guiding philosophy* for all functions and activities of an organisation. Such a philosophy encompasses all aspects of a business.

Business strategy is guided by an organisation's market and competitor focus and everyone in an organisation should be required to have a customer focus in their job. The modern marketing concept (Houston, 1986) unites these two meanings and stresses that marketing encompasses the range of organisational functions and processes that seek to determine the needs of target markets and deliver products and services to customers and other key stakeholders such as employees and financial institutions. Increasingly the importance of marketing is being recognised both as a vital function and as a guiding management philosophy within organisations. Marketing has to be seen as the essential focus of all activities within an organisation (Valentin, 1996). The marketing concept should lie at the heart of the organisation, and the actions of directors, managers and employees should be guided by its philosophy.

Modern marketing requires organisations to be committed to a market/customer orientation (Jaworski and Kohli, 1993). All parts of the organisation should co-ordinate activities to ensure that customer needs are met efficiently, effectively and profitably. Marketing encompasses activities traditionally seen as the sole domain of accountants, production, human resources management (HRM) and information technology (IT). Many of these functions had little regard for customer considerations. Increasingly such functions are being reorientated, evidenced by the importance of initiatives such as Total Quality Management (TQM), Business Process Reengineering, Just in Time (JIT) and supply chain management.

Individuals' functional roles are undergoing change, from being solely functional to having a greater emphasis on process. Individuals are therefore being encouraged to become part-time marketers. Processes have a significant impact on an organisation' s ability to service its customers' needs. The Internet can be applied by companies as an integral part of the modern marketing concept since:

- It can be used to support the full range of organisational functions and processes that deliver products and services to customers and other key stakeholders.
- It is a powerful communications medium that can act as a 'corporate glue' that integrates the different functional parts of the organisation.

- It facilitates information management, which is now increasingly recognised as a critical marketing support tool to strategy formulation and implementation.
- The future role of the Internet should form part of the vision of a company since its future impact will be significant to most businesses.

Without adequate information, organisations are at a disadvantage with respect to competitors and the external environment. Up-to-date, timely and accessible information about the industry, markets, new technology, competitors and customers is a critical factor in an organisation' s ability to plan and compete in an increasingly competitive marketplace.

Avoiding Internet marketing myopia

Theodore Levitt, writing in the *Harvard Business Review* (Levitt, 1960), outlined the factors that underlie the demise of many organisations and at best seriously weaken their longer-term competitiveness. These factors still provide a timely reminder of traps that should be avoided when embarking on Internet marketing.

1. Wrongly defining which business they are in.

2. Focusing on: products (many web sites are still product-centric rather than customer-centric);
production;
technology (technology is only an enabler, not an objective);
selling (the culture on the Internet is based on customers seeking
information (to make informed buying decisions rather than strong exhortations to buy);

rather than on: customer needs (the need for market orientation is a critical aspect of web site design and Internet marketing strategy);
market opportunities (the Internet should not just be used as another channel, but new opportunities for adding value should be explored).

3. Unwillingness to innovate and 'creatively destruct' existing product/service lines.

4. Shortsightedness in terms of strategic thinking.

5. The lack of a strong and visionary CEO (Baker (1998) found that this was important to companies' using the Internet effectively).

6. Giving marketing only 'stepchild status', behind finance, production and technology.

Any organisation that sees and hence defines its business in anything other than customer benefit terms has not taken the first step in achieving a *market orientation*. Any organization that defines its business by what it produces is said to be suffering from 'marketing myopia'. Such myopia results from a company having a shortsighted and narrow view of the business that it is in. If Internet marketing is to become integrated and fully established as a strategic marketing management tool, then the focus of attention needs to move towards understanding its broader applications within the total marketing process rather than just using it as a communication and selling tool. This is not to detract from the capability of the Internet to communicate and sell, but recognises that this is only one important aspect of the marketing process to which the Internet can contribute. The danger for those currently considering developing Internet-technology is that the focus of such involvement will be too narrow and the true power of the Internet and its potential contribution to the marketing process will be missed.

One of the elements of developing an Internet marketing strategy is deciding which marketing functions can be assisted by the Internet. There is a tendency amongst companies first using the Internet to restrict applications to promotion and selling rather than a relationship building and service delivery tool. In later chapters in this book, we explore the full range of marketing applications of the Internet.

Internet marketing defined

What then, is **Internet marketing**? Internet marketing or Internet-based marketing can be defined as the use of the Internet and related digital technologies to achieve marketing objectives and support the modern marketing concept. These technologies include the Internet media and other digital media such as wireless mobile media, cable and satellite. In practice, Internet marketing will include the use of a company web site in conjunction with online promotional techniques such as search engines, banner advertising, direct e-mail and links or services from other web sites to acquire new customers and provide services to existing customers that help develop the customer relationship. However, for Internet marketing to be successful there is a necessity of integration with traditional media such as Print and TV.

Internet marketing

The application of the Internet and related digital technologies in conjunction with traditional communications to achieve marketing objectives.

E-marketing defined

The term 'Internet marketing' tends to refer to an external perspective of how the Internet can be used in conjunction with traditional media to acquire and deliver services to customers. An alternative term is **e-marketing** or electronic marketing (*see* for example McDonald and Wilson, 1999 and Smith and Chaffey, 2001) that can be considered to have a broader scope since this refers to the Internet, interactive digital TV and mobile marketing together with other technology approaches such as database marketing and electronic customer relationship management (CRM) to achieve marketing objectives. It has both an internal and external perspective considering how internal and external marketing processes and communications can be improved through information and communications technology.

E-marketing

Achieving marketing objectives through use of electronic communications technology. As with many terms with the 'e' prefix, we need to return to an original definition of the topic to more fully understand what e-marketing involves. The definition of marketing by the Chartered Institute of Marketing (www.cim.co.uk) is:

Marketing is the management process responsible for identifying, anticipating and satisfying customer requirements profitability.

This definition emphasizes the focus of marketing on the customer, while at the same time implying a need to link to other business operations to achieve this

profitability. Smith and Chaffey (2001) note that Internet technology can be used to support these aims as follows:
Identifying –the Internet be used for marketing research to find out customers needs
and wants;
Anticipating – the Internet provides an additional channel by which customers can access information and make purchases – understanding this demand is key to governing resource allocation to e-marketing.
Satisfying – a key success factor in e-marketing is achieving customer satisfaction through the electronic channel, this raises issues such as is the site easy to use, does it perform adequately, what is the standard of associated customer service and how are physical products dispatched?
A broader definition of marketing has been developed by Dibb, Simkin, Pride and Ferrell (Dibb et al., 2000): *Marketing consists of individual and organisational activities that facilitate and expedite satisfying exchange relationships in a dynamic environment through the creation, distribution, promotion and pricing of goods, services and ideas*.
This definition is useful since it highlights different marketing activities necessary to achieve the 'exchange relationship' , namely product development, pricing, promotion and distribution. Many organisations began the process of Internet marketing with the development of web sites in the form of **brochureware** or electronic brochures introducing their organisations' products and services, but are now enhancing them to add value to the full range of marketing functions.

E-commerce and e-business defined
The terms e-commerce and e-business are often used in a similar context to Internet marketing, but what are the differences between these terms and do the finer distinctions between them matter to the practitioner? In fact, the differences are significant and do matter, since managers within an organisation require a consistent understanding of the opportunities to enable their organisation to have a cohesive strategy to best utilize new technology.
Electronic commerce (E-commerce) is often thought to simply refer to buying and selling using the Internet; people immediately think of consumer retail purchases from companies such as Amazon. However, e-commerce involves much more than electronically mediated *financial* transactions between organisations and customers. Many commentators now refer to e-commerce as *both financial and informational* electronically mediated transactions between an organization and any third-party it deals with (Chaffey, 2002). By this definition, nonfinancial transactions such as customer enquiries and support are also considered to be part of e-commerce. Kalakota and Whinston (1997) refer to a range of different perspectives for e-commerce:
1. *A communications perspective* – the delivery of information, products/services or payment by electronic means.
2. *A business process perspective* – the application of technology towards the automation of business transactions and workflows.
3. *A service perspective* – enabling cost cutting at the same time as increasing the speed and quality of service delivery.

4. *An online perspective* – the buying and selling of products and information online. Zwass (1998) uses a broad definition of e-commerce noting the significance of information transfer. He refers to it as: '*the sharing of business information, maintaining business relationships, and conducting business transactions by means of telecommunications networks'*. The UK government also uses a broad definition: '*E-commerce is the exchange of information across electronic networks , at any stage in the supply chain, whether within an organisation, between businesses, between businesses and consumers, or between the public and private sector, whether paid or unpaid*' . Ecommerce@its.best.uk 1999
All these definitions imply that electronic commerce is not solely restricted to the actual buying and selling of products, but also pre-sale and post-sales activities across the supply chain.

Electronic commerce (E-commerce)
All financial and informational electronically mediated exchanges between an organisation and its external stakeholders, When evaluating the impact of e-commerce on an organisation' s marketing, it is instructive to identify the role of buy-side and sell-side e-commerce transactions. **Sell-side e-commerce** refers to transactions involved with selling products to an organisation' s customers. Internet marketing is used directly to support sell-side e-commerce. **Buy-side ecommerce** refers to business-to-business transactions to procure resources needed by an organisation from its suppliers. This is typically the responsibility of those in the operational and procurement functions of an organization. Remember though, that each e-commerce transaction can be considered from two perspectives: sell-side from the perspective of the selling organisation and buy-side from the perspective of the buying organisation. So for organizational marketing we need to understand the drivers and barriers to buy-side ecommerce in order to accommodate the needs of organizational buyers. For example, marketers from RS Components (www.rswww.com) promote its sell-side e-commerce service by hosting seminars for buyers within the purchasing department of its customers that explain the cost-savings available through e-commerce.

Sell-side e-commerce:
E-commerce transactions between a supplier organisation and its customers

Buy-side e-commerce
E-commerce transactions between a purchasing organisation and its suppliers

E-business defined
Given the different types of e-commerce, what then, is **e-business**? Let us start from the definition by IBM (www.ibm.com/e-business), who was one of the first suppliers to coin the term:

e-business (e' biz' nis)
The transformation of key business processes through the use of Internet technologies.

The key business processes referred to in the IBM definition are the organisational processes or units as research and development, marketing, manufacturing and inbound and outbound logistics. The buy-side e-commerce processes with suppliers and the sell-side e-commerce processes involving exchanges with distributors and customers can also be considered to be key businesses processes.

Many commentators seem to consider e-business and e-commerce to be synonymous. It can be argued, however, that e-commerce does not include many of the transactions *within* a business such as processing a purchasing order that are part of e-business. In an international benchmarking study assessing the adoption of e-business in SMEs the Department of Trade and Industry emphasises the application of technology in the full range of business processes, but also emphasise how it involves innovation. They describe e-business as:

when a business has fully integrated information and communications technologies (ICTs) into its operations, potentially redesigning its business processes around ICT or completely reinventing its business model… e-business, is understood to be the integration of all these activities with the internal processes of a business through ICT. DTI (2000)

So e-commerce can best be conceived as a subset of e-business and this is the perspective we will use. This learns that what is important within any given company, is that managers involved with the implementation of ecommerce/e-business are agreed on the scope of what they are trying to achieve!

