Part 2 Assessing Opportunities in a Dynamic Marketing Environment

3 >> Marketing in the Internet Age

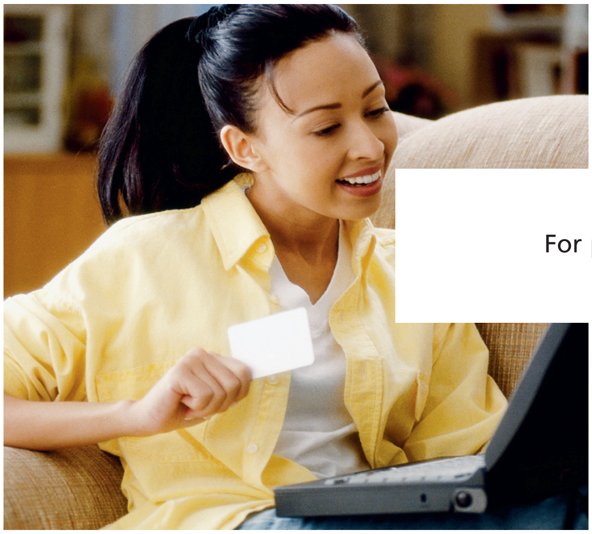
Looking Ahead

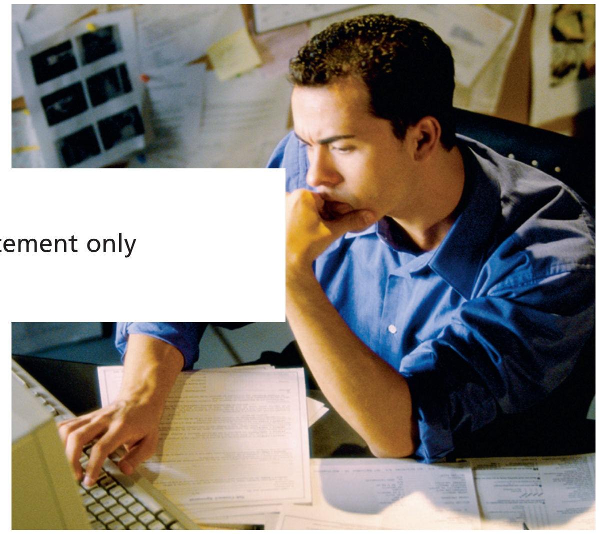
It's time to shift gears. In the first two chapters, you learned about the basic concepts of marketing, marketing strategies, and the marketing process for bringing value and satisfaction to targeted consumers. However, marketing strategy and practice have undergone dramatic change during the past decade. Major technological advances, including the explosion of the Internet, have had a major impact on buyers and the marketers who serve them. To thrive in this new Internet age—even to survive—marketers must rethink their strategies and adapt them to today's new Internet environment.

After studying this chapter, you should be able to

1. identify the major forces shaping the Internet age
2. explain how companies have responded to the Internet and other powerful new technologies with e-business strategies, and explain how these strategies have resulted in benefits to both buyers and sellers
3. describe the four major e-commerce domains
4. discuss how companies conduct e-commerce to profitably deliver more value to customers
5. summarize the promises and challenges that e-commerce presents for the future

Our first stop on this leg of the journey is at Canadian Tire. This Canadian institution resisted the Internet for some time, but in 2000, it launched an online version of its catalogue. Since then, the popularity of Canadian Tire Online has exploded, moving the company from a traditional "bricks-and-mortar" marketer to a "click-and-mortar" marketer.





For placement only

Canadian Tire's familiar red and white signs with the green maple leaf have been a part of the Canadian landscape since 1922. The company has 443 stores across Canada and 200 gas stations, some in tandem with Canadian Tire stores, some as stand-alone operations.

Canadian Tire has long offered a traditional bricks-and-mortar retail environment and catalogue shopping, and in 2000, the company launched Canadian Tire Online, taking the company into the e-tailing business.

Canadian Tire was criticized for its late entry to Internet retailing, but its strategy was to learn from others' mistakes. As a result, Canadian Tire avoided the problems experienced by retailers that failed to develop a workable online strategy. But eventually, staying offline was even riskier than going online. Canadians were rapidly discovering the wonders of the Web, and e-commerce offered real convenience and selection advantages for customers. If Canadian Tire didn't take advantage of these new economy opportunities, its competitors would.

Just one year after its launch, Canadian Tire's Web site was recording two million visits to the site in a month, including more than one million unique visitors. Canadian Tire Online is now one of the top three e-commerce sites in Canada.

To ensure the its e-commerce initiatives continue to meet consumer needs, Canadian Tire Online has further developed its Web store's capabilities and service features. In 2001, it introduced a line of "Available Only Online" products, including higher-end appliances and new categories of electronic products such as digital cameras and MP3 players. Licensed clothing, luggage, and an extended collection of power tools are now also part of this category, which has been expanded to include more than one thousand items.

Recently, Canadian Tire Online was completely redesigned to make shopping faster, better, and easier for customers. Major enhancements to the site include the following:

- Information about the Item of the Week and Hot Deals of the Week is available on the home page.
- A new delivery cost calculator enables customers to determine delivery costs before beginning the checkout process. Delivery costs can be calculated as soon as an item is added to the shopping cart and recalculated as additional items are added.
- A more comprehensive list of product categories is available within the Around the House, Workshop, Sports & Recreation,

Garden & Patio, and Automotive departments, making it faster and easier to browse and shop.

- The number of products available online has more than doubled during the past year to more than 14 000 items, including 1000 available only online.

In addition, Canadian Tire's unique eFLYER has been fully integrated with the Web store, allowing eFLYER subscribers to shop directly from their eFLYER. Users can sign up to receive weekly e-mails featuring information about weekly specials and promotions on the site, and the home page has a quick link to the eFLYER Weekly Specials.

By melding the Net and non-Net worlds, Canadian Tire follows the powerful new "click-and-mortar" model of retailing—a robust two-tiered system of serving consumers. The model recognizes that, most of the time, customers can visit a local store, but occasionally they will prefer the convenience and different selection afforded by the Web.

In Chapter 1, we discussed sweeping changes in the marketing landscape that are affecting marketing thinking and practice. Recent technological advances, including the widespread use of the Internet, have created what some call a new economy. Although debate about the nature of—and even the existence of—such a new economy has been widespread in recent years, few would disagree that the Internet and other powerful new connecting technologies are having a dramatic effect on marketers and buyers. Many standard marketing strategies and practices of the past—mass marketing, product standardization, media advertising, store retailing, and others—were well suited to the so-called old economy. These strategies and practices will continue to be important in the new economy; however, marketers will also have to develop new strategies and practices better suited to today's new environment.

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

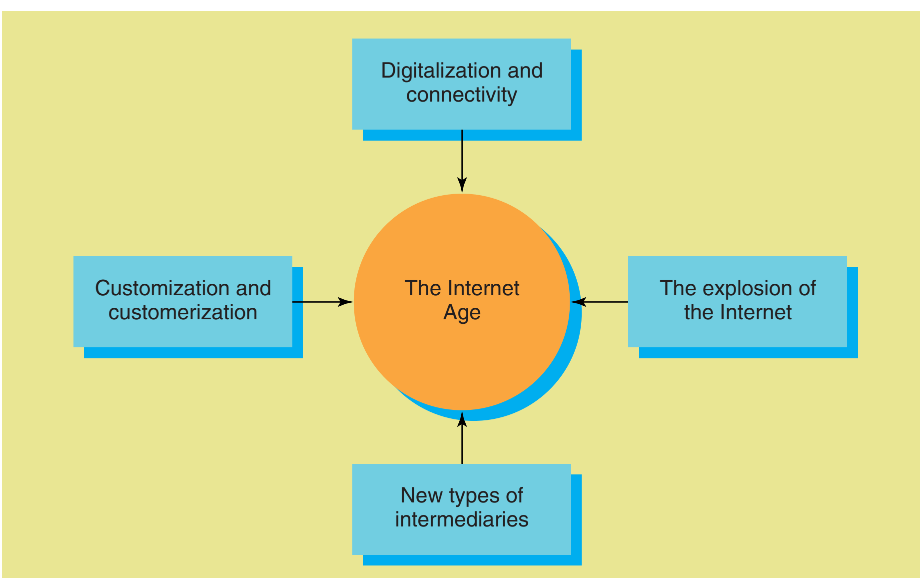


Figure 3.1
Forces Shaping the Internet Age

Major Forces Shaping the Internet Age

Many forces play major roles in reshaping the world economy, including technology, globalization, environmentalism, and others. Here we discuss four specific forces that underlie the new Internet age (see Figure 3-1): (1) digitalization and connectivity, (2) the Internet explosion, (3) new types of intermediaries, and (4) customization and customerization.

Digitalization and Connectivity

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

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

Intranet A network that connects people within a company to each other and to the company network.

Extranet A network that connects a company with its suppliers and distributors.

Internet A vast public web of computer networks that connects users of all types all around the world to each other and to a large information repository. The Internet is an information highway that can dispatch bits at incredible speeds from one location to another.

The Internet Explosion

With the creation of the World Wide Web and Web browsers in the 1990s, the Internet was transformed from a mere communication tool into a revolutionary technology. During the final decade of the twentieth century, the number of Internet users worldwide grew to almost 400 million. By early 2001, Internet penetration in Canada had reached 69 percent of the population 18 years of age and older. Although the dot-com crash in 2000 led to cutbacks in technology spending, research suggests that the growth of Internet access among the world's citizens will continue to explode. The number of Web surfers worldwide is expected to approach 1 billion by 2004.

This explosive worldwide growth in Internet usage forms the heart of the so-called new economy. The Internet has been *the* revolutionary technology of the new millennium, empowering consumers and businesses alike with blessings of connectivity. For nearly every new economy innovation to emerge during the past decade, the Internet has played a starring—or at the very least a strong supporting—role. The Internet enables consumers and companies to access and share unprecedented amounts of information with just a few mouse clicks. To be competitive in today's marketplace, companies must adopt Internet technology or risk being left behind.

New Types of Intermediaries

New technologies have led thousands of entrepreneurs to launch Internet companies—the so-called dot-coms. The amazing success of early Internet-only companies, such as AOL, Amazon.com, Yahoo, eBay, E*Trade, and dozens of others, worried many established manufacturers and retailers. For example, Compaq Computer, which sold its computers only through retailers, worried when Dell Computer grew faster by selling online. Toys "R" Us worried when eToys lured toy buyers to the Web. Established store-based retailers of all kinds—from bookstores, music stores, and florists to travel agents, stockbrokers, and car dealers—began to doubt their futures as competitors sprung up selling their products and services via the Internet. Store-based retailers feared, and rightly so, being *disintermediated* (being cut out) by this new type of intermediary, the e-tailer.

The formation of new types of intermediaries and new forms of channel relationships caused existing firms to reexamine how they served their markets. At first, the established *brick-and-mortar* firms—such as IBM, Canadian Tire, and the traditional banks and brokerage houses—dragged their feet, hoping that the assaulting *click-only* firms would falter or disappear. Then they wised up and started their own online sales channels, becoming *click-and-mortar* competitors. Ironically, many click-and-mortar competitors have become stronger than the click-only competitors that pushed them reluctantly onto the Internet. TD Waterhouse is a good example. In fact, although some click-only competitors like ING Direct are surviving and even prospering in today's marketplace, many once-formidable dot-coms—such as Furniture.com, eToys, Pets.com, Garden.com, and Mothernature.com—have failed in recent years in the face of poor profitability and plunging stock values.