Electronic business (E-business)

All electronically mediated information exchanges, both within an organisation and with external stakeholders supporting the range of business processes.

Business or consumer model

It is now commonplace to describe Internet marketing opportunities in terms of whether an organization is transacting with consumers (**business-to-consumer (B2C)** or other businesses (**business-to-business (B2B))**.

Business-to-consumer (B2C)

Commercial transactions are between an organisation and consumers

Business-to-business (B2B)

Commercial transactions are between an organisation and other organisations (interorganisational marketing).

Two additional types of transaction, those where consumers transact directly with other consumers (C2C) and where initiate trading with companies (C2B). Note that the C2C and C2B monikers are less widely used (e.g. The Economist, 2000), but they do highlight significant differences between Internet-based commerce and earlier forms of commerce. Consumer-to-consumer interactions were relatively rare, but are now very common in the form of customer support and feedback – the community components of sites and online auctions. Indeed, Hoffman and Novak (1996) suggest that C2C interactions are a key characteristic of the Internet that is important for companies to take into account. It should be noted before we leave C2C and C2B interactions that, although it is useful to identify these separately, both types of site are set up by intermediaries *businesses*, so they can be considered to be part of B2C.

Consumer-to-consumer (C2C)
Informational or financial transactions are between consumers, but usually mediated through a business site
Consumer-to-business (C2B)
Consumers approach the business with an offer.

What benefits does the Internet provide for the marketer?
Case study 1.1 highlights the key reason why many companies are seeking to harness the Internet. The reason is an additional source of revenue made possible by an alternative marketing and distribution channel. The marketing opportunities of using the Internet can be appreciated by applying the strategic marketing grid (Ansoff, 1957) for exploring opportunities for new markets and products (Figure 1-5). The Internet can potentially be used to achieve each of the four strategic directions as follows:
1 *Market penetration*. The Internet can be used to sell more existing products into existing markets. This can be achieved by using the power of the Internet for advertising products to increase awareness of products and the profile of a company amongst potential customers in an existing market. This is a relatively conservative use of the Internet.
2 *Market development*. Here the Internet is used to sell into new markets, taking advantage of the low cost of advertising internationally without the necessity for a supporting sales infrastructure in the customers' country. This is a relatively conservative use of the Internet, but it does require the overcoming of the barriers to becoming an exporter or operating in a greater number of countries. Case study 1.1 is an example of an organization using the Internet in this way.
3 *Product development*. New products or services are developed which can be delivered by the Internet. These are typically information products such as market reports which can be purchased using electronic commerce. This is innovative use of the Internet.
4 *Diversification*. In this sector, new products are developed which are sold into new markets.

Companies can use the Internet to adopt new approaches to selling products which involve positioning in one part of the grid or in multiple quadrants.

DTI (2000) has identified different types of drivers or benefits why companies adopt e-commerce. The main drivers for sell-side e-commerce are:
- *Cost/efficiency drivers*
1. Increasing speed with which goods can be dispatch
2. Reduced sales costs
3. Reduced operating costs
- *Competitiveness drivers*
1. Customer demand
2. Improving the range and quality of services offered
3. Avoid losing market share to businesses already using e-commerce

The lure of new sales and the threat of market share erosion has driven many companies on to the Internet, but there are many other benefits of establishing an

Internet presence. Consider the example of the parcel courier companies. These companies now provide a range of customer services over the Internet which were traditionally delivered by telephone operators, thus reducing operating costs. In such situations, the online services may give better 24 hour, 7 days a week, 365 days of the year customer service if measured by convenience, but some customers will want the option of the personal touch, and phone services must be provided for this type of customer. Many companies will also reduce the costs of the printing and distribution of promotional material, price lists and other marketing communications.

In addition to increased sales and reduced costs, the Internet can be used to advantage in all of the marketing functions, for example:
- *Sales*. Achieved through increasing awareness of brands and products, supporting buying decisions and enabling online purchase.
- *Marketing communications*. The use of the web site for the range of marketing communication.
- *Customer service*. Supplementing phone operators with information available online and other techniques.
- *Public relations*. The Internet can be used as a new channel for public relations (PR) and provides the opportunity to publish the latest news on products, markets and people.
- *Marketing research*. Through search engines and e-mail alert services, the Internet enables more efficient techniques for finding a range of market information. It also enables new methods for collecting primary research online through focus groups and online questionnaires.

The Internet also changes the way in which companies do business with their trading partners as seen in the section on 'industry restructuring' later in this chapter.

To conclude this section, the benefits of an Internet presence can be summarised using the '6Cs' of, for example, Bocij *et al*. (1999):

1 *Cost reduction*. Achieved through reducing the need for sales and marketing enquiries to be handled by telephone operators and the reduced need for printing and distributing marketing communications material, which is instead published on the web site.

2 *Capability*. The Internet provides new opportunities for new products and services and for exploiting new markets.

3 *Competitive advantage*. If a company introduces new capabilities before its competitors, then it will achieve an advantage until its competitors have the same capability. For example, customers who transferred to Federal Express because of its new Internet services are likely to be less disposed to revert to an existing courier since they are 'locked in' to using the particular tools provided by Federal Express.

4 *Communications improvement*. These include improved communications with customers, staff, suppliers and distributors.

5 *Control*. The Internet and intranets may provide better marketing research through tracking of customer behaviour and the way in which staff deliver services.

6 *Customer service improvement*. Provided by interactive queries of databases containing, for example, stock availability or customer service questions.

A key phrase in this article articulated by the head of Internet trading is that the project '*isn't just about a site, it's about the whole integrated way of doing business on a very substantial scale*'.

A short introduction to Internet technology.

Marketers require a basic understanding of Internet technology in order to discuss the implementation of e-marketing with partners. Knowing some of the pitfalls is useful also. The **Internet** has existed since the late 1960s when a limited number of computers were connected in the United States to form the ARPAnet. This was mainly used to enable academics and military personnel to exchange defence information.

The Internet

The *Internet* refers to the physical network that links computers across the globe. It consists of the infrastructure of network servers and wide-area communication links between them that are used to hold and transport the vast amount of information on the Internet.

Why then has the Internet only recently been widely adopted for business purposes? The recent dramatic growth in the use of the Internet has occurred because of the development of the World Wide Web. This became a commercial proposition in 1993 after development of the original concept by Tim Berners-Lee, a British scientist working at CERN in Switzerland in 1989. The World Wide Web changed the Internet from a difficult-to-use tool for academics and technicians to an easy-to-use tool for finding information for businesses and consumers. The World Wide Web is an interlinked publishing medium for displaying graphic and text information. This information is stored on **web server** computers and then accessed by users who run web browser programs, which display the information and allow users to select links to access other web sites (the process known as 'surfing').

Web browsers

Browsers such as Netscape Navigator or Microsoft Internet Explorer provide an easy method of accessing and viewing information stored as web documents on different servers.

Web servers

Web servers are used to store the web pages accessed by web browsers. They may also contain databases of customer or product information which can be queried and retrieved using a browser. The technical name for web addresses is uniform or universal resource locators (URLs). URLs can be thought of as a standard method of addressing similar to postal or ZIP codes that make it straightforward to find the name of a site. Web addresses are structured in a standard way as follows: http://www.domain-name.extension/filename.html. The domain name refers to the name of the web server and is usually selected to be the same as the name of the company and the extension will indicate its type. The extension is also commonly known as the global top level domain (gTLD). Note that gTLDs are currently under discussion and there are proposals for adding new types such as .store and .firm.

Uniform (universal) resource locators (URL)
A web address used to locate a web page on a web server. Common gTLDs are:
--**.com** represents an international or American company such as http://www.travelagency.com
--**.co.uk** represents a company based in the UK such as http://www.thomascook.co.uk/.
--**.ac.uk** a UK based University (e.g. http://www.derby.ac.uk)
--**.org.uk or .org** are not for profit organisations (e.g. www.greenpeace.org)
--**.net** a network provider such as www.freeserve.net.
The 'filename.html' part of the web address refers to an individual web page, for example 'products.html' for a web page summarising companies' products. When a web address is typed in without a filename, for example www.bt.com, the browser automatically assumes the user is looking for the home page, that by convention is referred to as index.html. When creating sites, it is therefore vital to name the home page index.html.

World Wide Web
The *World Wide Web* is a medium for publishing information on the Internet. It is accessed through *web browsers*, which display web pages and can now be used to run business applications. Company information is stored on *web servers*, which are usually referred to as *web sites*.

How does the Internet work?
The Internet enables communication between millions of connected computers world-wide. Information is transmitted from client PCs whose users request services to server computers that hold information and host business applications that deliver the services in response to requests. As such, the Internet is a large-scale **client/server** system. By end 2000, Nua compilations estimated that worldwide, there were over 450 million users of clients accessing over 30 million web sites hosted on servers (Web update, www.nua.ie/surveys, www.cyberatlas.com). The client PCs within homes and businesses are connected to the Internet via local **Internet Service Providers (ISPs)** who, in turn, are linked to larger ISPs with connection to the major national and international infrastructure or **backbones.** In the UK, at the London Internet Exchange which is the Docklands area of East London, a facility exists to connects multiple backbones of the major ISPs within the UK onto a single high-speed link out of the UK into Europe and through to the US. These high speed links can be thought of as the motorways on the 'information superhighway' while the links provided from ISPs to consumers are equivalent to slow country roads.

<Client/server> The client/server architecture consists of client computers such as PCs sharing resources such as a database stored on a more powerful server computers.

<Internet Service Provider (ISP)> A provider enabling home or business users a connection to access the Internet. They can also host web-based applications.

<Backbones> High-speed communications links used to enable Internet communications across a country and internationally

Infrastructure components of the Internet

The process by which web browsers communicate with web servers is for example the following. A request from the client PC is executed when the user types in a web address, clicks on a hyperlink or fills in an online form such as a search. This request is then sent to the ISP and routed across the Internet to the destination server using the mechanism described in the section on protocols. The server then returns the requested web page if it is a **static (fixed) web page**, or if it requires reference to a database, such as a request for product information will pass the query on to a database server and will then return this to the customer as a **dynamically created web page**. Information on all page requests is stored in a **transaction log file** which records the page requested, time it was made and the source of the enquiry. This information can be analysed using a **log file analyser** along with different browser-based techniques to assess the success of the web site.

<Static web page> A page on the web server that is invariant.

<Dynamic web page> A page that is created in real-time, often with reference to a database query, in response to a user request.

<Transaction log files> A web server file that records all page requests

<Log file analyzer> Software to summarize and report the information in the transaction log file.

Web page standards

The information, graphics and interactive elements that make up the web pages of a site are collectively referred to as **content**. Different standards exist for text, graphics and multimedia. The saying 'content is king' is often applied to the World Wide Web, since the content will determine the experience of the customer and whether they will return to a web site in future.

Content

Content is the design, text and graphical information which forms a web page. Good content is the key to attracting customers to a web site and retaining their interest or achieving repeat visits.