Customization and Customerization

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

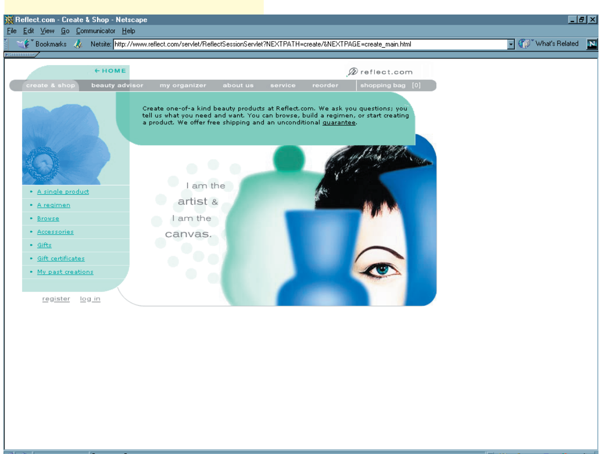
In contrast, the new economy revolves around *information businesses*. Information has the advantages of being easy to differentiate, customize, personalize, and dispatch at incredible speed over networks. With rapid advances in Internet and other connecting technologies, companies have grown skilled at gathering information about individual customers and business partners (suppliers, distributors, retailers). In turn, they have become more adept at individualizing their products and services, messages, and media. Dell Computer, for example, lets customers specify exactly what they want in their computers and delivers customer-designed units in only a few days. On its Reflect.com Web site, Procter & Gamble allows people to create their own makeup by answering sets of questions. It then formulates a unique mix of P&G products (various Oil of Olay items for example) for each person. *Customization* differs from *customerization.* Customization involves taking the initiative to customize the market offering. A restaurant server takes a customer's order for a salad with more broccoli, no cheese, and dressing on the side and the restaurant *customizes* the salad for the customer. In **customerization**, the company leaves it to individual customers to design the offering. For example, jeans customers may take their own measurements and add specific features that they want in their jeans, such as colourful patches. Restaurant customers go to a salad bar and *customerize* their salads by choosing the exact salad ingredients they want. Such companies have become facilitators and their customers have moved from being consumers to being *prosumers.*[1] ("Prosumers" was a word coined by Alvin Toffler in his book *The Third Wave.* It is a contraction of "consumer" and "producer" and refers to those product categories and consumer purchasing behaviours that combine producing and consuming at purchase. An example is purchasing a Dell Computer, where each machine is custom made for each order.)

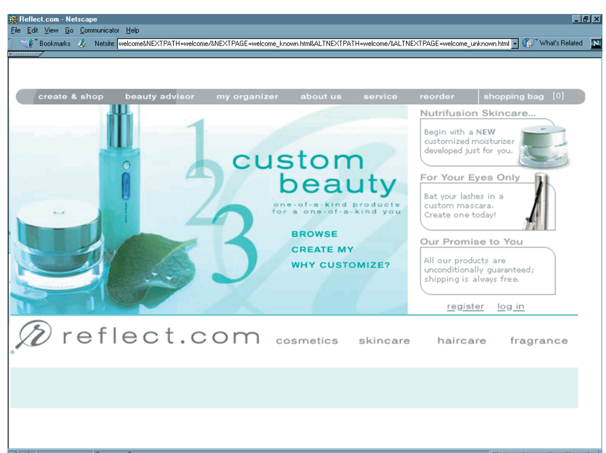
Customerization Leaving it to individual customers to design the marketing offering, which allows customers to be *prosumers* rather than just consumers.

Marketing Strategy in the Internet Age

Conducting business in the new Internet age requires a new model for marketing strategy and practice. According to one strategist: "Sparked by new technologies, particularly the Internet, the corporation is undergoing a radical transformation that is nothing less than a new industrial revolution.… To survive and thrive in this century, managers will need to hard-wire a new set of rules into their brains. The twenty-first-century corporation must adapt itself to management via the Web."[2] Another suggests that the Internet is "revolutionizing the way we think about…how to construct relationships with suppliers and customers, how to cre-

Customerization: At Reflect.com, people formulate their own beauty products. It offers "one-of-a-kind products for a one-of-a-kind you." More than 650 000 people visit the site each month.





ate value for them, and how to make money in the process; in other words, [it's] revolutionizing marketing."[3]

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

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

E-Business, E-Commerce, and E-Marketing in the Internet Age

E-business involves the use of electronic platforms—intranets, extranets, and the Internet—to conduct a company's business. The Internet and other information and computer technologies have greatly increased the ability of companies to do business faster, more accurately, and over a wider range of time and space. Countless companies have set up Web sites to inform consumers about and promote their products and services. They have created intranets to help employees communicate with each other and access information in the company's computers. They have set up extranets with their major suppliers and distributors to facilitate information exchange, orders, transactions, and payments. Companies such as Cisco, Microsoft, and Oracle run almost entirely as e-businesses in which memos, invoices, engineering drawings, sales and marketing information—virtually everything—travel over the Internet instead of on paper.[4]

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

E-commerce is more specific than e-business. Whereas e-business includes all electronics-based information exchanges within or between companies and customers, e-commerce involves buying and selling processes supported by electronic means, primarily the Internet. *E-markets* are "market*spaces*," rather than physical "market*places*," in which sellers offer their products and services online, and buyers search for information, identify what they want, and place orders using credit cards or other means of electronic payment.

E-commerce Buying and selling processes supported by electronic means, primarily the Internet.

E-commerce includes *e-marketing* and *e-purchasing* (*e-procurement*). **E-marketing** is the "e-selling" side of e-commerce. It consists of company efforts to communicate about, promote, and sell products and services over the Internet. Thus, Amazon.ca, Schwab.ca, and Dell.ca conduct e-marketing at their Web sites. The other side of e-marketing is e-purchasing, the "e-buying" side of e-commerce. It consists of companies purchasing goods, services, and information from online

E-marketing The "e-selling" side of e-commerce, including company efforts to communicate about, promote, and sell products and services over the Internet.

Global eXchange Services
www.gxs.com

suppliers. In business-to-business buying, e-marketers and e-purchasers come together in huge e-commerce networks. For example, Global eXchange Services (GXS) operates one of the world's largest transaction management infrastructures for business-to-business e-commerce networks. More than 100 000 trading partners in 58 countries—including giants such as General Electric, Eastman Kodak, DaimlerChrysler, J.C. Penny, Sara Lee, and Unilever—use the GXS network to complete some 1 billion transactions each year, accounting for $1 trillion worth of goods and services.[5]

A recent Canadian survey by Deloitte Consulting (which is soon changing its name to Braxton) found that 78 percent of responding companies are planning to take advantage of *collaborative commerce* to improve their interactions with both suppliers and customers. Collaborative commerce is a way of using technology to allow "entire value chains to share decision making, workflow, capabilities, and information with each other."[6]

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

Benefits to Buyers

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

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

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

Finally, online buying is *interactive* and *immediate*. Buyers often can interact with the seller's site to create exactly the configuration of information, products, or services they want, and then order or download them on the spot. Moreover, the Internet gives consumers a greater measure of control. "The Internet will empower consumers like nothing else ever has," notes one analyst. "Think about this: Already 16 percent of car buyers shop online before showing up at a dealership, and

Internet buying is easy and private: Final consumers can shop the world from home with few hassles; business buyers can learn about and buy products and information without tying up time with salespeople.

they aren't comparing paint jobs—they're arming themselves with information on dealer costs.… The new reality is consumer control."[7]

Benefits to Sellers

E-commerce also yields many benefits to sellers. First, the Internet is a powerful tool for *customer relationship building*. Because of its one-to-one, interactive nature, the Internet is an especially potent marketing tool. Companies can interact online with customers to learn more about their specific needs and wants. In turn, online customers can ask questions and volunteer feedback. Based on this ongoing interaction, companies can increase customer value and satisfaction through product and service refinements. One expert concludes: "Contrary to the common view that Web customers are fickle by nature and will flock to the next new idea, the Web is actually a very sticky space in both business-to-consumer and business-to-business spheres. Most of today's online customers exhibit a clear [tendency] toward loyalty."[8]

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

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

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

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

Let's reflect on this new Internet age. What, specifically, does the Internet age mean in *your* life?

- Look back through the major forces shaping the Internet Age and write down some specific ways that these forces have affected your everyday life.
- How often and in what ways do you use the Internet to research and buy products? How has the Internet changed what and how you buy?

Go to the Web, visit **SonyStyle.ca**, and have a look around. How does such a site benefit consumers like you? How does it benefit Sony?

E-Commerce Domains

The four major e-marketing domains are shown in Figure 3-2 and discussed below: B2C (business to consumer), B2B (business to business), C2C (consumer to consumer), and C2B (consumer to business).

	Targeted to consumers	Targeted to businesses
Initiated by business	B2C (business to consumer)	B2B (business to business)
Initiated by consumer	C2C (consumer to consumer)	C2B (consumer to business)

Figure 3.2
Marketing domains

B2C (Business to Consumer)

The popular press has paid the most attention to **B2C (business-to-consumer) e-commerce**—the online selling of goods and services to final consumers. Despite some gloomy predictions, online consumer buying continues to grow at a healthy rate. Although we have the positive experiences associated with Canadian Tire's entrance into e-commerce, we also have the Holt Renfrew experience, where the decision was made to discontinue its e-commerce site. The decision to discontinue its involvement in e-tailing was based on the realization that high-end fashion is better suited to a storefront, bricks-and-mortar strategy. Successes and failures will continue in the B2C environment, but studies suggest that B2C sales in Canada will reach $18 billion by 2004. The largest categories of consumer online spending include travel services, clothing, computer hardware and software, consumer electronics, books, music and videos, health and beauty, home and garden, flowers and gifts, sports and fitness equipment, and toys.[9]

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

Online Consumers When people envision the typical Internet user, some still mistakenly envision a pasty-faced computer nerd or "cyberhead." Others envision a young, techy, upscale male professional. Such stereotypes are outdated. As increasingly more people find their way onto the Internet, the cyberspace population is becoming more mainstream and diverse. "The Internet was, at first, an elitist country club reserved only for individuals with select financial abilities and technical skills," says an e-commerce analyst. "Now, nearly every socioeconomic group is aggressively adopting the Web."[10]

Thus, increasingly, the Internet provides e-marketers with access to a broad range of demographic segments. For example, home Internet access for blue-collar workers is growing faster than for any other occupational group, surging 52 percent in just the past year. One study of Internet "newbies"—those who started using the Internet in the past year—found that 71 percent had no postsecondary degree, 65 percent earned less than $50 000 a year, and only 25 percent were younger than 30.