Text information – HTML (Hypertext Markup Language)

Web page text has many of the formatting options available in a word processor. These include applying fonts, emphasis (bold, italic, underline) and placing information in tables. Formatting is possible since the web browser applies these formats according to instructions that are contained in the file that makes up the web page. This is usually written in HTML or hypertext markup language. HTML is an international standard established by the World Wide Web Consortium (and published at www.w3.org) intended to ensure that any web page authored according to the definitions in the standard will appear the same in any web browser.

HTML (Hypertext Markup Language)

HTML is a standard format used to define the text and layout of web pages. HTML files usually have the extension .HTML or .HTM. The HTML code used to construct pages has codes or instruction tags such as <TITLE> to indicate to the browser what is displayed. The <TITLE> tag indicates what appears at the top of the web browser window. Each starting tag has a corresponding end tag usually marked by a '/' , for example <B>plastics</B> to embolden plastics. The simplicity of HTML compared to traditional programming languages makes it possible for simple web pages to be developed by non-specialists such as marketing assistants, particularly if templates for more complex parts of the page are provided. Interactive forms and brochures and online sales are more complex and usually require some programming expertise, although tools are available to simplify these.

Text information and data – XML (Extensible markup language)

When the early version of HTML was designed by Tim Berners-Lee at CERN, he based it on the existing standard for representation of documents. This standard was SGML, the Standard Generalised Markup Language that was ratified by the ISO in 1986. SGML uses tags to identify the different elements of a documents such as title and chapters. HTML used a similar approach, for example the tag for title is <TITLE>. While HTML proved powerful in providing a standard method of displaying information, that was easy to learn, it was purely presentational. It lacked the ability to describe the data on web pages. A **metadata** language providing data about data contained within pages would be much more powerful. These weaknesses have been acknowledged, and in an effort co-ordinated by the World Wide Web consortium, the first XML or eXtensible Markup Language was produced in February 1998. This is also based on SGML. The key word describing XML is 'extensible' . This means that new markup tags can be created that facilitate the searching and exchange of information. For example, product information on a web page could use the XML tags <NAME>, <DESCRIPTION>, <COLOUR> and <PRICE>. The tags can effectively act as a standard set of database field descriptions so that data can be exchanged through B2B exchanges.

<metadata> Literally, data about data – a format describing the structure and content of data

The importance of XML are indicated by its incorporation by Microsoft into its BizTalk server for B2B integration and the creation of ebXML (electronic business XML) standard by rivals Sun Microsystems. It is also the main standard for data exchange for CommerceOne B2B Marketplace (See 'Example XML for Online Marketplace catalogue' box) and industry standards, for example transferring data between companies in the chemical process industry. In future, XML may become increasingly important for search engines.

Graphical images (GIF and JPEG file)

Graphics produced by graphic designers or captured using digital cameras can be readily incorporated into web pages as images. GIF (Graphics Interchange Format) and JPEG (Joint Photographics Experts Group) refer to two standard file formats most commonly used to present images on web pages. GIF files are limited to 256 colours and are best used for small simple graphics such as banner adverts while JPEG are best used for larger images where image quality is important such as photographs. Both formats use image compression technology to minimise the size of downloaded files.

GIF (Graphics Interchange Format)

A graphics format and compression algorithm best used for simple graphics

JPEG (Joint Photographics Experts Group)

A graphics format and compression algorithm best used for photographs

Animated graphical information (GIFs and plug-ins)

GIF files can also be used for interactive banner adverts. **Plug-ins** are additional programs sometimes referred to as helper applications that work in association with the web browser to provide features not present in the basic web browser. The best known plug-ins are probably that for Adobe Acrobat that is used to display documents in .pdf format (www.adobe.com) and the Macromedia Flash and Shockwave products for producing interactive graphics (www.macromedia.com).

Plug-ins

An add-on program to a web browser providing extra functionality such as animation

Audio and video standards

Traditionally sound and video or rich media have been stored as the Microsoft standards .WAV and .AVI. A newer sound format for music is MP3. These formats are used on some web sites, but they are not appropriate for site such as the BBC (**www.bbc.co.uk**), since the user would have to wait until the whole clip to download before hearing or viewing it. Streaming media are now used for many multimedia sites since they enable video or audio to start playing within a few seconds – it is not necessary for the whole file to be downloaded before it can be played. Formats for **streaming media** have been established by Real Networks (www.realnetworks.com).

Streaming media

Sound and video that can be experienced within a web browser before the whole clip is downloaded.

Internet access software applications

Over its lifetime, many tools have been developed to help find, send and receive information across the Internet. Web browsers used to access the World Wide Web are the latest of these aplications. In this section we will briefly discuss the relevance of some of the more commonly used tools to the modern organisation. The other tools have either been superseded by the use of the World Wide Web or are of less relevance from a business perspective. The application of the Internet for marketing concentrates on the use of e-mail and the World Wide Web since these tools are now most commonly used by businesses for digital marketing. Many of the other tools such as e-mail, IRC and newsgroups, that formerly needed special software to access them, are now available from the WWW.

Internet tool Summary

Electronic mail or E-mail Sending messages or documents, such as news about a new product or sales promotion between individuals. A primitive form of 'push' channel.

Internet Relay Chat (IRC) This is a synchronous communications tool which allows a text based 'chat' between different users who are logged on at the same time. Of limited use for marketing purposes.

Usenet newsgroups A widely used electronic bulletin board used to discuss a particular topic such as a sport, hobby or business area. Traditionally accessed by special newsreader software, can now be accessed via a web browser from www.deja.com (now part of Google (www.google.com).

FTP file transfer The File Transfer Protocol is used as a standard for moving files across the Internet. FTP is available as a feature of web browsers that is used for marketing applications such as downloading files such as product price lists or specifications. Also used to update HTML files on web pages.

Gophers, Archie and WAIS. These tools were important before the advent of the web for storing and searching documents on the Internet. They have largely been superseded by the web which provides better searching and more sophisticated document publishing.

Telnet This allows remote access to computer systems. For example a retailer could check to see whether an item was in stock in a warehouse using a telnet application.
Push channel Information is broadcast over the Internet or an intranet and received using a web browser or special program for which a subscription to this channel has been set up. This technique is still used for automated software distribution, but has not proved popular as a method for accessing web content by users.
World Wide Web Widely used for publishing information and running business applications over the Internet.

From the Internet to intranets and extranets

Intranet and **extranet** are two terms that have arisen in the 1990s to describe applications of Internet technologies that do not only involve communicating with customers, but rather with company staff (intranet) and third parties such as suppliers and distributors (extranet). While everyone connected to the Internet can access a company Internet web site, only those who have been given authorisation can access an intranet or extranet. It can be seen that an intranet is effectively a private-company Internet with access available to staff only. An extranet permits access to trusted third parties, and the Internet provides global access. Extranets provide exciting opportunities to communicate with major customers since tailored information such as special promotions, electronic catalogues and order histories can be provided on a web page personalized for each customer.
Opportunities for using intranets and extranets to support the marketing process can be divided in two different ways. First, we must consider that the Internet can be used for marketing communications both within and beyond the company. As well as using the Internet to communicate with customers, companies find that internal use of an intranet or use of an extranet facilitate communication and control between staff, suppliers and distributors. Second, the Internet, intranet and extranet can be applied at different levels of management within a company. Table 1.2 illustrates potential marketing applications of both the Internet and intranet for supporting marketing at different levels of managerial decision making. Vlosky et al. (2000) examine how extranets impact business practices and relationships in more detail.

How do Internet marketing communications differ from traditional marketing communications?

Internet marketing differs from conventional marketing communications because of the digital medium used for communications. The Internet and other digital media such as digital television, satellite and mobile phones create new forms and models for information exchange. A useful summary of the differences between these new media and traditional media has been developed by McDonald and Wilson (1999) which they describe as the '6Is of the e-marketing mix' . Note that these can be used as a strategic analysis tool, but they are not used in this context here. The 6Is are useful since they highlight factors that apply to practical aspects of Internet marketing such as personalisation, direct response and marketing research, but also strategic issues of industry restructuring and integrated channel communications. By considering each of these facets of the new media, marketing managers can develop marketing plans that accommodate the characteristics of the new media. This presentation of the '6Is' , is an interpretation of these factors using new examples and diagrams to illustrate these concepts.

1. Interactivity

Deighton (1996) was one of the first authors to summarise the key characteristics of the Internet. He identifies the following characteristics inherent in a digital medium:

- the customer initiates contact;
- the customer is seeking information (pull);
- it is a high intensity medium – the marketer will have 100 per cent of the individual's attention when he or she is viewing a web site;
- a company can gather and store the response of the individual;
- individual needs of the customer can be addressed and taken into account in future dialogues.

Traditional media are predominantly *push media* where the marketing message is broadcast from company *to* customer and other stakeholders. During this process, there is limited interaction with the customer, although interaction is encouraged in some cases such as the direct response advert or mail-order campaign. On the Internet, it is usually a customer who initiates contact and is *seeking* information on a web site. In other words it is a '*pull*' mechanism unless e-mail is used (this can be considered as a push technique). The Internet should be used to encourage two-way communication, these may be extensions of the direct-response approach. For example, FMCG suppliers such as Nestle (www.nescafe.co.uk) use their web site as a method of generating interaction by providing incentives such as competitions and sales promotions to encourage the customer to respond with their names, addresses and profile information such as age and sex.

Hoffman and Novak (1997) believe that this change is significant enough to represent a new model for marketing or a new marketing paradigm. They suggest that the facilities of the Internet including the web represent a computer mediated environment in which the interactions are not between the sender and receiver of information, but with the medium itself. They say:

'*consumers can interact with the medium, firms can provide content to the medium, and in the most radical departure from traditional marketing environments, consumers can provide commercially-oriented content to the media*' .

The content customers can provide may be directly commercial such as auctioning of their possessions such as via eBay (www.ebay.com) or could include comments on companies and products submitted via a newsgroup.

2. Intelligence

The Internet can be used as a relatively low cost method of collecting marketing research, particularly about customer perceptions of products and services. In the competitions referred to above Nescafe are able to profile their customers on the basis of the information received in questionnaires. The Internet can be used to create two-way feedback which does not usually occur in other media. Financial services provider Egg (www.egg.com) collects information about their online service levels through a questionnaire that is continuously available in the customer service part of their site. What is significant is that the company responds via the web site to the main concerns from customer; if the length of time it takes to reply to customer service e-mails is seen as a problem it will explain what the organisation is trying to do to resolve this problem. A wealth of marketing research information is also available from the web site itself, since every time a user clicks on a link this is recorded in a transaction log file summarizing what information on the site the customer is interested in. Since these log files quickly grow to be many thousands of lines long, analysis software tools are needed to summarize the information contained within them. Log file analysers, of which Webtrends (www.webtrends.com) is the most widely used, will highlight which type of products or promotions customers are responding to and how patterns vary through time. This enables companies to respond in realtime to buyer behaviour. UK e-tailer Jungle.com uses this technique to change the offers on its home page if customers are not responding to a special offer.