> These days, everybody's logging on.… Doral Main, a 51-year-old mother of two and office manager saves precious time by shopping the Internet for greeting cards and getaways. Her Net-newbie father, Charles, 73, goes online to buy supplies for his wood-carving hobby. Even niece Katrina, 11, finds excitement on the Web, picking gifts she wants from the Disney.com site. "It's addictive," Main says of the Internet. [Indeed,] the Web isn't mostly a hangout for techno-nerds anymore.[11]

Growing Internet diversity continues to open new e-commerce targeting opportunities for marketers. For example, the Web now reaches consumers in all age groups. Seventy-four percent of Canadians between the ages of 12 and 18 have access to the Internet. Forty-four percent of this same group spend more than an hour per day connected to the Internet, and the average Canadian family with Internet access spends more than 32 hours per week online.[12] The Microsoft Network site carries Disney's Daily Blast, which offers kids games, stories, comic strips with old and new Disney characters, and current events tailored to preteens. Nickelodeon offers a full slate of games based on favourite Nickelodeon characters.

Nickelodeon
www.nick.com

Although Internet users are still younger on average than the population as a whole, 48 percent of consumers aged 45 to 54 and 34 percent of consumers aged 55 to 64 have Internet access. In fact, a recent NFO WorldGroup study suggests that this age group is showing faster penetration growth than all younger age groups. To help online marketers to better target their customers, Internet research companies now segment the increasingly diverse Web population by needs and interests. For example, Harris Interactive has labelled a segment it calls cyberchondriacs, the roughly 100 million North Americans who go online for health care information. Slightly older than the general population, typically they or someone else in their family has a medical condition. They view the Internet as a kind of mobile medical library and log on to dig out the latest research and treatments for a specific malady. Pharmaceutical firms such as Pfizer Canada and GlaxoSmithKline Inc. have launched Web sites to market their prescription drugs directly to these cyberchondriacs, hoping to spur them to ask their doctors for the medication by brand name. "The Internet is the mother of all customizers," observes a Harris executive. "You can customize a product to a 36-year-old…diabetic with red hair. And you can do it in a way that you could never do with traditional media."[13]

Internet consumers differ from traditional offline consumers in their approaches to buying and in their responses to marketing. The exchange process in the Internet age has become more customer initiated and customer controlled. People who use the Internet place greater value on information and tend to respond negatively to messages aimed only at selling. Whereas traditional marketing targets a somewhat passive audience, e-marketing targets people who actively select which Web sites they will visit, what marketing information they will receive about which products and services, and under what conditions. Marketers and their representatives are held at bay until customers invite them to participate in the exchange. Even after marketers enter the exchange process, customers define what information they need, what offerings they are interested in, and what prices they are willing to pay. Thus, the new world of e-commerce requires new marketing approaches.

This is especially important because Canadians are still reluctant to move to the e-commerce purchasing model. A Statistics Canada survey showed that only 18.4 percent of Internet users had ordered and paid for goods online. The main reasons cited for this relatively low participation rate were (1) security concerns (orders being manipulated or intercepted) and (2) privacy (confidential information being transmitted). This information reveals a marketing challenge for those companies involved in e-commerce.[14]

B2C Web Sites Consumers can buy almost anything online. The Internet is most useful for products and services when the shopper wants greater ordering convenience or lower costs. The Internet also provides value to buyers looking for information about differences in product features and value. However, consumers find the Internet less useful when buying products that must be touched or examined in advance. Still, even here there are exceptions. For example, who would have thought that people would order expensive computers from Dell without seeing and trying them first? People now go online to order a wide range of goods: lobster and other premium seafoods from Clearwater Fine Foods, groceries from Grocery Gateway, books or CDs from Indigo, clothing from Tilley Endurables, an airline ticket from WestJet, home mortgages from

ING Direct, and even used heavy equipment. If you need a bulldozer, for example, simply go to the site "where man meets machine," at Point2 Used Iron.

Point2 Used Iron
www.point2usediron.com

- Flower Power sells fresh flowers directly to consumers. Customers can order bouquets or plants from an online colour catalogue by phoning a toll-free number or placing orders at the Web site at www.24hrFlowerPower.com.
- At ING Direct prospective borrowers receive a high-tech, high-touch, one-stop mortgage shopping experience. At the site, customers can research a wide variety of home financing and refinancing options, apply for a mortgage, and receive quick loan approval—all without leaving home. The site provides useful interactive tools that help borrowers decide how much house they can afford, whether to rent or buy, or whether to refinance a current mortgage. Customers can receive advice by phone or by chatting online with one of ING's loan consultants.

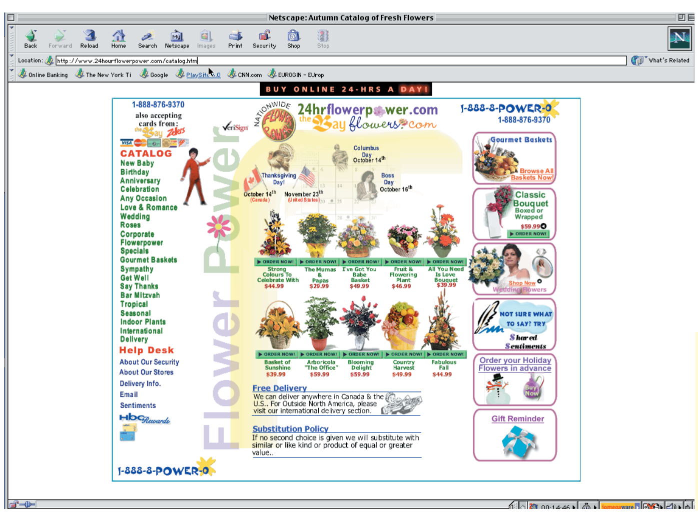
ING Direct
www.ingdirect.ca

B2B (Business to Business)

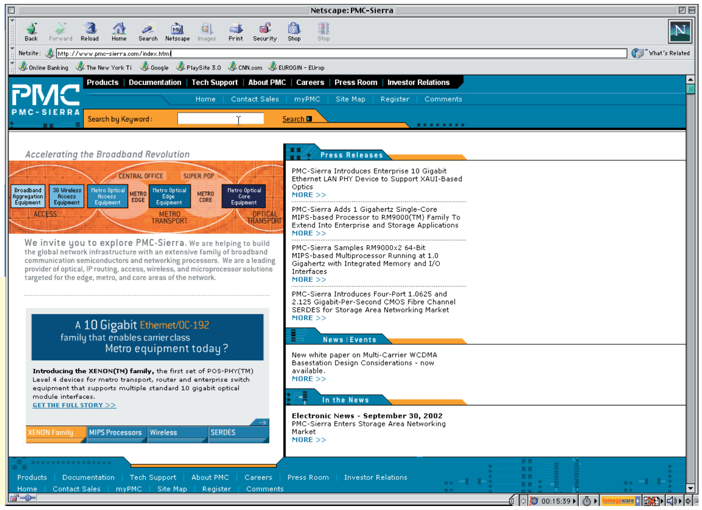
Although the popular press has given the most attention to business-to-consumer (B2C) Web sites, consumer goods sales via the Web are dwarfed by **B2B (business-to-business) e-commerce**. Gartner Group, a major research firm on online commerce, estimates that B2B e-commerce will reach $3.6 trillion in 2003, compared with just $107 billion in B2C transactions. Gartner also estimates that by 2005, more than 500 000 enterprises will participate in e-commerce as buyers, sellers, or both.[15] These firms are using B2B trading networks, auction sites, spot exchanges, online product catalogues, barter sites, and other online resources to reach new customers, serve current customers more effectively, and obtain buying efficiencies and better prices.

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

Most major business-to-business marketers now offer product information, customer purchasing, and customer support services online. In a survey of 50 major Canadian companies, 90 percent of those companies had some Internet-based sales in 2002, with 36 percent indicating that their online sales would range between 21 percent and 50 percent of total sales.[16] For example, corporate buyers can visit PMC



B2C e-commerce: People now go online to order a wide range of goods—from groceries to fresh flowers.



B2B e-commerce: Corporate buyers can visit PMC Sierra's Web site to learn about its products, get technical support, and find distributors worldwide.

Sierra's Web site to learn about the latest in broadband communication semi-conductors and networking processors. This site provides an online product listing with technical and application details, allows current customers to register for timely communication from the company on issues associated with product advances, provides technical support for PMC Sierra products, and directs the user to distributors that carry the PMC Sierra line of products around the world.

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

Much B2B e-commerce takes place in **open trading networks**—huge e-marketspaces in which buyers and sellers find each other online, share information, and complete transactions efficiently. Here are some examples of B2B trading network sites:

- PlasticsNet.com is an Internet marketplace for the plastic products industry, connecting more than 90 000 monthly visitors with more than 200 suppliers. In addition to facilitating online transactions, the site provides a supplier directory, material data sheets, an industry publication, a list of educational programs, and books and seminars relevant to the plastics industry.
- The Medical EquipNet serves as a medical equipment e-marketplace in which companies, doctors' offices, and hospitals can buy, sell, or auction off new, used, refurbished, or surplus medical equipment. Members can place classified ads or want ads, place or receive auction bids, or access medical equipment financing, shipping, repair, or installation services. To date, the site has attracted more than 4.5 million visitors.

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

Despite the increasing popularity of such e-marketspaces, one Internet research firm estimates that 93 percent of all B2B e-commerce is conducted through private sites. Increasingly, online sellers are setting up their own **private trading networks** (PTNs). Whereas open trading networks such as PlasticsNet.com facilitate transactions between a wide range of online buyers and sellers, private trading networks link a particular seller with its own trading partners. Rather than simply completing transactions, PTNs give sellers greater control over product presentation and allow them to build deeper relationships with buyers and sellers by providing value-added services. As an example, take Trane Company, a maker of air-conditioning and heating systems:

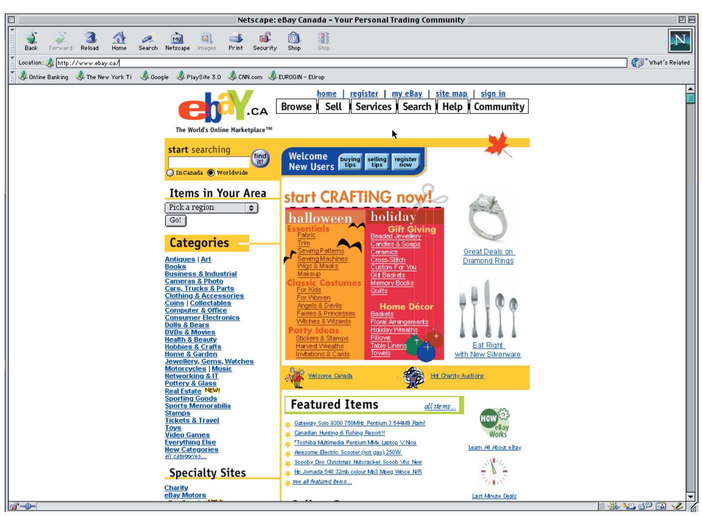
Since last autumn, Trane…has been red-hot with the business-to-business Internet crowd. Each of the horde of B2B [open trading] exchanges targeting the construction industry wants Trane to join. "Construction.com, MyPlant.com, MyFacility.com—we get up to five calls a week," says James A. Bierkamp, head of Trane's e-business unit. But after some consideration, Bierkamp did not see what any of those [third-party] e-marketplaces could offer that his company couldn't do itself. So in May, Trane rolled out its own private exchange, which allows its 5000 dealers to browse, buy equipment, schedule deliveries, and process warranties. The site lets Trane operate with greater efficiency and trim processing costs—without losing control of the presentation of its brand name or running the risks of rubbing elbows with competitors in an open exchange. "Why let another party get between us and our customers?" asks Bierkamp.[17]

C2C (Consumer to Consumer)

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

Much **C2C** (**consumer-to-consumer**) **e-commerce** and communication occurs on the Web between interested parties over a wide range of products and subjects. In some cases, the Internet provides an excellent means by which consumers can buy or exchange goods or information directly with one another. For example, eBay, Amazon.com Auctions, and other auction sites offer popular marketspaces for displaying and selling almost anything, from art and antiques, coins, stamps, and jewellery to computers and consumer electronics. EBay's C2C online trading community of more than 30 million registered users made more than $5 billion in trades last year. The company's Web site hosts more than two million auctions each month for items in more than one thousand categories. EBay maintains auction sites in several countries, including Canada, Japan, the United Kingdom, the United States, and Germany.