3. Individualisation

Another important feature of the interactive marketing communications referred to above is that they can be tailored to the individual (Figure 1-14 (b)) unlike traditional media where the same message tends to be broadcast to everyone (Figure 1-14 (a)). The process of tailoring is also referred to as *personalisation* and is an important aspect of achieving customer relationship management online. Personalisation is often achieved through extranets which are set up with key accounts to manage the buying and after-sales processes. Dell (www.dell.com/premierpages) has set up 'Premier Pages' for key accounts such as the Abbey National where special offers and bespoke customer support are delivered. Another example of personalisation is that achieved by business-to-business e-tailer RS Components (www.rswww.com). Every customer who accesses their system is profiled according to their area of product interest and information describing their role in the buying unit. When they next visit the site information will be displayed relevant to their product interest, for example office products and promotions if this is what was selected. This is an example of what is known as *mass customisation* where generic customer information is supplied for particular segments i.e. the information is not unique to individuals, but to those with a common interest. The online booksellers such as Amazon (www.amazon.co.uk) use this approach to communicate new books to groups of customers. Gardeners for instance, who have previously purchased a gardening book, will receive a standard e-mail advertising the latest gardening tome. This is again mass customisation.

4. Integration

The Internet provides further scope for integrated marketing communications. The Internet is just one of many different media channels (these channels are also offered by intermediaries). When assessing the success of a web site, the role of the Internet in communicating with customers and other partners can best be considered from two perspectives. First organisation to customer direction, how does the Internet complement other channels in communication of proposition for the company' s products and services to new and existing customers with a view to generating new leads and retaining existing customers? Second customer to organisation, how can the Internet complement other channels to deliver customer service to these customers? Many companies are now considering how they integrate e-mail response and web-site call-back into their existing call-centre or customer service operation. This may require a substantial investment in training and new software. Some practical examples of how the Internet can be used as an integrated communications tool are as follows:

- The Internet can be used as a direct response tool enabling customers to respond to offers and promotions publicised in other media.
- The web site can have a direct response or call-back facility built into it. The Automobile Association have a feature where a customer service representative will

contact a customer by phone when the customer fills in their name, phone number and a suitable time to ring.

- The Internet can be used to support the buying decision even if the purchase does not occur via the web site. For example, Dell has a prominent web-specific phone number on their web site that encourages customers to ring a representative in the call-centre to place their order. This has the benefits that Dell are less likely to lose the business of customers who are anxious about the security of online ordering and Dell can track sales that result partly from the web site according to the number of callers on this line. Considering how a customer changes from one channel to another during the buying process is referred to as **mixed-mode buying**. It is a key aspect of devising online marketing communications since the customer should be supported in changing from one channel to another.
- Customer information delivered on the web site must be integrated with other databases of customer and order information such as those accessed via staff in the call-centre to provide what Seybold (1999) calls a '360 degree view of the customer' .
- The Internet can be used to support customer service. For example EasyJet (www.easyjet. com), who receive over half their orders electronically, encourage users to check a list of frequently asked questions (FAQ) compiled from previous customer enquiries before contacting customer support via phone.

5. Industry restructuring

Disinteremediation and reintemediation, are key concepts of industry restructuring that should be considered by any company developing an e-marketing strategy. For the marketer defining their companies communications strategy it becomes very important to consider a companies representation on these intermediary sites by answering questions such as 'which inter-mediaries should we be represented on?' and 'how do our offerings compare to those of competitors in terms of features, benefits and price?'

Disintermediation

The removal of intermediaries such as distributors or brokers that formerly linked a company to its customers

Reintermediation

The creation of new intermediaries between customers and suppliers providing services such as supplier search and product evaluation

6. Independence of location

Electronic media also introduce the possibility to increase the reach of company communications to the global market. This gives opportunities to sell into international markets that may not have been previously possible. Scott Bader (www.scottbader.com), a business-to-business supplier of polymers and chemicals for the paints and coatings industry, can now target countries beyond the 40 or so it has traditionally sold to via a network of local agents and franchises. The Internet makes it possible to sell to a country without a local sales or customer service force (although this may still be necessary for some products). In such situations and with the restructuring in conjunction with disintermediation and reinter-mediation, strategists also need to carefully consider channel conflicts that may arise. If a customer is buying direct from a company in another country rather than via the agent, this will marginalize the business of the local agent who may want some recompense for sales efforts or may look to partner with competitors.

Conversion marketing
One of the key features of Internet marketing using the web is that the customer has to consciously decide to visit a particular site according to the particular information or experience he or she is seeking (Hofmann and Novak, 1996). As we have said, it is a pull medium, which contrasts with the push media used for mass marketing. The problem of encouraging site visitors is compounded since it is difficult for potential customers to find a company web site. It is estimated that there are over one billion web pages amongst which a company is competing for the attention of customers. It follows that promoting the location of the web site is critical for companies. The implication for marketers is that Internet marketing communications strategies for most companies should focus on the acquisition of site visitors, converting them to a required action on the site and then retaining these visitors. Internet marketers seek to use **conversion marketing** to convert as many *potential* site visitors into *actual* visitors and then convert these into customers and repeat visitors. A widely quoted conceptual measurement framework based on the industrial marketing concepts of purchasing decision processes and hierarchy of effects models has been proposed by Berthon et al. (1998) which can be applied for conversion marketing. The model assesses efficiency of offline and online communications in drawing the prospect through different stages of the buying decision. The main measures defined in the model were:
- *Awareness efficiency*. Target web-users/all web-users.
- *Locatability/attractability efficiency*. Number of individual visits/number of seekers.
- *Contact efficiency*. Number of active visitors/Number of visits.
- *Conversion efficiency*. Number of purchases/number of active visits.
- *Retention efficiency*. Number of repurchases/number of purchases.

This model is instructive for improving Internet marketing within an organization since these different types of conversion efficiency are key to understanding how effective online and offline marketing communications are in achieving marketing outcomes. Figure 1-17 is an adaptation of the original model of Berthon et al. (1998) from Chaffey (2001), which highlights the key conversion metrics of attraction efficiency and conversion efficiency. It shows key traffic or audience measures (Q0 to Q4) and key conversion efficiency ratios. The model has been revised to reflect current nomenclature. Also the original work was focused on conversion to purchase – the model is more widely applicable since it applies to any marketing outcome achieved on site, whether this is a new lead from a potential customer, a competition entrant or a sale. Additionally, it has been modified to distinguish between first time visitors (Q2) and repeat visitors (Q2R). E-marketers need to know how conversion effectiveness differs between first-time users and repeat users. An additional important aspect of online buyer behaviour not shown in the figure is the site path or **clickstream** for different audience types or segments.

Many the organizations seems highly efficient in attracting visitors to a site, but less efficient at converting them to action – future marketing improvements could be directed at improving this. Some organisations will measure different conversion rates for different segments and for different goals such as generating new leads, responding to a sales promotion or signing up for a seminar. Analysis by Agrawal et al. (2000) suggests that the strongest sites may have conversion rates as high as 12 percent, as against 2.5 percent for average sites and 0.4% for poorly performing ones. Clearly measurement of the conversion rate and taking actions to improve this rate are key e-marketing activities.

SUMMARY

1 Internet marketing refers to the use of Internet technologies, combined with traditional media, to achieve marketing objectives. E-marketing has a broader perspective and implies the use of other technologies such as databases and approaches such as customer relationship management.

2 Electronic commerce refers to both electronically mediated financial and informational transactions.

3 Sell-side e-commerce involves all electronic business transactions between an organization and its customers, while buy-side e-commerce involves transactions between an organization and its suppliers.

4 Electronic business is a broader term referring to how technology can benefit all internal business processes and interactions with third parties. This includes buy-side and sell-side ecommerce and the internal value-chain.

5 E-commerce transactions include Business-to-Business (B2B), Business-to-Consumer transactions (B2C), Consumer-to-consumer (C2C) and Consumer-to-business (C2B).

6 The Internet is used to develop existing markets through enabling an additional communications and/or sales channel with potential customers. It can be used to develop new international markets with a reduced need for new sales offices and agents. Companies can provide new services and possibly products using the Internet.

7 The Internet can support the full range of marketing functions and in doing so can help reduce costs, facilitate communication within and between organisations and improve customer service.

8 Interaction with customers, suppliers and distributors occurs across the Internet. If access is restricted to favoured third parties this is known as an extranet. If Internet technologies are used to facilitate internal company communications this is known as an intranet – a private company internet.

9 It is important for marketers to understand how visitors are likely to become aware of their web site and how efficient they are at converting this interest to visits and actions. Online and offline promotion techniques are used to capture new visitors and on-site communications are used to convert visitors to action.

10 The marketing benefits the Internet confers are advantageous both to the large corporation and to the small and medium-sized enterprise. These include:

- a new medium for advertising and PR;
- a new channel for distributing products;
- opportunities for expansion into new markets;
- new ways of enhancing customer service;
- new ways of reducing costs by reducing the number of staff in order fulfilment.

The Internet Marketing Mix

During the dot-com boom it perhaps became unfashionable to use the marketing mix as a way of generating e-marketing strategies, but it does still provide a sound framework for this purpose. Additionally, the Internet provides many new opportunities for the marketer to vary the marketing mix and e-commerce has far-reaching implications for the relative importance of different elements of the mix for many markets regardless of whether an organization is involved directly in e-commerce. Remember that criticisms about the application of the marketing mix to traditional strategy generation also hold true in this context. For instance, it can lead to short-term strategies that are not directed at developing relationships and increasing customer lifetime value. Similarly, if a single mix is developed for all segments, then this may be too simplistic.

In this review, we focus on the core 4Ps of Product – Price – Place – Promotion, but briefly review the elements of the extended mix: People – Process – Physical evidence. We start with product and price in this article and then go on to the remaining elements of the mix next month. If you are studying, the paper by Allen and Fjermestad (2001) provides a succinct review to options for varying the marketing mix online. Alternatively, refer to Chapter 2 in Smith and Chaffey (2001) on which this summary is based.

Product

Product is the element of the marketing mix that involves researching customers' needs and developing appropriate products. We will look at the online options for varying the core product: the fundamental features of the product to meet the users' needs and the extended product: the additional features and benefits beyond the core product.

Core product options

Ghosh (1998) discussed evolving product offerings using the Internet by providing what he referred to as 'digital value' to customers. He said companies could ask the following questions:

1. Can I offer additional information or transaction services to my existing customer base?

2. Can I address the needs of new customer segments by repackaging my current information assets or by creating new business propositions using the Internet?

3. Can I use my ability to attract customers to generate new sources of revenue such as advertising or sales of complementary products?

4. Will my current business be significantly harmed by other companies providing some of the value I currently offer?

A further useful concept is that of the 'prosumer' introduced in 1980 by futurist Alvin Toffler in his book The Third Wave. According to Toffler, the future would once again combine production with consumption. In The Third Wave, over 10 years before the web was developed, Toffler saw a world where interconnected users would collaboratively "create" products. Alternative notions of the prosumer, all of which are applicable to e-marketing are catalogued at Logophilia WordSpy (www.logophilia.com/WordSpy) which defines prosumer as:

1. A consumer who is an amateur in a particular field, but who is knowledgeable enough to require equipment that has some professional features ("professional" + "consumer").