Such C2C sites give people access to much larger audiences than the local flea market or newspaper classifieds (which, by the way, are now also going online). Ask Barbara Dreschsler, a systems engineer, who has been buying and selling Beanie



C2C e-commerce: eBay offers a popular marketspace for displaying and selling almost anything.

Babies via Internet auction sites such as eBay.com and Amazon.com for more than a year. What started out as a family hobby has rapidly become a part-time business. In the first two months of this year, Dreschsler received 102 orders for Beanie Babies and other toys priced between $10 and $200. "We still call it a hobby, but we would love to do it full time," she says.[18]

In other cases, C2C involves interchanges of information through forums and Internet newsgroups that appeal to specific special-interest groups. Such activities may be organized for commercial or noncommercial purposes. *Forums* are discussion groups located on commercial online services such as Yahoo and AOL. A forum may take the form of a library, a chat room for real-time message exchanges, and even a classified ad directory. For example, Yahoo Canada Chat has thousands of chat rooms. It also provides "friends in chat lists," which alert members when their friends are online, allowing them to exchange instant messages.

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

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

C2B (Consumer to Business)

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

The final e-commerce domain is **C2B (consumer-to-business) e-commerce**. Thanks to the Internet, today's consumers are finding it easier to contact and communicate with companies. Most companies now invite prospects and customers to send in suggestions and questions via company Web sites. Beyond this, rather than waiting for companies to send catalogues or other information, consumers can search out sellers on the Web, learn about their offers, and initiate purchases.

Using the Web, consumers can even drive transactions with businesses, rather than the other way around. For example, using Travelocity.ca, would-be buyers bid for airline tickets, hotel rooms, rental cars, and even home mortgages, leaving the sellers to decide whether to accept their offers.

Conducting E-Commerce

Companies of all types are now engaged in e-commerce. In this section, we first discuss different types of e-marketers shown in Figure 3-3. Then, we examine how companies go about conducting marketing online.

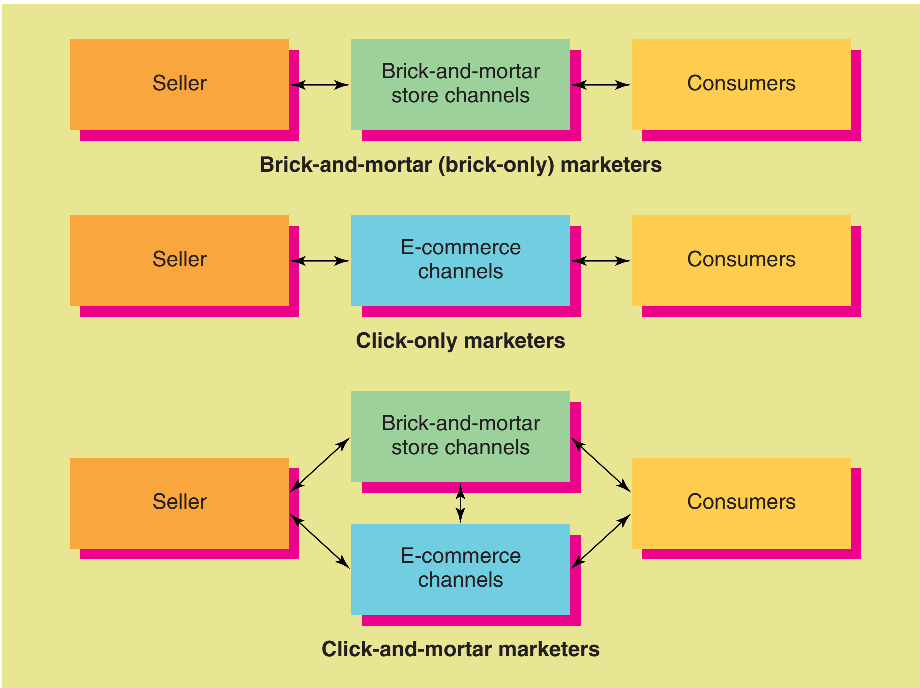


Figure 3.3
Types of E-marketers

Click-Only versus Click-and-Mortar E-Marketers

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

Click-Only Companies **Click-only companies** come in many shapes and sizes. They include *e-tailers*, dot-coms that sell products and services directly to final buyers via the Internet. Familiar e-tailers include Amazon.ca, CDNow, and eVineyards. The click-only group also includes *search engines* and *portals* such as Yahoo, Excite, and Go, which began as search engines and later added services such as news, weather, stock reports, entertainment, and storefronts, hoping to become the first port of entry to the Internet. *Internet service providers (ISPs)* such as HotMail, Earthlink, and AltaVista are click-only companies that provide Internet and e-mail connections for a fee. *Transaction sites*, such as auction site eBay, take commissions for transactions conducted on their sites. Various *content sites*, such as *The Globe and Mail*, TSN.ca, and Encyclopedia Britannica Online, provide financial, research, and other information. Finally, *enabler sites* provide the hardware and software that enable Internet communication and commerce.

Click-only companies The so-called dot-coms, which operate only online, without any brick-and-mortar market presence.

The Globe and Mail
www.globeandmail.ca

The hype surrounding such click-only Web businesses reached astonishingly high levels during the "dot-com gold rush" of the late 1990s, when avid investors drove dot-com stock prices to dizzying heights. However, the investing frenzy collapsed in 2000 and many high-flying, overvalued dot-coms came crashing down. Even some of the strongest and most attractive e-tailers—eToys.com, Pets.com, Furniture.com, Mothernature.com, Garden.com, Eve.com, Living.com, ValueAmerica.com—filed for bankruptcy. Survivors such as Amazon.com and Priceline.com saw their stock values plunge. Notes one analyst, "Once teeming with thousands of vibrant new ideas, the consumer Net is beginning to look like the mall at midnight."[19]

Dot-coms failed for a variety of reasons. Many rushed into the market without proper research or planning, often with the primary goal of simply launching an initial public offering (IPO) while the market was hot. Many relied too heavily on spin and hype instead of developing sound marketing strategies. Flush with investors' cash, the dot-coms spent lavishly offline on mass marketing in an effort to establish brand identities and attract customers to their sites. For example, during the fourth quarter of 1999, the average e-tailer spent an astounding 109 percent of sales on marketing and advertising.[20] As one industry watcher concludes, many dot-coms failed because they "had dumb-as-dirt business models, not because the Internet lacks the power to enchant and delight customers in ways hitherto unimaginable."[21]

The dot-coms tended to devote too much effort to acquiring new customers instead of building loyalty and purchase frequency among current customers. In their rush to cash in, many dot-coms went to market with poorly designed Web sites that were complex, hard to navigate, and unreliable. When orders did arrive, some dot-coms found that they lacked the well-designed distribution systems needed to ship products on time and handle customer inquiries and problems. Finally, the ease with which competitors could enter the Web, and the ease with which customers could switch to Web sites offering better prices, forced many dot-coms to sell at margin-killing low prices.

Pets.com, the now defunct online pet store, provides a good example of how many dot-coms failed to understand their marketplaces.

From the start, Pets.com tried to force its way to online success with unbeatable low prices and heavy marketing hype. In the end, however, neither worked. During its first year of operation, Pets.com lost $61.8 million on a meager $5.8 million in sales. During that time, it paid $13.4 million for the goods it sold for just $5.8 million. Thus, for every dollar that Pets.com paid suppliers such as Ralston Purina for dog food and United Parcel Service for shipping, it collected only 43 cents from its customers. Moreover, by early spring of 1999, Pets.com had burned through more than $21 million on marketing and advertising to create an identity and entice pet owners to its site. Its branding campaign centered on the wildly popular Sock Puppet character, a white dog with black patches. Sock Puppet even made an appearance in Macy's Thanksgiving Day Parade in New York as a 36-foot-high balloon. The singing mascot was also featured in Super Bowl ads that cost Pets.com more than $2 million. At first, investors bought into Pets.com's "landgrab" strategy—investing heavily to stake out an early share, then finding ways later to make a profit. However, even though it attracted 570 000 customers, Pets.com never did figure out how to make money in a low-margin business with high shipping costs. Its stock price slid from a February 1999 high of $14 to a dismal 22 cents by the end of 2000. In early 2001, the once-bold e-tailer retired Sock Puppet and quietly closed its cyberdoors.[22]

At the same time, many click-only dot-coms are surviving and even prospering in today's marketspace. Others are showing losses today but promising profits tomorrow. Consider Earthlink.com:

Earthlink.com is an Internet service provider (ISP) that sells Internet and email connection time for a $20 monthly fee. Customer maintenance expenses amount to only $9 a month, leaving an $11 contribution margin. On average, it costs Earthlink $100 to acquire a new customer. Therefore, it takes 11 months before the company breaks even on a new customer. Fortunately, Earthlink keeps its customers for an average of 31 months. This leaves Earthlink with 20 months of net income from the average customer. At a $9 monthly contribution margin, Earthlink makes $180 (20 months × $9) on the average customer. When Sky Dayton, Earthlink's founder, was asked why Earthlink is still losing money, he answered that Earthlink is acquiring so many new customers that it will take a while for the inflow of contribution margin to cover the $100 customer acquisition.[23]

Thus, for many dot-coms, including Internet giants such as Amazon.com, the Web is still not a money-making proposition. Companies engaging in e-commerce need to describe to their investors how they will eventually make profits. They need to define a *revenue and profit model.* Table 3-1 shows that a dot-com's revenues may come from any of several sources.

Click-and-Mortar Companies Many established companies moved quickly to open Web sites providing information about their companies and products. However, most resisted adding e-commerce to their sites. They felt that this would produce *channel conflict,* in that selling their products or services online would compete with their offline retailers and agents. For example, Compaq Computer feared that its retailers would drop Compaq's computers if the company sold the same computers directly online. Merrill-Lynch hesitated to introduce online stock trading to compete with E*Trade, Charles Schwab, and other online brokerages, fearing that its own brokers would rebel. Even store-based bookseller Barnes & Noble delayed opening its online site to challenge Amazon.com.

These companies struggled with the question of how to conduct online sales without cannibalizing the sales of their own stores, resellers, or agents. However, they soon came to realize that the risks of losing business to online competitors were even greater than the risks of angering channel partners. If they didn't cannibalize these sales, online competitors soon would. Thus, many established brick-and-mortar companies are now prospering as **click-and-mortar companies**. Consider Staples/Business Depot, the $10.7 billion office-supply retailer. After just two years on the Net, Staples captured annual online sales of $512 million last year. However, it's not robbing from store sales in the process. The average yearly spending of small business customers jumps from $600 when they shop in stores to $2800 when they shop online. As a result, Staples is slowing new store openings to a trickle this year; it plans to spend $50 million on expanding its Net presence. "We're still going whole hog," says CEO Thomas Stemberg. "The payoffs are just very high."[24]

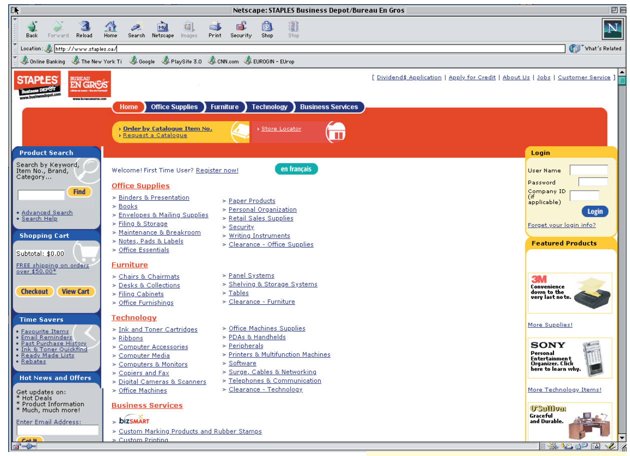
Click-and-mortar companies Traditional brick-and-mortar companies that have added e-marketing to their operations.

Table 3-1 Sources of E-Commerce Revenue

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

Most click-and-mortar marketers have found ways to resolve the resulting channel conflicts.[25] For example, Gibson Guitars found that although its dealers were outraged when it tried to sell guitars directly to consumers, the dealers didn't object to direct sales of accessories such as guitar strings and parts. Avon worried that direct online sales might cannibalize the business of its Avon ladies, who had developed close relationships with their customers. Fortunately, Avon's research showed little overlap between existing customers and potential Web customers. Avon shared this finding with the reps and then moved into e-marketing. As an added bonus for the reps, Avon also offered to help them set up their own Web sites. Finally, rather than only competing with its own stores, Office Depot partnered with Amazon.com for its online presence. Amazon.com routes orders for Office Depot products to existing bricks and mortar stores for fulfillment.

staples store photo to come



Click-and-mortar: Staples/Business Depot's Web site supplements its brick-and-mortar operations. After two years on the Net, Staples captured annual online sales of more than $500 million.

Despite potential channel conflict issues, many click-and-mortar companies are now having more online success than their click-only competitors. In fact, in a recent study of the top 50 retail sites, ranked by the number of unique visitors, 56 percent were click-and-mortar retailers, and 44 percent were Internet-only retailers.[26]

What gives the click-and-mortar companies an advantage? Established companies such as Canadian Tire, Wal-Mart, Staples/Business Depot, and the Royal Bank have known and trusted brand names and large financial resources. They have extensive customer bases, deeper industry knowledge and experience, and good relationships with key suppliers. By combining e-marketing and established brick-and-mortar operations, they can offer customers more options. For example, consumers can choose the convenience and assortment of 24-hour-a-day online shopping, 24-hour-a-day online banking, the more personal and hands-on experience of in-store shopping, or both. Customers can buy merchandise online and easily return unwanted goods to a nearby store. For example, those wanting to do business with Fidelity Investments can call a Fidelity agent on the phone, go online to the company's Web site, or visit the local Fidelity branch office. Thus, in its advertising, Fidelity can issue a powerful invitation to "call, click, or visit Fidelity Investments."

Setting up an E-Marketing Presence

Clearly, all companies need to consider moving into e-marketing. Companies can conduct e-marketing in any of the four ways shown in Figure 3-4: creating a Web site, placing ads online, setting up or participating in Web communities, or using online e-mail or Webcasting.

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

Types of Web Sites Web sites vary greatly in purpose and content. The most basic type is a **corporate Web site.** These sites are designed to build customer goodwill

Corporate Web site A Web site designed to build customer goodwill and to supplement other sales channels, rather than to sell the company's products directly.

Pause here and cool your engine for a bit. Think about the relative advantages and disadvantages of *click-only*, *brick-and-mortar only*, and *click-and-mortar* retailers.

- Visit the Amazon.ca Web site. Search for a specific book or DVD—perhaps one that's not too well known—and go through the buying process.
- Now visit www.chapters.indigo.ca and shop for the same book or video. Then visit a Chapters or Indigo store and shop for the item there.

What advantages does Amazon.ca have over Indigo? What disadvantages does Amazon.ca have? How does your local independent bookstore, with its store-only operations, fare against these two competitors?

and to supplement other sales channels, rather than to sell the company's products directly. For example, you can't buy ice cream at benjerrys.com, but you can learn all about Ben & Jerry's company philosophy, products, and locations; send a free e-card to a friend; subscribe to the Chunk Mail newsletter; and spend time in the Fun Stuff area, playing Scooper Challenge or Virtual Checkers.

Corporate Web sites typically offer a rich variety of information and other features in an effort to answer customer questions, build closer customer relationships, and generate excitement about the company. They generally provide information about the company's history, its mission and philosophy, and the products and services that it offers. They might also describe current events, company personnel, financial performance, and employment opportunities. Most corporate Web sites provide entertainment features to attract and hold visitors. Finally, the site might provide opportunities for customers to ask questions or make comments by e-mail before leaving the site.

Marketing Web site A Web site that engages consumers in interactions that will move them closer to a direct purchase or other marketing outcome.

Other companies create a **marketing Web site.** These sites engage consumers in interactions that will move them closer to a direct purchase or other marketing outcome. Such sites might include a catalogue, shopping tips, and promotional features such as coupons, sales events, or contests. For example, visitors to SonyStyle.ca can search through dozens of categories of Sony products, review detailed features and specifications lists for specific items, read expert product reviews, and check out the latest hot deals. They can place an order for the desired Sony products online and pay by credit card, all with a few clicks of the mouse button. Companies aggressive-

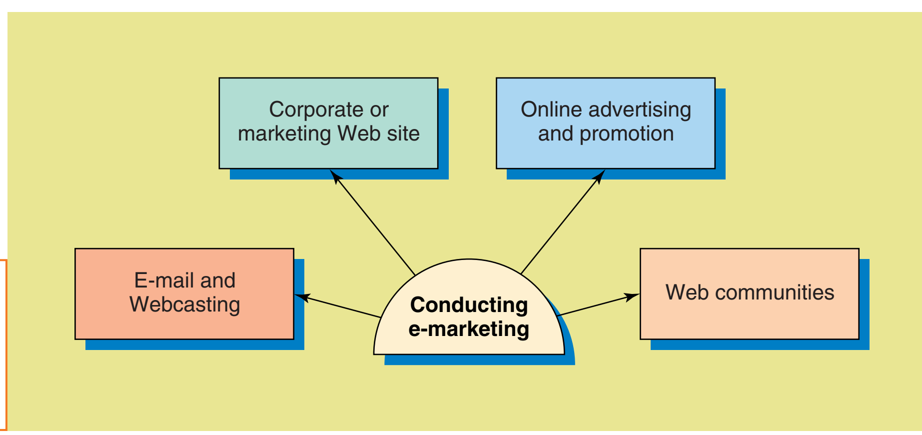


Figure 3.4
Setting up for E-Marketing

ly promote their marketing Web sites in offline print and broadcast advertising and through "banner-to-site" ads that pop up on other Web sites.

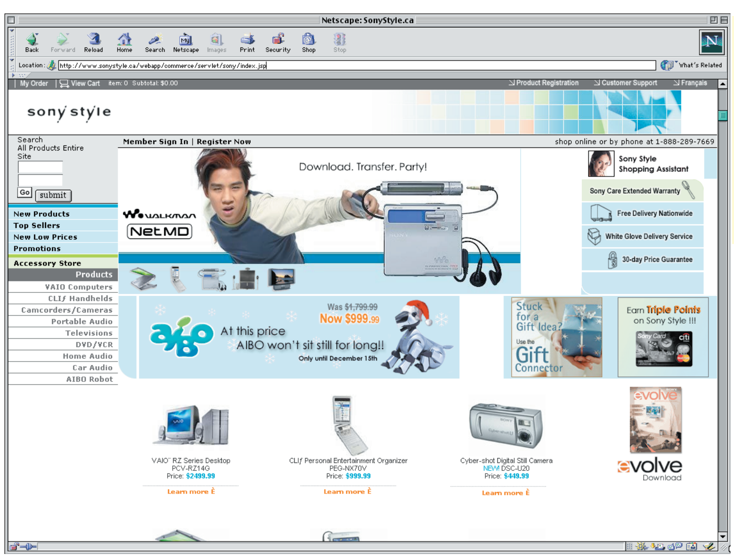
Toyota operates a marketing Web site. Once a potential customer clicks in, the carmaker wastes no time trying to turn the inquiry into a sale. The site offers plenty of useful information and a garage full of interactive selling features, such as detailed descriptions of current Toyota models and information on dealer locations and services, complete with maps and dealer Web links. Visitors who want to go further can use the Shop@Toyota feature to choose a Toyota, select equipment, and price it, then contact a dealer and even apply for credit. Or they fill out an online order form (supplying name, address, phone number, and e-mail address) for brochures and a free, interactive CD-ROM that shows off the features of Toyota models. The chances are good that before the CD-ROM arrives, a local dealer will call to invite the prospect in for a test drive. Toyota's Web site has now replaced its 800 number as the number-one source of customer leads.

Toyota
www.toyota.com

B2B marketers also make good use of marketing Web sites. For example, customers visiting GE Plastics' Web site can draw on more than 1500 pages of information to get answers about the company's products anytime and from anywhere in the world. FedEx's Web site allows customers to schedule their own shipments, request package pickup, and track their packages in transit.

FedEx
www.fedex.ca

Designing Attractive Web Sites Creating a Web site is one thing; getting people to *visit* the site is another. The key is to create enough value and excitement to get consumers to come to the site, stick around, and come back again. This means that companies must constantly update their sites to keep them current, fresh, and exciting. Doing so involves time and expense, but the expense is necessary if the e-marketer wants to cut through the increasing online clutter. In addition, many online marketers spend heavily on good old-fashioned advertising and other offline marketing avenues to attract visitors to their sites. Says one analyst, "The reality today is you can't build a brand simply on the Internet. You have to go offline."[27]



Marketing Web site: Visitors to SonyStyle.ca can search for products, check out the latest hot deals, and place orders online, all with a few clicks of the mouse.