2. A person who helps to design or customize the products they purchase ("producer" + "consumer").

3. A person who creates goods for their own use and also possibly to sell ("producing" + "consumer").

4. A person who takes steps to correct difficulties with consumer companies or markets and to anticipate future problems

("proactive" + "consumer").

An example of the application of the prosumer concept to the Internet is provided by BMW (www.bmw.co.uk) who used an interactive web site prior to launch of their Z3 roadster where users could design their own preferred features. The information collected was linked to a database and as BMW had previously collected data on its most loyal customers, the database could give a very accurate indication of which combinations of features were the most sought after and should therefore be put into production. For some products mass customisation can be used so that the customer selects the exact combination of product options they want from the web site and the product is configured accordingly. Dell Computer (www.dell.com) and Levi (www.levi.com) were early online adopters of this approach. Barbie.com (www.barbie.com) has lots of games online that involve styling the dolls which can be fed through into new product development – data is collected on the most popular choices.

The actual nature of the product can even be fundamentally altered. Rayport and Sviokla (1994) describe transactions where the actual product has been replaced by information about the product. For example, a company providing oil drilling equipment changed its product focus instead to using the Internet to product tools for analysis and dissemination of information about drilling.

Alternatively the scope of the product offering may be changed online. For example on its interactive TV service WH Smith (www.whsmith.co.uk) reduced its choice of products to best-selling books and CDs. On the Internet however it has expanded its product line to include computers which have not sold well in store. Likewise

Tesco.com offers computers and white goods through its online presence, although it is impractical to sell such a range of products instore.

The Internet has arguably also made bundling of products more practical. easyJet for example can readily bundle its flights and car hire through suitable design of its web site.

Extended product options

The ability to deliver interactivity and more detailed information through the Internet are key to enhancing the extended product offering online. Product selection tools can help match product to customer. For example Epson (www.epson.co.uk) use interactive tools to let purchasers select the best printer for them by choosing options such as print quality and speed which then automatically reduces the number of available printer options from over 20 down to a manageable number. Smith and Chaffey (2001) list these aspects of extended product that can be improved online: add-on services such as gift wrapping at Amazon; product or brand endorsement such as Pepsi offering video interviews with David Beckham through their e-newsletter and web site; awards, testimonials; customer lists; warranties; guarantees; money back offers; customer service and finally incorporating tools to help users during their use of the product through detailed information on extranets or calculators or software models to optimise use of a product.

The Internet also offers great opportunities to get closer to the customer. The humble Feedback button can provide a surprising amount of information. Better still, by analysing consumer e-mail queries from the Internet and other channels, companies can provide better product information. For example, easyJet (www.easyjet.com) has a detailed set of frequently asked questions that are compiled from analysis of the hundreds of thousands of questions received online.

Traditional marketing research techniques can also be applied online to learn more about product preferences. The online focus group can be used to reach customers who don't have the time or are too far away to participate in a conventional focus group. Online surveys can be used to assess customer satisfaction. New techniques can also be used, for example web log analysis tools such as WebTrends can be used to assess levels of interest in different products and features and independent comment sites such as Epinions (www.epinions.com) can be used to assess customer satisfaction.

Finally, the Internet can help achieve accelerated new product development. Information can be shared through extranet collaboration tools such as Opentext Livelink and customer feedback can be gathered and disseminated more rapidly between a company and its partners.

Price

There are two extreme viewpoints about how the Internet affects pricing. These are discussed by Baker et al. (2001).

The first view is that decreased prices are inevitable for commodities. The Internet increases customer knowledge through increased price transparency since it becomes much quicker to compare quoted prices by visiting supplier web sites. Even more significant is the use of price comparison sites by consumers. Sites such as Kelkoo (www.kelkoo.com) and Barclaycard Shopsmart (www.shopsmart.com) give a single location that empowers the consumer to quickly find out the best price from a range of suppliers for a range of products from Books and CDs to white goods. B2B marketplaces such as Mondus (www.mondus.com) and CommerceOne (www.commerceone.net) play a similar role in inter-organisational marketing.

The second view is that although price transparency is a great theory, the actual practice by consumers is quite different. Research summarised by Baker et al. (2001) has indicated that many online purchasers do no not perform extensive research before purchasing. For example, it is estimated that 89% purchase books from first site and only 10% of online shoppers are aggressive bargain hunters. Turning to price comparison sites, these tend to have lower awareness amongst consumers than established brands and successful Internet retail brands. It has proved costly for the new intermediaries to increase their brand awareness and it is difficult to offset this against revenue since they only receive a small proportion of each sale. Shopsmart failed in the UK because it couldn't balance the cost of acquisition against affiliate revenue and was subsequently purchased by Barclaycard. There are also barriers to prevent corporate buyers using online marketplaces. Again, they may not be aware of their existence. Even if they are, they may be happy with the status quo, and think that a human face to the supplier may be beneficial for a long term relationship and the most favourable deal. It may not be clear who you turn to when an online B2B transaction goes wrong, if there is a problem with specification or fulfilment - is it the intermediary or the manufacturer? Online B2B purchases are also complicated by the need to involve several members of the decision making unit.

Differential pricing

What then are the options for setting pricing online? Offering differential pricing for products purchased over the Internet has become commonplace. One of the reasons why the low cost carriers such as Ryanair and easyJet were successful in migrating their customer base online was that they offered a discount of £5 per ticket booked online. Other longer distance carriers such as Virgin Atlantic have now introduced a discount of £10 for their flights. Such discounts are based on taking out the cost of the person answering the phone and processing the order or through being able to sell direct and bypassing the channel. Vauxhall offers cars for sale online at what it call VIP: 'Vauxhall Internet Prices' (http://buypower.vauxhall.co.uk). However, if such savings are not felt to be significant, or there is a danger of channel conflict, then it is more common to peg online prices at offline levels.

Baker et al. (2001) suggest that companies should use three factors to assist in online pricing.

1. *Precision*. Each product has a price indifference band, where varying price has little or no impact on sales. Baker et al. (2001) report that these bands can be as wide as 17% for branded consumer beauty products, 10% for engineered industrial components, but less than 10% for some financial products. The authors suggest that while the cost of undertaking a survey to calculate price indifference is very expensive in the real-world, it is more effective online. They give the example of Zilliant, a software supplier that, in a price discovery exercise, reduced prices on 4 products by 7%. While this increased volumes of three of those by 5 to 20%, this was not sufficient to warrant the lower prices. However, for a fourth product, sales increased by 100%. It was found that this was occurring through sales to the educational sector, so this price reduction was just introduced for customers in that sector.

2. *Adaptablity*. This refers to responding more quickly to the demands of the marketplace with online pricing. For some product areas such as ticketing it may be possible to dynamically alter prices in line with demand. Tickets.com adjust concert ticket prices according to demand and has been able to achieve 45% more revenue per event as a result. The authors suggest that in this case and for other sought after items such as video games or luxury cars, the Internet can actually increase the price since there it is possible to reach more people.

3. *Segmentation*. This refers to pricing differently for different groups of customers. This has not traditionally been practical for B2C markets since at the point-of-sale information is not known about the customer, although it is widely practiced for B2B markets. One example of pricing by segments would be for a car manufacturer to vary promotional pricing, so that rather than offering every purchaser discount purchasing or cash-back online, it is only offered to those it is thought this is necessary to make the sale. A further example is where a company can identify regular customers and fill-in customer who only buy from the supplier when there needs can't be met elsewhere. In the latter case, higher prices could be levied.

Great care has to be taken with differential pricing online as was shown when Amazon started offering lower prices to first time buyers. Word of this practice quickly spread and Amazon had to withdraw this approach.

Reverse B2B auctions

The jury is still out on whether online auctions will become predominant for B2B commodities. Certainly, large reductions of 10-20% on historical pricing levels have been achieved in some sectors such as brewing, chemicals and engineering. Baker et al. (2001) suggest, however, that auctions will not become a mainstream activity, and may be seen as a passing phase since surveys in the US have shown that

- - Only 2% prefer reverse auctions for B2B products
- - 50% do not choose lowest bidder
- - 87% stay with current supplier
- - Many have stopped experimenting

Pricing structure

Different types of pricing may be possible, on the Internet, particularly for digital, downloadable products. Software and music has traditionally been sold for a continuous right to use. The Internet offers new options such as payment per use; rental at a fixed cost per month or a lease arrangement. Bundling options may also be more possible. The use of applications service providers (ASPs) to deliver service such as web site traffic monitoring also gives new methods of volume pricing. Companies such as Sitestats (www.sitestats.com) and RedSherriff (www.redsherriff.com) charge in price-bands based on the number of visitors to the purchasers' site.

Further pricing options which could be varied online include;

- Basic Price
- Discounts
- Add-Ons and Extra products and services
- Guarantees and warranties
- Refund policies
- Order Cancellation terms

Place

The Place element of the marketing mix traditionally refers to how the product is distributed to customers. Allen and Fjermestad (2001) argue that that the Internet has the greatest implications for Place in the marketing mix since the Internet has a global reach. Some key implications of the Internet for the Place aspect of the mix are:

1. *Place of purchase*. Marketers need to review the options for place of purchase. McDonald and Wilson (2002) identify five options:

A. Seller-controlled sites are those that are the main site of the supplier company which are e-commerce enabled.

B. Seller-oriented sites are controlled by third parties, but are representing the seller rather than providing a full range of options.

C. Neutral sites are independent evaluator intermediaries that enable price and product comparison and will result in the purchase being fulfilled on the target site.

D. Seller-oriented sites are controlled by third parties on behalf of the seller.

E. Seller-controlled sites usually involve either procurement posting on buyer-company sites or those of intermediaries that have been set up in such a way that it is the buyer who initiates the market making. T

For B2C organisations, A, B and C are important. Take the travel industry. If you are promoting packaged holidays, a strategy that is based solely on customers directly visiting your web site (A) would be ineffective. Instead holiday companies use affiliate arrangements (B) and search engine marketing to drive visitors to their site. Furthermore, many consumers will go to neutral intermediaries (C) such as LastMinute.com to find the best deal. For B2B organisations, A, B and C are still relevant, but some large organisations such as General Electric post bids to tender on their own web site, so these also have to be carefully monitored.

2. *Navigation*. Evans and Wurster (1999) have argued that there are three aspects of navigation that are key to achieving competitive advantage online. These are:

• Reach. This is the potential audience of the e-commerce site. Reach can be increased by moving from a single site to representation with a large number of different intermediaries. Allen and Fjermestad suggest that niche suppliers can readily reach a much wider market due to search engine marketing.

• Richness. This is the depth or detail of information which is both collected about the customer and provided to the customer. This is related to the product element of the mix.

• Affiliation. This refers to whose interest the selling organization represents – consumers or suppliers. This particularly applies to retailers. It suggests that customers will favour retailers who provide them with the richest information on comparing compeititive products.

3. *Localisation*. Providing a local site, with, or without a language specific version is referred to as localisation. A site may need to support customers from a range of countries with:different product needs; language differences; cultural differences.

4. *New channel structures*. The main types of phenomena that strategies need to be developed for are:

A. Distintermediation. Is there are an option for selling direct? Selling direct can lead to the channel conflicts mentioned in the next section. When assessing this option there will be a number of barriers and facilitators to this change.

B. Reintermediation. The new intermediaries created through re-intermediation, for example Lastminute.com or JamJar.com should be evaluated for suitability for partnering with for affiliate arrangements. These intermediaries receive a commission on each sale resulting from a referral from their site.

C. Countermediation. Should the organization partner with another independent intermediary, or set up its own independent intermediary? For example, a group of European airlines have joined forces to form Opodo (www.opodo.com) which is intended to counter independent companies such as Lastminute.com (www.lastminute.com) or eBookers (www.ebookers.com) offering discount fares.

5. *Channel conflicts*. A significant threat arising from the introduction of an Internet channel is that while disintermediation gives a company the opportunity to sell direct and increase profitability on products, it can also threaten distribution arrangements with existing partners. Such channel conflicts are described by Frazier (1999), and need to be carefully managed. Frazier (1999) identifies some situations when the Internet should only be used as a communications channel.

Promotion

The Promotion element of the marketing mix refers to how marketing communications are used to inform customers and other stakeholders about an organization and its products. Much that has been written about e-marketing, including many articles in What's New in Marketing focuses on promotion, so I will keep this coverage brief. Of course, the Internet offers a new, additional marketing communications channel to inform customers of the benefits of a product and assist in different stages of the buying process. Some different approaches for looking at how the Internet can be used to vary the promotion element of the mix include:

1. Reviewing new ways of applying each of the elements of the communications mix such as advertising, sales promotions, PR and direct marketing using new media such as the web and e-mail.

2. Assessing how the Internet can be used at different stages of the buying process. For instance, the main role of the web is often in providing further information rather completing the sale. Think of car purchase. Many consumers will now review models online, but most still buy in the real world.

3. Using promotional tools to assist in different stages of customer relationship management from customer acquisition to retention. In a web context this includes gaining initial visitors to the site and gaining repeat visits through these types of communications techniques:

• Reminders in traditional media campaigns why a site is worth visiting such as online offers and competions;

• Direct e-mail reminders of site proposition and new offers;

• Frequently updated content including promotional offers or information that helps your customer do their job that reminds them to visit.

4. Looking at how the Internet can be integrated into campaigns. For example, we are currently seeing many direct response print and TV ad campaigns where the web is used to manage entry into a prize draw and profiling of the entrant for future communications.

A recent campaign by Virgin Atlantic shows the power of integrated e-marketing campaigns. In June, a viral campaign was launched offering one customer the chance to Fly Free For Life. A competition and game were used to encourage people to visit a microsite, provide their email address and refer friends for another opportunity to enter. This campaign was promoted via cold e-mails to bought-in lists, banners on various sites, the flying club newsletter, a radio campaign and poster site all driving traffic to a specially built microsite. The total traffic from all online advertising and all email activity was 241,460 visits. The viral element was very successful with just under one email per visitor sent to friends This resulted in 200,000 additional e-mails being delivered from the site and was the main source of visitors. Click through for opened emails was extremely high, averaging around 80% suggesting that the offer and creative were compelling.

The promotion element of a marketing plan also requires key decisions about investment in the the online communications mix. One is 'What is the balance between investment in site promotion compared to site creation and maintenance?' Since there is often a fixed budget for site creation, maintenance and promotion, the e-marketing plan should specify the budget for each to ensure there is a sensible balance and the promotion of the site and e-marketing campaigns are not underfunded. Furthermore, what is the investment in online promotion techniques compared to offline promotion? A balance must be struck between these techniques. Typically, offline promotion investment often exceeds that for online promotion investment. For existing companies, traditional media such as print are used to advertise the sites, while print and TV will also be widely used by dot-com companies to drive traffic to their sites. Finally, decisions are required about investment in different online promotion techniques for example, how much to pay for banner advertising or Pay Per Click search engine advertising or search engine optimisation as against online PR

People, process and physical evidence

The service elements of the marketing mix are as important in the virtual world as they are in the physical world. The importance of online service for some organisations are indicated by bank Nationwide which Bicknell (2002) reported has received 900,000 registrants on site with 2.4 million visits to the site in August 2001. Of the 1.2 million who entered the online bank, 900,000 made transactions resulting in 60,000 online contacts which require customer service. These figures highlight the number of transactions that will have reduced customer contacts in real-world branches and by phone, but this still leaves 60,000 online contacts. The Nationwide believed that customers should expect service to be fast and accurate. Mark Cromack, operations manager said:

'*There was a huge demand for more and more information and an explosion in the level of information that people wanted*.

The People element of the marketing mix refers to the how an organisations' staff interact with customers and other stakeholders during sales and pre and post sales. Smith and Chaffey (2001) suggest that online, part of the consideration for the people element of the mix is the consideration of the tactics by which people can be replaced or automated. Some of the options:

• *Autoresponders*. These automatically generate a response when a company e-mails an organisation, or submits an online form.

• *E-mail notification*. Automatically generated by a companies systems to update customers on the status of their order, for example, order received, item now in stock, order dispatched.

• *Call-back facility*. Customers fill in their phone number on a form and specify a convenient time to be contacted. Dialling from a representative in the call centre occurs automatically at the appointed time and the company pays which is popular.

• *Frequently Asked Questions (FAQ)*. For these, the art is in compiling and categorising the questions so customers can easily find (a) the question and (b) a helpful answer.

• *On site search engines*. These help customers find what they're looking for quickly are popular when available. Site maps are a related feature.

Organisations can test actions and answers needed at each stage for different types of scenario e.g. enquiry from a new or existing customer, enquiry about the web site or e-mails from different stages in the buying process such as pre-sales, sales or post-sales. To reduce the volume of calls at the Nationwide, Frequently Answered Questions (FAQ) were not sufficient. It uses Firepond Concierge on the home page to provide a facility with natural language searching to help customers find the answers to their queries more rapidly. It uses Firepond 'Answer' as an automated message routing tool that provides automated answers to simple questions which can be reviewed by contact centre staff before dispatch and yet is able to spot the phrasing of more complex queries for completion by call centre operators. Using these solutions, the quality of answers improved to give a first time resolution rate of 94%. With the reduced staff time involved, the cost per contact has been reduced from £4 to £2.

The Process element of the marketing mix refers to the methods and procedures companies use to achieve all marketing functions such as new product development, promotion, sales and customer service. The restructuring of the organisation and channel structures described for the product, price, place and promotion all require new processes.

The Physical evidence element of the marketing mix refers to the tangible expression of a product and how it is purchased and used. In an online context, physical evidence refers to customers' experience of the company through the web site and associated support. It includes issues such as site ease of use or navigation, availability and performance. Keynote Europe Ltd (www.keynote.com) independently assesses site performance so that companies can be warned when their service levels drops. These data shows a wide variation between the performance of the best companies and the worst:

Site	**Download (secs.)**	**Availability (%)**
Yahoo	0.37	99.74
Go-Fly	0.47	99.68
BT	0.49	98.95
Iceland	0.59	99.74
Easyjet	0.62	99.10
Worst	7.65	93.13

Responsiveness to e-mail enquiries is another key aspect of performance. The process must be right to enable an acceptable response within the notified service standards such as 24 hours.

Sumary

We have looked at evaluating the opportunities provided by the Internet for varying the marketing mix as a useful framework for assessing current and future Internet marketing strategy. Some of the options are:

Product. Opportunities for varying the core product through new information-based services and also the extended product should be reviewed.

Price. The Internet leads to price transparency and commoditization leading to lower prices. Dynamic pricing gives the ability to test prices or to offer differential pricing for different segments or in response to variations in demand. New pricing models such as auctions are available.

Place. Place refers to place of purchase and channel structure on the Internet. There are 3 main locations for e-commerce transactions: seller-site, buyer-site or intermediary. New channel structures are available through direct sales and linking to new intermediaries. Steps must be taken to minimize channel conflict.

Promotion. The communications mix should be revised to integrate new media such as e-mail and the web

People, process and physical evidence. Service delivery online is as important in the virtual world as it is in the physical world. Revising processes to manage the potentially large volume of support processes is key to maintaining satisfaction with the online service.

EXERCISES AND QUESTIONS

Self-assessment exercises

1 Which measures can companies use to assess the significance of the Internet to their organisation?
2 Why have companies only started to widely use the Internet for marketing in the 1990s, given that it has been in existence for over thirty years?
3 Distinguish between Internet Marketing and e-marketing.
4 Explain what is meant by electronic commerce and electronic business. How do they relate to the marketing function?
5 What are the main differences and similarities between the Internet, intranets and extranets?
6 Summarise the differences between the Internet and traditional media using the 6Is.
7 How is the Internet used to develop new markets and penetrate existing markets? What types of new products can be delivered by the Internet?

Essay and discussion questions

1 The Internet is primarily thought of as a means of advertising and selling products. What are the opportunities for use of the Internet in other marketing functions?
2 'The World Wide Web represents a *pull* medium for marketing rather than a *push*-medium.' Discuss.
3 You are a newly installed marketing manager in a company selling products in the business-to-business sector. Currently, the company only has a limited web site containing electronic versions of its brochures. You want to convince the directors of the benefits of investing in the web site to provide more benefits to the company. How would you present your case?
4 Explain the main benefits that a company selling fast-moving consumer goods could derive by creating a web site.

Examination questions

1 Contrast electronic commerce to electronic business.
2 Internet technology is used by companies in three main contexts. Distinguish between the following types and explain their significance to marketers.
(a) intranet
(b) extranet
(c) Internet
3 An Internet marketing manager must seek to control and accommodate all the main methods by which consumers may visit a company web site. Describe these methods.

4 Imagine you are explaining the difference between the World Wide Web and the Internet to a marketing manager. How would you explain these two terms?
5 What is the relevance of 'conversion marketing' to the Internet?
6 Explain how the Internet can be used to increase market penetration in existing markets and develop new markets.

WEB SITE REFERENCES

General sources on marketing and Internet marketing

Biz/ed Internet Catalogue (*http://catalogue.bized.ac.uk/roads/market.html*) has some online marketing resources, particularly in the sections on Marketing Channels and Marketing Resources.

eLab (http://*ecommerce.vanderbilt.edu or www.eLabWeb.com*) was founded in 1994 as Project 2000 by Tom Novak and Donna Hoffman at School of Management, Vanderbilt University, to study marketing implications of the Internet. Useful links/papers.

University of Strathclyde, Department of Marketing, Marketing Resource Gateway (MRG)
www.marketing.strath.ac.uk/dcd/. A comprehensive directory of marketing-related links.

Market reports on electronic commerce

CyberAtlas (www.cyberatlas.com) gives Internet statistics including demographics; updated monthly.

E-consultancy (www.e-consultancy.co.uk) A good compilation of reports and white papers about new media.

Nua Internet Surveys (www.nua.ie/surveys) is the definitive source of news on Internet developments, and reports on company and consumer adoption of Internet and characteristics in Europe and worldwide.

Print media

New Media Age (*www.newmediazero.com/nma*). A weekly magazine reporting on the UK new media interest. Content now available online.