For some types of products, attracting visitors is easy. Consumers buying new cars, computers, or financial services are usually open to information and marketing initiatives from sellers. Marketers of lower-involvement products, however, may face a difficult challenge in attracting Web site visitors. As one veteran notes, "If you're shopping for a computer and you see a banner that says, 'We've ranked the top 12 computers to purchase,' you're going to click on the banner. [But] what kind of banner could encourage any consumer to visit dentalfloss.com?"[28]

For such low-interest products, the company can create a corporate Web site to answer customer questions, build goodwill and excitement, supplement selling efforts through other channels, and collect customer feedback. For example, although Nabisco's LifeSavers Candystand Web site doesn't sell candy, it does generate a great deal of consumer excitement and sales support:

Nabisco's highly entertaining LifeSavers Candystand.com Web site, teeming with free videogames, endless sweepstakes, and sampling offers, has cast a fresh face on a brand that kid consumers once perceived as a stodgy adult confection. The Web site grabs 2.5 million visitors per month, mostly children and teenagers, and these surfers are not just passing through. They're clicking the mouse for an average 27-minute stay playing Foul Shot Shootout, Waterpark Pinball, and dozens of other arcade-style games, all while soaking in a LifeSavers aura swirling with information about products. "Our philosophy is to create an exciting online experience that reflects the fun and quality associated with the LifeSavers brands," says Silvio Bonvini, senior manager of new media at LifeSavers Company. "For the production cost of about two television spots, we have a marketing vehicle that lives 24 hours a day, seven days a week, 365 days a year." While Candystand.com has not directly sold a single roll of candy, the buzz generated by the site makes it an ideal vehicle for offering consumers their first glimpse of a new product, usually with an offer to get free samples by mail. In addition, LifeSavers reps use the site as sales leverage to help seal distribution deals when they talk with retailers. And the site offers LifeSavers an efficient channel for gathering customer feedback. Its "What Do You Think?" feature has generated 180 000 responses since the site launched in March 1997. "It's instant communication that we pass along directly to our brand people," Bonvini says. "It's not filtered by an agency or edited in any way." Comments collected from the Web site have resulted in improved packaging of one LifeSavers product and the resurrection of the abandoned flavor of another.[29]

SonyStyle
www.sonystyle.ca

Nike
www.nike.ca

A key challenge is designing a Web site that is attractive on first view and interesting enough to encourage repeat visits. The early text-based Web sites have largely been replaced in recent years by graphically sophisticated Web sites that provide text, sound, and animation (for examples, see SonyStyle or Nike's Web sites). To attract new visitors and to encourage revisits, suggests one expert, e-marketers should pay close attention to the seven Cs of effective Web site design:[30]

1. *Context:* the site's layout and design
2. *Content:* the text, pictures, sound, and video on the Web site
3. *Community:* the ways that the site enables user-to-user communication
4. *Customization:* the site's ability to tailor itself to different users or to allow users to personalize the site
5. *Communication:* the ways the site enables site-to-user, user-to-site, or two-way communication
6. *Connection:* the degree to which the site is linked to other sites
7. *Commerce:* the site's ability to enable commercial transactions

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

Effective Web sites contain deep and useful information, interactive tools that help buyers find and evaluate products of interest, links to other related sites, changing promotional offers, and entertaining features that lend relevant excitement. For example, Clinique.com offers in-depth information about cosmetics, a library of beauty tips, a computer for determining the buyer's skin type, advice from visiting experts, a bulletin board, a bridal guide, a directory of new products, and pricing information. Burpee.com provides aspiring gardeners with everything they need to make this year's garden the best ever. Besides selling seeds and plants by the thousands, the site offers an incredible wealth of information resources, including a Garden Wizard (to help new gardeners pick the best plants for specific sun and soil conditions), the Burpee Garden School (online classes about plants and plant care), an archive of relevant service articles, and a chance to subscribe to an e-mail newsletter containing timely tips and gardening secrets.

Periodically, a company must reassess its Web site's attractiveness and usefulness. One way is by inviting the opinion of site design experts. But a better way is by having users themselves evaluate what they like and dislike about the site and offer suggestions for improving it. For example, Otis Elevator Company's Web site serves 20 000 registered customers, among them architects, general contractors, building managers, and others interested in elevators. The site, offered in 52 countries and 26 languages, provides a wealth of helpful information, from modernization, maintenance, and safety information to drawings of various Otis models. Otis uses two sources of information to gauge satisfaction with its complex site. First, in an effort to detect potential problems, it tracks hits, time spent on the site, frequently visited pages, and the sequence of pages the customer visits. Second, it conducts quarterly phone surveys with 200 customers each in half the countries in which Otis does business. Such customer satisfaction tracking has resulted in numerous site improvements. For example, Otis found that customers in other countries were having trouble linking to the page that would let them buy an elevator online; now, the link is easier to find. Some customers were finding it hard to locate a local Otis office, so the company added an Office Locator feature.[31]

Effective Web sites contain useful information, helpful tools, and entertaining features. Burpee.com provides aspiring gardeners with a wealth of resources, including the Burpee Garden School and a Garden Wizard to help them pick the best plants for specific conditions.

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

Placing Ads and Promotions Online

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

Forms of Online Advertising and Promotion Online ads pop up while Internet users are surfing online. Such ads include banner ads and tickers (banners that move across the screen). For example, a Web user or ISP subscriber who is looking up airline schedules or fares might find a flashing banner on the screen exclaiming, "Rent a car from Budget and get up to two days free!" To attract visitors to its own Web site, Lincoln sponsors Web banner ads on other sites, such as TSN, to advertise the new Navigator model. New online ad formats include skyscrapers (tall, skinny ads at the side of a Web page and rectangles (boxes that are much larger than a banner).

MSNBC
www.msnbc.com

Interstitials are online ads that pop up between changes on a Web site. Visitors to MSNBC who visit the site's sports area might suddenly be viewing a separate window hawking wireless video cameras. Ads for Johnson & Johnson's Tylenol headache reliever pop up on brokers' Web sites whenever the stock market falls by 100 points or more. Sponsors of *browser ads* pay viewers to watch them. For example, Alladvantage.com downloads a view bar to users where ads are displayed to targeted users. Viewers earn 20 cents to $1 per hour in return.

Content sponsorships are another form of Internet promotion. Many companies gain name exposure on the Internet by sponsoring special content on various Web sites, such as news or financial information. For example, Sportchek advertises heavily on The Sports Network (TSN) and their ads can be seen rotating through the various home pages for specific sports that TSN offers, such as the NHL, NFL, and NBA. In this case, the sponsor pays for showing the content and, in turn, receives recognition as the provider of the particular service on the Web site. Sponsorships are best placed in carefully targeted sites where they can offer relevant information or a service to the audience. In the case of Sportchek, TSN provides an excellent target audience for sports equipment and clothing.

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

Finally, e-marketers can use **viral marketing**, the Internet version of word-of-mouth marketing. Viral marketing involves creating an e-mail message or other marketing event that is so infectious that customers will want to pass it along to their friends. Because customers pass the message or promotion along to others, viral marketing can be very inexpensive. And when the information comes from a friend, the recipient is much more likely to open and read it.

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

Viral marketing can be very effective. For example, e-mail provider Hotmail grew to 12 million users in 18 months by offering free e-mail—every e-mail message sent contained a Hotmail ad and tag line at the bottom. Viral marketing can also work well for B2B marketers. For example, to improve customer relationships, Hewlett-Packard recently sent tailored e-mail newsletters to customers who had registered online. The newsletters contained information about optimizing the performance of H-P products and services. Now that was good, but here's the best part: The newsletters also featured a button that let customers forward the newsletters to friends or colleagues. By clicking the button, customers entered a Web site where they could type in the friend's e-mail address and a comment, then hit send. The system inserted the message above the newsletter and e-mailed the whole thing to the friend. New recipients were then asked if they'd like to receive future H-P newsletters. In this textbook case of viral marketing, Hewlett-Packard inexpensively met its goal of driving consumers to its Web site and ultimately increasing sales. "For those on our original e-mail list, the click-through rate was 10 to 15 percent," says an H-P executive. "For those who received it from a friend or colleague, it was between 25 and 40 percent."[32]

The Future of Online Advertising Although online advertising serves a useful purpose, the Internet will not soon rival the major television and print media. Many marketers still question the value of Internet advertising as an effective tool. Costs are reasonable compared with those of other advertising media but Web surfers can easily ignore such advertising and often do. Although many firms are experimenting with Web advertising, it plays only a minor role in most promotion mixes.

As a result, online advertising expenditures still represent only a small fraction of overall advertising media expenditures. Moreover, in spite of its early promise, the growth of online advertising spending has slowed recently. According to one account,

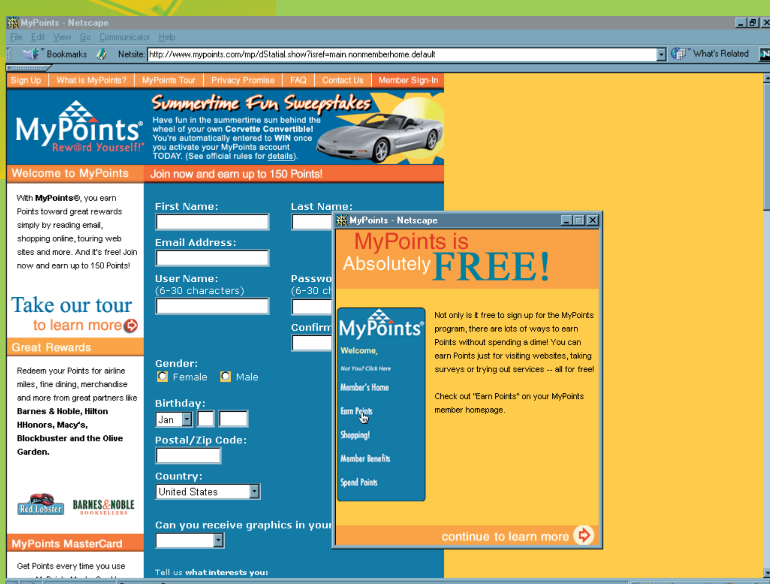
> The Internet was supposed to be the ultimate ad medium, the killer app that would eclipse newspapers, magazines, even television. But it's become increasingly clear that the online ad boom was largely a mirage, one created by the unfettered spending of the dot-coms themselves. Flush with venture funding.... Internet companies had been only too happy to ring one another's Web

sites with flashing banners. Those days are over: After growing at a compound annual rate of 103 percent to an estimated $8 billion last year, online ad spending [this year] is expected to be completely flat.[33]

The drop-off in Web advertising has caused hard times for companies that rely on it for profits. Companies such as DoubleClick and 24/7 Media that sell ads for large groups of Web sites are struggling. Many ad-dependent sites, such as AngryMan.com and Pseudo.com, have gone out of business entirely. The nation's most heavily trafficked Web site, Yahoo, which relies on Web advertising for 90 percent of its revenue, has seen its stock price plunge from more than $250 at its peak to little more than $30 today. Facing these new realities, companies are now seeking more effective forms and uses of Web advertising and marketing (see New Directions 3-1).

Despite the recent setbacks, some industry insiders remain optimistic about the future of online advertising. "The reports of online advertising's death are not just exaggerated," says one such optimist, "they are stupendously wrong. The online advertising business has grown from next to nothing in 1994 to $8.2 billion in 2000—a new-media trajectory unmatched in the annals of advertising. Web advertising has already blown past the venerable outdoor category, which had revenues of $5 billion last year. It is breathing down the tailpipes of the cable-TV ad business."[34]

New Directions 3-1>> Online Advertising: For the Survivors, There Still Will Be Gold in Webland



To reach eyeballs without glazing them over, MyPoints.com offers surfers points and prizes for agreeing to visit companies' sites, read their ads and e-mail, or buy their products online.