New Television Strategies (*www.newmediazero.com/ntvs*). Sister publication to New Media Age.

Revolution magazine (*www.revolutionmagazine.com*). A weekly magazine available for both UK and US on new media including Internet marketing.

Allen, E. and Fjermestad, J. E-commerce marketing strategies: a framework and case analysis. *Logistics Information Management. Volume 14* . Number 1/2 . 2001 . pp. 14-23.

Bicknell, D. (2002) Banking on customer service. *e.Businessreview*. Jan 2002, pp21-2.

Frazier, G. (1999) 'Organising and managing channels of distribution', *Journal of the Academy of Marketing Science*, 27(2), 222–40.

McDonald, M. and Wilson, H. (2002) *New marketing: transforming the corporate future*. Oxford: Butterworth-Heinemann.

Smith and Chaffey (2001) *eMarketing eXcellence: the heart of eBusiness*. Oxford: Butterworth-Heinemann.

Virgin Atlantic case courtesy of Tara Topliff and Naomi Broad at Virgin Atlantic and Glenn Jones at glue London.

Internet Marketing Strategy

Introduction

The importance of developing an effective e-marketing strategy is indicated by Michael Porter (2001) who has said:

'The key question is not whether to deply Internet technology – companies have no choice if they want to stay competitive – but how to deploy it.'

An e-marketing strategy is needed to provide consistent direction for an organisation's e-marketing activities that integrates with its other marketing activities and supports the overall objectives of the business.
For many companies, the first forays into e-marketing or Internet marketing are not the result of a well-defined, integrated Internet strategy; rather, they are a response to competitors activities or customers demand. After a site has been in existence for a year or so, marketing staff and senior managers in a company will naturally question its effectiveness. This is often the point at which the need for a coherent Internet marketing strategy becomes apparent. As a result, the starting point used in this summary of approaches to e-marketing strategy, is when a company that has an existing site and it is reviewing the current site and its effectiveness with a view to future improvements.

The e-marketing strategy process

There is no evidence to suggest that the approach to developing and implementing a strategy should be significantly different for e-marketing. Established frameworks for corporate strategy development or strategic marketing planning should still be followed. These frameworks provided a logical sequence to follow which ensures inclusion of all key activities of strategy development. It can be argued, however, that with e-marketing there is an even greater need for a highly responsive strategy process model where rapid reaction can occur to events in the marketplace. The use of Soviet-style 5 year planning does not seem appropriate, a preferable approach is an emergent e-marketing strategy process that is part of a continuous improvement. Chaffey (2002) notes that e-business or e-marketing strategy process models tend to share the following characteristics:

- Continuous internal and external environment scanning or analysis are required.
- Clear statement of vision and objectives is required.
- Strategy development can be broken down into formulation and selection.
- After strategy development, enactment of the strategy occurs as strategy implementation.
- Control is required to detect problems and adjust the strategy accordingly.
- They must be responsive to changes in the marketplace.

In this article, we will use a four stage model for e-marketing strategy development. The four stages are:

1. Strategic analysis. Continuous scanning of the micro and macro-environment of an organization are required with particular emphasis on the changing needs of customers, actions and business models of competitor and opportunities afforded by new technologies. Techniques include resource analysis, demand analysis and competitor analysis, applications portfolio analysis, SWOT analysis and competitive environment analysis.

2. Strategic objectives. Organisations must have a clear vision on whether digital media will complement or replace other media and their capacity for change. Clear objectives must be defined and in particular goals for the online revenue contribution should be set.

3. Strategy definition. We will discuss strategy definition by asking eight questions. These will be considered later in this article:
Decision 1. Target market strategies.
Decision 2. Positioning and differentiation strategies.
Decision-3. Resourcing-Internetmarketing priorities – significance to organization.
Decision 4. CRM focus and financial control
Decision 5. Market and product development strategies.
Decision 6. Business and revenue models including product development and pricing strategies.
Decision 7. Organisational restructuring required.
Decision 8. Channel structure modifications.

4. Strategy implementation. Includes devising and executing the tactics needed to achieve strategic objectives. This includes relaunching a web site, campaigns associated with promoting the site and monitoring the effectiveness of the site.

We will now examine specific issues of strategic analysis and objective setting that are related to e-marketing.

1. Strategic analysis.

In common with traditional marketing strategy, strategic analysis or situation analysis for e-marketing involves review of the:

- internal resources and processes of the company and a review of its activity in the marketplace;
- immediate competitive environment (micro-environment) including customer demand and behaviour, competitor activity, marketplace structure and relationships with suppliers and partners.
- wider environment (macro-environment) in which a company operates including the social, legal, economic, political and technological factors.

In this section we will highlight the key aspects of the internal and external environment that need to be assessed when developing an e-marketing strategy.

Internal resources

These are of particular importance for e-marketing:

Portfolio analysis and stage models

Considers the sophistication of online services offered to prospects and customers. From basic ‘brochureware’ sites with no interaction through those offering online catalogues to fully transactional sites offering full support for all stages of the customer lifecycle from acquisition, retention to extension and all stages of the buying process.

E-marketing effectiveness

How effective is the organisation at converting browsers to visitors and visitors to prospects and buyers? Analysis of web logs using diagnostics is important here.

Financial resources and cost/benefit

Iin particular the breakdown for costs of running the online presence between site development, promotion and maintenance. Many organisations still do not have good visibility of these costs and the benefits such as those described in the objective setting section.

Service quality

Human resources and software assistance for answering customer queries and dispatching goods.

Technology infrastructure resources

Availability and performance (speed) of web site and service level agreements with the ISP.

Structure

What are the responsibilities and control mechanisms used to co-ordinate Internet marketing across different departments and business units.

Strengths and Weaknesses

SWOT analysis can be readily applied to e-marketing specific issues.

The Internet micro-environment

Pertinent factors for the Internet include demand analysis, competitor analysis intermediary analysis, channel structure. Porter (2001) has written extensively about how the Internet has changed the dynamic of the marketplace and has reinterpreted his often-quoted five forces model in the Internet era. Demand analysis or online customer activity is a key factor driving e-marketing and e-business strategy objectives. It assesses the current level and future projections of customer demand for e-commerce services in different market segments. In a B2B context customer activity can be determined by asking for each market:

- What % of customer businesses have access to the Internet?
- What % of members of the buying decision in these businesses have access to the Internet?
- What % of customers are prepared to purchase your particular product online?
- What % of customers with access to the Internet are not prepared to purchase online, but choose or are influenced by web-based information to buy products offline?
- What are the barriers to adoption and the facilitators amongst customers and how can we encourage adoption? Qualitative research is important to informing strategy since it identifies the differences in psychographics between current online customers and those that are not offline.

Competitor analysis or the monitoring of competitor use of e-commerce to acquire and retain customers is especially important in the e-marketplace due to the dynamic nature of the Internet medium. Chaffey (2002) suggests comparing the activity of an organisation and its competitors for their different channels by trying to answer these questions:

1. Business contribution

How does Internet marketing contribute to the bottom line? What is the online revenue contribution (direct and indirect), costs and profitability?

2. Marketing outcomes

How many marketing outcomes are achieved online? For example, what proportion of leads, sales, service contacts occur online? How effective is online marketing at acquiring, converting and retaining customers?

3. Customer satisfaction:

What are the customers' opinions of the online experience and how does this affect their loyalty?

4. Customer behaviour (Web analytics):

This assesses how different customer segments interact with web site content and assesses how the actions they take are influenced by usability, design, content, promotions and services.

5. Site promotion

How effective are the different promotional tools such as search engines, e-mail, direct marketing and advertising at driving quality traffic to the web site? Measures include attraction efficiency, referrer efficiency, cost of acquisition, reach and the integration between tools. Analysis of the use of intermediaries to build and service business is also important here.

The Internet macro-environment

It can be suggested that of the different Social, Legal, Economic, Political and Technological characteristics of the macro-environment, the three most significant factors described in more depth in chapter 3 are legal constraints **–** What are the legal limitations to online promotion and trade such as data protection and taxation, ethical constraints such as privacy and technological constraints – what is the current availability and usage of technology to access the Internet and offer distinctive services and how is this likely to vary in the future?

<u>2. Strategic objectives.</u>

Smith and Chaffey (2001) suggest there are five broad benefits, reasons or objectives of e-marketing. This framework is useful since it presents a comprehensive range of objectives. Marketers will decide whether all or only some will drive e-marketing:

- **Sell** – Grow sales (through wider distribution to customers you can't service offline or perhaps through a wider product range than in-store, or better prices)
- **Serve** – Add value (give customers extra benefits online: or inform product development through online dialogue and feedback)
- **Speak** – Get closer to customers by tracking them, asking them questions, conducting online interviews, creating a dialogue, monitoring chat rooms, learning about them

Save – Save costs - of service, sales transactions and administration, print and post. Can you reduce transaction costs and therefore either make online sales more profitable? Or use cost-savings to enable you to cut prices, which in turn could enable you to generate greater market share?

Sizzle – Extend the brand online. Reinforce brand values in a totally new medium. The Web scores very highly as a medium for creating brand awareness, recognition and involvement.

Specific objectives should be created for each of the 5Ss. Consider Sales – a typical objective might be:

'*To grow the business with online sales e.g. to generate at least 10% of sales online. Within 6 months*.'

or

'*To generate an extra £100,000 worth of sales online by December'.*

These objectives can be further broken down according to CRM objectives of acquisition, conversion and retention, e.g. to achieve £100,000 of online sales means you have to generate 1,000 online customers spending on average £100 in the time period. If, say, your conversion rate of visitors to customers was 1% then this means you have to generate 100,000 visitors to your site. Achieving repeat visits and sales would form further objectives.

The online revenue contribution

The key objective for e-marketing is the online revenue contribution. This is a measure of the extent to which a companies online presence directly impacts the sales revenue of an organisation. Online revenue contribution objectives can be specified for different types of products, customer segments and geographic markets.

Companies that can set a high online revenue contribution objective of say 25% for 2 years time will need to provide more resource allocation to the Internet than those companies who anticipate a contribution of 2.5%. Cisco Systems Inc (www.cisco.com) maker of computer networking gear, is now selling around 90% of its 20 billion dollars sales online. This was achieved since senior executives at Cisco identified the significance of the medium, setting aggressive targets for the online revenue contribution and resourcing the e-commerce initiative accordingly.

A further example is provided by Sandvik Steel. The Financial Times reported in June 2001 that around 20 per cent of all orders from Denmark are online and 31 per cent of those from Sweden. The proportion in the US, however, is only 3 per cent, since most business goes through distributors and is conducted by EDI (electronic data interchange), the pre-internet means of e-commerce. Over the next six months, the company hopes to raise the US figure to 40 per cent. Mr Fredriksson hopes that in two years, between 40 and 50 per cent of total orders will come via the web.

However, for some companies such as an FMCG manufacturer, it is unrealistic to expect a high direct online revenue contribution. In this case, an indirect online contribution can be stated. This considers the Internet as part of the promotional mix and its role in *reaching and influencing* a proportion of customers to purchase the product or in building the brand. In this case a company could set an online promotion contribution of 5% of its target market visiting the web site and interacting with the brand. Where sales achieved offline are a consequence of online selection of products this is referred to as the indirect revenue contribution.