Advertising was supposed to be the gold paving the Internet's busy streets. Consumers would eagerly surf, chat, and shop, and ads would pay Web companies for providing all those cool sites. In return, marketers would flash brightly colored banners at viewers, entice them to click through to their own sites, and get lots of business. But it didn't happen that way. Today, banner ad click-through rates have plummeted to a tiny 0.1 percent, ad rates may be heading from $33 per thousand-page-requests a year ago into the single digits, and ad volumes are falling. The blowout is pushing even the best-known sites down financial black holes.

What went wrong? It turns out that the Internet opened up brand-new worlds for advertisers, only they didn't see it. They tried to do what they always did—post their names in big letters, build their brands in two dimensions. But they didn't seize on the Net's potential or exploit its unique characteristics, such as the ability to target individual preferences and engage customers in interactivity. "This is the true value of what the Internet provides marketers," says Christopher Todd, analyst at Jupiter Media Metrix.

Web operators that based their businesses entirely on the expected free flow of ad dollars are learning that the hard way. "No longer can anyone in this space rely on only one revenue stream," warns John Fullmer, CEO of Internet direct marketer MyPoints.com. But those whose broader approach has kept them alive may yet reap benefits as marketers get smarter about the Net. For starters, advertising hasn't all dried up. Much of the current ad decline is due to the flameout of dot-coms that spent wildly online to build their new brands. "The kindling has been burned through," says Tim McHale, chief media officer of Tribal DDB Worldwide, whose clients include Anheuser-Busch, McDonald's, and Volkswagen. Traditional marketers may be cutting back, but they're not bailing out. A few, like IBM, are even ratcheting up their Internet ad budgets.

But this time, it will be different. It's now clear that folks are getting as good at screening out online banner ads as they are at tuning out TV commercials or flipping past glossies in a magazine. So companies are finding ways to reach eyeballs without glazing them over.

Some advertisers are ditching banner ads totally, instead using old-fashioned TV spots to drive traffic directly to their Web sites, rather than through intermediaries like portals. Other companies are signing up with sites that essentially pay consumers to engage with a mall full of marketers. At MyPoints.com, for example, surfers collect points and prizes for agreeing to visit companies' sites, read their e-mail, or buy their products online. Another tack: bidding for prime spots on search engines. By paying to top the list of results for users who search for, say, "banking" on GoTo.com, a marketer such as Citicorp ensures it is reaching live prospects. A study by researcher NPD Group Inc. shows that a top position is three times more effective than a banner ad in building brand awareness on a search-engine site.

And even though they're taking the biggest hit right now, banner ads aren't going away—just as roadside billboards didn't disappear once such alternatives as TV arrived. Web sites are now willing to offer advertisers more shapes and sizes to play with, pop-up ads are developing a following, and the roll-out of broadband will bring streaming videos with grabbier messages. And while banner ads could capture some data about clickers before, agencies are helping marketers to track customer profiles more minutely. Avenue A Inc., for example, is working with client BestBuy.com Inc. to identify whether a visitor directed to its site by a banner ad has ever visited the site before, has visited but not purchased anything, or has purchased goods there many times.

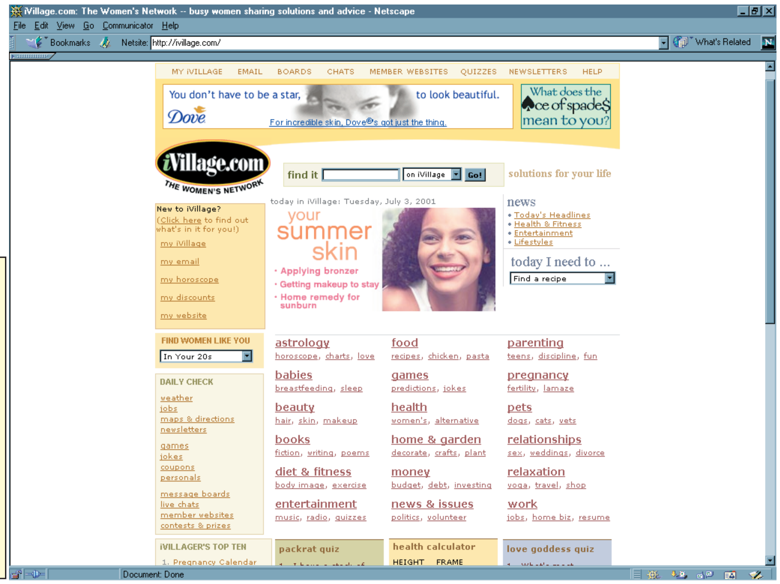
Still, plenty of pain is in store for ad buyers and sellers groping their way around this new medium. "We keep turning up evidence that this works, but we need to get through the slowdown," says Avenue A CEO Brian P. McAndrews. For the survivors, there still will be gold in Webland.

Source: Reprinted with permission from Gerry Khermouch and Tom Lowry, "The Future of Advertising," *Business Week*, 26 March 2001, p. 138.

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

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

For example, iVillage.com is a Web community in which women can exchange views and obtain information, support, and solutions on families, food, fitness, relationships, relaxation, home and garden, news and issues, or just about any other topic. The site draws 214 million page views per month, putting it in a league with magazines such as *Cosmopolitan*, *Glamour*, and *Vogue*. Another example is



Web communities: iVillage.com, a Web community for women, draws 214 million page views per month. The site provides an ideal environment for Web ads of companies such as Procter & Gamble, Kimberly Clark, Avon, and others.

MyFamily.com, which aspires to be the largest and most active online community for families in the world. It provides free, private family Web sites to which family members can connect online to hold family discussions, share family news, create online family photo albums, maintain a calendar of family events, share family history information, jointly build family trees, and buy gifts for family members quickly and easily. "People talk about forming communities on the Internet," says cofounder Paul Allen. "Well, the oldest community is the family."[35]

Visitors to these Internet neighbourhoods develop a strong sense of community. Such communities are attractive to advertisers because they draw consumers with common interests and well-defined demographics. Moreover, cyberhood consumers visit frequently and stay online longer, increasing the chance of meaningful exposure to the advertiser's message. For example, iVillage provides an ideal environment for the Web ads of companies such as Procter & Gamble, Kimberly Clark, Avon, Hallmark, and others who target female consumers. And MyFamily.com hosts The Shops@MyFamily, in which such companies as Disney, Kodak, Hallmark, Compaq, Hewlett-Packard, and Microsoft advertise and sell their family-oriented products.

Web communities can be either social or work related. One successful work-related community is @griculture Online. This site offers commodity prices, recent farm news, and chat rooms of all types. Rural surfers can visit the Electronic Coffee Shop and pick up the latest down-on-the-farm joke or join a hot discussion on controlling soybean cyst nematodes. @griculture Online has been highly successful, attracting as many as 5 million hits per month.[36]

Using E-Mail and Webcasting E-mail has exploded onto the scene as an important e-marketing tool. Jupiter Media Metrix estimates that companies will be spending $7.3 billion annually on e-mail marketing by 2005, up from $164 million in 1999.[37] To compete effectively in this cluttered e-mail environment, marketers are designing "enriched" e-mail messages—animated, interactive, and personalized messages full of streaming audio and video. Then they are carefully targeting these attention-grabbers to those who want them and will act on them. (See New Directions 3-2.)

New Directions 3-2 >> The New World of E-Mail Marketing

E-mail is *the* hot new marketing medium. In ever-larger numbers, e-mail ads are popping onto our computer screens and filling up our e-mailboxes. What's more, they're no longer just the quiet, plain-text messages of old. The new breed of e-mail ad is designed to command your attention—loaded with glitzy features such as animation, interactive links, colour photos, streaming video, and personalized audio messages.

But if you think that you're already getting too much e-mail, hang onto your mouse. Jupiter Media Metrix predicts that the number of commercial e-mail messages sent per year will increase from an already daunting 43 billion in 2000 to an inbox-busting 375 billion by 2005. And no wonder. E-mail allows marketers to send tailored messages to targeted consumers who actually want to receive them, at a cost of only a few cents per contact. Even better, they can target audiences in any country and get responses within 24 hours.

As in any other direct-marketing effort, e-mail success depends on a good customer database. Companies can obtain e-mail addresses from outside list brokers. However, the best way to build an e-mail database easily is simply to ask customers for their e-mail addresses at every point of contact. Marketers can ask for e-mail addresses on their Web sites, in their brick-and-mortar stores, via response cards sent with catalogues, during customer service calls, or even in print ads. Some marketers sponsor sign-up promotions, offering sweepstakes or prizes as incentives to customers who fork over their e-mail addresses. All of these are permission-based methods that allow customers to "opt in" or "opt out," ensuring that e-mails are sent only to customers who ask for them. "That leaves marketers largely immune from the wrath of privacy advocates and spam fighters," states *Business Week* writer Arlene Weintraub.

Another advantage of e-mail ads is that companies can track customer responses—how many people open the message, who clicks through to the Web site, and what they do when they get there. And well-designed e-mail ads really do command attention and get customers to act. ITM Strategies, a sales and marketing research firm, estimates that permission e-mail campaigns typically achieve 10 percent to 15 percent click-through rates. That's good when compared with the 0.5 percent to 2 percent average response rates for traditional direct mail.

E-mail success stories abound. *Business Week* offers these:

> Zomba Recording, corporate parent of teen band 'N Sync's label Jive Records, cooked up an e-campaign that made other marketers drool. In March, 200 000 fans received a video message about the album *No Strings Attached* that allowed them to hear band members speak and to listen to a snippet of the song "Bye Bye Bye." Fans went wild: 34 percent of the e-mail recipients, whose names had been collected from the 'N Sync Web site, downloaded the video. Of those, 88 percent clicked on one of the links. Thousands forwarded the e-mail to friends. In the world of direct marketing, where a 1 percent response rate is considered acceptable, the numbers were extraordinary. *No Strings Attached* had its debut in April and sold 2.4 million copies in its first week—the biggest opening since SoundScan started tracking sales in 1991. "E-mail is a technology that kids are really into, so it was a great direct-hit way to get to them," says Jeff Dodes, vice president for new media and Internet operations at Zomba.

Kids aren't the only targets for e-mail ads. Customers of golf-supply retailer Chipshot.com—average age 41—received e-ads for a new line of clubs. The mail included streaming video and an audio message that greeted recipients using their first names. Of those who received it, 14.7 percent clicked through to the site, and 11.6 percent of them bought the clubs. "The multimedia message with animated graphics looked very attractive," says Nick Mehta, Chipshot's vice president for interactive marketing. "We saw 98 percent more revenue per customer among people who received that message versus those who got just a standard e-mail."

Still, even permission-based e-mail can be very annoying. "Even among consumers who opt in to the e-mail barrage, there's a fine line between legitimate marketing and spam," says Weintraub. "As more companies glom onto the trend, there is strong potential for a backlash." Companies crossing that fine line will quickly learn that "opting out" is only a click away for disgruntled customers. According to Weintraub, marketers are aware of the potential for irritation and are taking steps to head it off:

> Petopia.com, which mails monthly e-newsletters and personalized pet birthday messages, has set its computer system to automatically limit the number of e-mails any one customer receives in a month. Handheld-computer maker Palm Inc. has been experimenting with the length of its e-ads, and recently found that a 150-word message produced a better click-through rate than 300 words did. IKEA took an even more drastic step. In April, the furniture retailer promoted its new San Francisco store by e-mailing customers and inviting them to send virtual postcards to friends through its site. A mind-boggling 70 000 postcards were sent in 10 days. But when a handful of recipients cried "spam!," IKEA pulled the campaign. "We only want to communicate with customers in ways that they think are appropriate," says Rich D'Amico, IKEA's manager of new business development.