In last months article we looked at approaches to developing an e-marketing strategy and factors to consider for situation analysis and objective setting. In this months article we outline eight key decisions that marketers face when developing an e-marketing strategy. It will be evident that many of these decisions are similar to those for marketing strategy. However, we will highlight 'e-specific' issues. There are a lot of issues to cover, so without more ado, let's examine the 8 e-strategy decisions.

Decision 1. Target market strategies

The first key decision involves the evaluation and selection of appropriate segments and the development of appropriate offers. In an Internet context, organisations typically target those customer groupings with the highest propensity to access, choose and buy online (See WNIM 5 and 6 for approach and data sources). Segments for targeting online are selected which are most attractive in terms of growth and profitability. Resources are never sufficient to develop comparable quality content and services for all segments. Some examples of customer segments that are often targeted online include:

- **the most profitable customers** – using the Internet to provide tailored offers to the top 20 per cent of customers by profit may result in more repeat business and cross-sales;
- **larger companies (B2B)** – an extranet could be produced to service these customers, and increase their loyalty (e.g. Dell Premier Pages services);
- **smaller companies(B2B)** –larger companies are traditionally serviced through sales representatives and account managers, but smaller companies may not warrant the expense of account managers. However, the Internet can be used to reach smaller companies more cost effectively.
- **particular members of the buying unit (B2B)** – the site should provide detailed information for different interests which supports the buying decision, for example, technical documentation for users of products, information on savings from e-procurement for IS or purchasing managers and information to establish the credibility of the company for decision makers.
- **customers who are difficult to reach using other media** – an insurance company looking to target younger drivers could use the Web as a 'vehicle' for this;
- **customers who are brand loyal** – services to appeal to brand loyalists can be provided to support them in their role as advocates of a brand;
- **customers who are not brand loyal** – conversely, incentives, promotion and a good level of service quality could be provided by the web site to try and move such customers up the ladder of loyalty.

Decision 2. Positioning and differentiation strategies.
Deise et al. (2000) have suggested that, in an online context, retailers can position their products relative to competitor offerings according to four main variables: product quality, service quality, price and fulfillment time. They suggest it is useful to review these as an equation of how they combine to influence customer perceptions of value or brand.

$$\text{Customer value (brand perception)} = \frac{\text{Product quality} * \text{Service quality}}{\text{Price} * \text{Fulfillment time}}$$

These positioning options have much in common with Porter's competitive strategies of cost leadership, product differentiation and innovation

The aim of positioning is to develop a perceived differential advantage over rivals' products. In an e-marketing context the differential advantage and positioning can be clarified and communicated by developing an **online value proposition (OVP)**. This is similar to a unique selling proposition, but is developed for e-commerce services. For maximum effectiveness the OVP should clarify:

- A clear differentiation of the online proposition compared to the *companies conventional offline proposition*.
- A clear differentiation of the online proposition from *competitors* based on cost, product innovation or service quality.
- Target market segment(s) that the proposition will appeal to.
- How the proposition will be communicated to site visitors and in all marketing communications.
- How the proposition is delivered across different parts of the buying process
- How the proposition will be delivered and supported by resources – is the proposition genuine?

Decision 3. Resourcing - Internet marketing priorities
Internet marketing priorities have been summarised by Gulati and Garino (2000) as '*Getting the Right Mix of Bricks and Clicks*'. These expressions have been used to refer to traditional 'bricks and mortar' enterprises with a physical presence, but limited Internet presence. In the UK, an example of a 'Bricks and Mortar' store would be the bookseller Waterstones (www.waterstones.co.uk), that when it ventured online would become 'Clicks and Mortar'.

Kumar (1999) suggests that a company should decide whether the Internet will primarily **complement** the company's other channels or primarily **replace** other channels. Clearly, if it is believed that the Internet will primarily replace other channels, then it is important to invest in the resources, promotion and infrastructure to achieve this. This is a key decision as the company is essentially deciding whether the Internet is 'just another communications and/or sales channel' or whether it will fundamentally change the way it interacts with its customers and channel partners.

Kumar (1999) suggests that replacement is most likely to happen when:

- customer access to the Internet is high;

- the Internet can offer a better value proposition than other media (*see* the section on this topic later in this chapter);
- the product can be delivered over the Internet (it can be argued that this condition is not essential for replacement, so it is not shown in the figure);
- the product can be standardised (the user does not usually need to view to purchase).

Only if all three conditions are met will there be primarily a replacement effect. The fewer the conditions met, the more likely is it that there will be a complementary effect.

Decision 4. CRM focus and financial control

A further strategic decision is the balance on investment on customer acquisition and retention. Many startup companies have invested primarily on customer acquisition. This is resulted in a cost of customer acquisition of hundreds of pounds, euros or dollars which was impossible to recoup without effective retention strategies. For existing companies, there is a decision whether to focus expenditure on strategies for customer acquisition, customer retention or to use a balanced approach.

Agrawal et al. (2001) suggest that the success of retail or media e-commerce sites can be modelled and controlled using a scorecard based on these performance drivers:

1. ***Attraction***. Size of visitors base, visitor acquisition cost and visitor advertising revenue (for media sites).
2. ***Conversion***. Customer base, customer acquisition costs, customer conversion rate, number of transactions per customer, revenue per transaction, revenue per customer, customer gross income, customer maintenance cost, customer operating income, customer churn rate, customer operating income before marketing spending.
3. ***Retention****.* This uses similar measures as for conversion customers.

A survey performed by these authors showed that:

'*companies were successful at luring visitors to their sites, but not at getting these visitors to buy or at turning occasional buyers into frequent ones*'

Agrawal et al. (2001) have performed a further analysis where they modeled the theoretical change in net present value contributed by an e-commerce site in response to a 10% change in these performance drivers:

Attraction

- Visitor acquisition cost – 0.74 % change in NPV
- Visitor growth – 3.09 % change in NPV

Conversion

- Customer conversion rate – 0.84 % change in NPV
- Revenue per customer – 2.32 % change in NPV

Retention

- Cost of repeat customer – 0.69 % change in NPV
- Revenue per repeat customer – 5.78 % change in NPV
- Repeat customer churn rate – 6.65 % change in NPV

- Repeat customer conversion rate – 9.49 % change in NPV

This modeling highlights the importance of on-site marketing communications and the quality of service delivery in converting browsers to buyers and buyers into repeat buyers.

Decision 5. Market and product development strategies

E-commerce also offers opportunities to expand the scope of a business into new markets and products. As for decision 1 the decision is a balance between fear of the do-nothing option and fear of poor return on investment for strategies that fail. The Ansoff matrix is still useful as a means for marketers to discuss market and product development using electronic technologies. It highlights these options:

1. **Market penetration**. Digital channels can be used to sell more existing products into existing markets. This is a relatively conservative use of the Internet.
2. **Market development**. Here online channels are used to sell into new markets, taking advantage of the low cost of advertising internationally without the necessity for a supporting sales infrastructure. This is a relatively conservative use of the Internet, but is a great opportunity for SMEs to increase exports at a low cost, but it does require overcoming the barriers to exporting.
3. **Product development**. New digital products or services can be developed that can be delivered by the Internet. These are typically information products, for example online trade magazine Construction Weekly has diversified to a B2B portal Construction Plus (www.constructionplus.com) which has new revenue streams. This is innovative use of the Internet.
4. **Diversification**. In this sector, new products are developed which are sold into new markets. For example Construction Plus is now international while formerly it had a UK customer-base.

Decision 6. Business and revenue models including the marketing mix

A further aspect of Internet strategy formulation is review of opportunities from new business and revenue models. A business model is a summary of how a company will generate revenue, its target customers, core product offering, value-added services and partnership arrangements.

Evaluating new models is important since, if companies do not innovate, then competitors and new entrants will and companies will find it difficult to regain the initiative. Equally, if inappropriate business or distribution models are chosen, then companies may make substantial losses.

One example of how companies can review and revise their business model is provided by Dell Computer. Dell gained **early mover advantage** in the mid 1990s when it became one of the first companies to offer PCs for sale online. Its sales of PCs and peripherals grew from mid 1990s with online sales of $1 million per day to 2000 sales of $50 million per day. Based on this success it has looked at new business models it can use in combination with its powerful brand to provide new services to its existing customer base and also to generate revenue through new customers. In September 2000, Dell announced plans to become a supplier of IT consulting services through linking with enterprise resource planning specialists such as software suppliers, systems integrators and business consulting firms. This venture will enable the facility of Dell's Premier Pages to be integrated into the procurement component of ERP systems such as SAP and Baan, thus avoiding the need for rekeying and reducing costs.

In a separate initiative, Dell launched a B2B marketplace aimed at discounted office goods and services procurements including PCs, peripherals, software, stationery and travel. However, this strategic option did not prove sustainable.

The marketing mix also provides a useful framework for developing e-marketing strategy. E-commerce provides many new opportunities for the marketer to vary the marketing mix. E-commerce also has far-reaching implications for the relative importance of different elements of the mix for many markets regardless of whether an organization is involved directly in e-commerce. We explore the implications of the Internet on the marketing mix in next months article.

Decision 7 Organisational restructuring required.

Organisational structure decisions form two main questions. First, is how should internal structures be changed to deliver e-marketing and second how should the structure of links with other organisations be changed to achieve e-marketing objectives? Such decisions should balance the benefits of the changes against the disruption to business operations caused by the changes. There are four basic options for internal structuring of e-marketing:

1. **No formal structure for e-commerce**. Examples: Many small businesses.
2. **An individual, committee or small department manages and co-ordinates e-commerce**. Example: Derbyshire Building Society (www.derbyshire.co.uk).
2. **A separate business unit with independent budgets**. Example: RS Components Internet Trading Company (www.rswww.com)
4. **A separate operating company**. Example Prudential and Egg (www.egg.com).

Gulati and Garino (2000) identify a continuum of approaches from integration to separation for delivering e-marketing through working with outside partners. The choices are:

1. **In-house division. (Integration)**. Example RS Components Internet Trading Channel (www.rswww.com)
2. **Joint venture. (Mixed)**. The company creates an online presence in association with another player. Waterstones ultimately chose this approach by partnering with Amazon.
3. **Strategic Partnership. (Mixed)**. This may also be achieved through purchase of existing dot-coms, for example, in the UK, Great Universal Stores acquired e-tailer Jungle.com for its strength in selling technology products and strong brand while John Lewis purchased Buy.coms UK operations.
4. **Spin-off. (Separation)**. Example: Egg bank is a spin-off from Prudential financial services company.

Decision 8. Channel structure modifications.

Strategies to take advantage in changes in marketplace structure should also be developed. These options are

- Disintermediation (sell-direct)
- Create new online intermediary (countermediation)
- Partner with new online or existing intermediaries

- Do-nothing!

To achieve strategic Internet marketing goals, B2B organisations also have to plan for technology integration with customers and suppliers systems. However, an even more vexing questions is how to manage the channel conflicts involved with these channel structure changes.