Still, marketing history is full of examples of effective tactics that were taken too far, and some experts see little reason to expect that e-mail advertising will be any different. "It will be overdone," predicts the president of a firm that creates e-mail campaigns. "Brace your e-mail box for the results," adds Weintraub.

Sources: Quotes and extracts from Arlene Weintraub, "When E-Mail Ads Aren't Spam," *Business Week*, 16 October 2000, pp. 112–114. Also see Chad Kaydo, "As Good As It Gets," *Sales and Marketing Management*, March 2000, pp. 55–60; Eileen P. Gunn, "Marketers Are Keen on Enriched E-Mail," *Advertising Age*, 16 October 2000, p. S12; Dana James, "Addresses (Are) the Issue," *Marketing News,* 9 October 2000, p. 19; and Stephen J. Eustace, "The World Is Your Cybermarket," *Target Marketing*, April 2001, pp. 54–56.

E-mail is becoming a mainstay for both B2C and B2B marketers. 3Com Corporation, a B2B marketer of high-tech computer hardware, made good use of e-mail to generate and qualify customer leads for its network interface cards. The company used targeted e-mail and banner ads on 18 different computer-related Web sites to attract potential buyers to its own Web site featuring a "3Com Classic" sweepstakes—by filling out the entry form, visitors could register to win a 1959 Corvette. The campaign generated 22 000 leads, which were further qualified using e-mail and telemarketing. "Hot" leads were passed along to 3Com's inside sales force. "[Sales reps] were very skeptical," says a 3Com marketing manager, "but they were blown away by how well the contest did." Of the 482 leads given to reps, 71 turned into actual sales that totalled $2.5 million. What's more, states the manager, "Now I've got 22 000 names in my e-mail database that I can go back and market to."[38]

Webcasting The automatic downloading of customized information to recipients' computers, creating an attractive channel for delivering Internet advertising or other information.

Companies can also sign on with any of a number of "**Webcasting**" services, which automatically download customized information to recipients' computers. An example is Internet Financial Network's Infogate, which sends up-to-date financial news, market data, and real-time stock quotes to subscribers in the financial services industry for a fee. Infogate frames the top and bottom inch of subscribers' computer screens with personalized news and other information tailored to their specific interests. Rather than spending hours scouring the Internet, subscribers can sit back while Infogate automatically delivers information of interest to their desktops.[39] The major commercial online services also offer Webcasting to their members. For example, America Online offers a feature called Driveway that will fetch information, Web pages, and e-mail-based articles on members' preferences and automatically deliver it to their computers.

Also known as "push" programming, Webcasting creates an attractive channel through which online marketers can deliver their Internet advertising or other information content. For example, via Infogate, advertisers can market their products and services using highly targeted messages to a desirable segment of at-work Internet users.

As with other types of online marketing, companies must be careful that they don't cause resentment among Internet users who are already overloaded with "junk e-mail." Warns one analyst, "There's a fine line between adding value and the consumer feeling that you're being intrusive."[40] Companies must beware of irritating consumers by sending unwanted e-mail to promote their products. Netiquette, the unwritten rules that guide Internet etiquette, suggests that marketers should ask customers for permission to e-mail marketing pitches—and tell recipients how to "opt in" or "opt out" of e-mail promotions at any time. This approach, known as permission-based marketing, has become a standard model for e-mail marketing.

The Promise and Challenges of E-Commerce

E-commerce continues to offer great promise for the future. Its most ardent followers still envision a time when the Internet and e-commerce will replace magazines, newspapers, and even stores as sources for information and buying. However, such "dot-com fever" has cooled recently and a more realistic view has emerged. "It's time for Act II in the Internet revolution," suggests one analyst. "The first act belonged to dot-coms with big visions and small bank accounts. Now the stage will be taken by big companies that move their factories, warehouses, and customers onto the Web."[41]

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

However, for most companies, online marketing will remain just one important approach to the marketplace that works alongside other approaches in a fully integrated marketing mix. Eventually, the "e" will fall away from e-business or e-marketing as companies become more adept at integrating e-commerce with their everyday strategy and tactics. "The key question is not whether to deploy Internet technology—companies have no choice if they want to stay competitive—but how to deploy it," says business strategist Michael Porter. He continues: "We need to move away from the rhetoric about 'Internet industries,' 'e-business strategies,' and a 'new economy,' and see the Internet for what it is:…a powerful set of tools that can be used, wisely or unwisely, in almost any industry and as part of almost any strategy."[42]

Along with its considerable promise, e-commerce faces many challenges. Here are just some of the challenges that online marketers face:

- *Limited consumer exposure and buying:* Although expanding rapidly, online marketing still reaches only a limited marketspace. Moreover, in most product categories, many Web users still do more window browsing and product research than actual buying.

- *Skewed user demographics and psychographics:* Although the Web audience is becoming more mainstream, online users still tend to be somewhat more upscale and more technology oriented than the general population. This makes online marketing ideal for marketing computer hardware and software, consumer electronics, financial services, and certain other classes of products. However, it makes online marketing less effective for selling mainstream products.
- *Chaos and clutter:* The Internet offers millions of Web sites and a staggering volume of information. Thus, navigating the Internet can be frustrating, confusing, and time-consuming for consumers. In this chaotic and cluttered environment, many Web ads and sites go unnoticed or unopened. Even when noticed, marketers will find it difficult to hold consumers' attention. One study found that a site must capture Web surfers' attention within eight seconds or lose them to another site. That leaves very little time for marketers to promote and sell their goods.
- *Security:* Some consumers worry that unscrupulous snoopers will eavesdrop on their online transactions or intercept their credit card numbers and make unauthorized purchases. In turn, companies doing business online fear that others will use the Internet to invade their computer systems for commercial espionage or even sabotage. Online marketers are developing solutions to such security problems, and this has relieved most buyer fears in recent years. However, there appears to be an ongoing competition between the technology of Internet security systems and the sophistication of those seeking to break them.
- *Ethical concerns:* Privacy is a primary concern. Marketers can easily track Web site visitors, and many consumers who participate in Web site activities provide extensive personal information. This may leave consumers open to information abuse if companies make unauthorized use of the information in marketing their products or exchanging electronic lists with other companies.

Canada has recognized the potential loss of the right to privacy in the rapid growth of online commerce and information technology. Canada's Parliament passed a new law, the Personal Information Protection and Electronic Documents Act, which took effect 1 January 2001.[43] This Act (subtitled Bill C-6) stringently defines "personal information," and it requires that organizations collect personal information in a fair and lawful manner and obtain an individual's consent before usage. We have the right to decide who will see our personal information and how it will be used.

Concerns have also arisen about segmentation and discrimination online. The Internet currently serves upscale consumers well; however, poorer consumers have less access to the Internet, leaving them increasingly less informed about products, services, and prices.[44]

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

<< Looking Back < < < < < < < < <

In the first two chapters, you discovered the fundamentals of marketing and marketing strategy. In this chapter, you learned about some major changes in the marketing landscape that are having an impact on marketing practice. Recent technological advances have created a new Internet age. To thrive in this new environment, marketers will have to add some Internet thinking to their strategies and tactics. This chapter introduced the forces shaping the new Internet environment and how marketers are adapting. In the next chapter, we'll look at other forces and actors affecting the complex and changing marketing environment.

1. Identify the major forces shaping the Internet age.

Four major forces underlie the Internet age: digitalization and connectivity, the explosion of the Internet, new types of intermediaries, and customization and customerization. Much of today's business operates on digital information, which flows through connected networks. Intranets, extranets, and the Internet now connect people and companies with each other and with important information. The Internet has grown explosively to become *the* revolutionary technology of the new millennium, empowering consumers and businesses alike with connectivity.

The Internet and other new technologies have changed the ways that companies serve their markets. New Internet marketers and channel relationships have arisen to replace some types of traditional marketers. The new technologies are also helping marketers to tailor their offers effectively to targeted customers or even to help customers customerize their own marketing offers. Finally, the new economy technologies are blurring the boundaries between industries, allowing companies to pursue opportunities that lie at the convergence of two or more industries.

2. Explain how companies have responded to the Internet and other powerful new technologies with e-business strategies, and explain how these strategies have resulted in benefits to both buyers and sellers.

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

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

3. Describe the four major e-commerce domains.

Companies can practice e-commerce in any or all of four domains. B2C (business-to-consumer) e-commerce is initiated by businesses and targets final consumers. Despite recent setbacks following the "dot-com gold rush" of the late 1990s, B2C e-commerce continues to grow at a healthy rate. Although online consumers are still somewhat higher in income and more technology oriented than traditional buyers, the cyberspace population is becoming much more mainstream and diverse. This growing diversity opens up new e-commerce targeting opportunities for marketers. Today, consumers can buy almost anything on the Web. B2B (business-to-business) e-commerce dwarfs B2C e-commerce. Most businesses today operate Web sites or use B2B trading networks, auction sites, spot exchanges, online product catalogues, barter sites, or other online resources to reach new customers, serve current customers more effectively, and obtain buying efficiencies and better prices. Business buyers and sellers meet in huge marketspaces—or open trading networks—to share information and complete transactions efficiently. Or, they set up private trading networks that link them with their own trading partners.

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

4. Discuss how companies can conduct e-commerce to profitably deliver more value to customers.

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

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

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

5. Summarize the promise and challenges that e-commerce presents for the future.

E-commerce continues to offer great promise for the future. For most companies, online marketing will become an important part of a fully integrated marketing mix. For others, it will be the major means by which they serve the market. Eventually, the "e" will fall away from e-business or e-marketing as companies become more adept at integrating e-commerce with their everyday strategy and tactics. However, e-commerce also faces many challenges. Among these are limited consumer exposure and buying, skewed user profiles, chaos and clutter, security, and ethical concerns. Despite these challenges, most companies are rapidly integrating online marketing into their marketing strategies and mixes.

Navigating the Key Terms

B2B (business-to-business) e-commerce, **p. 000**
B2C (business-to-business) e-commerce, **p. 000**
C2B (consumer-to-consumer) e-commerce, **p. 000**
C2C (consumer-to-consumer) e-commerce, **p. 000**
Click-and-mortar companies, **p. 000**
Click-only companies, **p. 000**
Corporate Web site, **p. 000**
Customerization, **p. 000**
E-business, **p. 000**
E-commerce, **p. 000**
E-marketing, **p. 000**
Extranet, **p. 000**
Internet, **p. 000**
Intranet, **p. 000**
Marketing Web site, **p. 000**
Online advertising, **p. 000**
Open trading networks, **p. 000**
Private trading networks (PTN), **p. 000**
Viral marketing, **p. 000**
Web communities, **p. 000**
Webcasting, **p. 000**

Concept Check

Fill in the blanks and then check your answers.

1. Four specific forces that underlie the new economy are ________ and ______, the explosion of the Internet, new types of intermediaries, and ________ and __________.

2. __________ connect a company with its suppliers and distributors.

3. If a new e-tailer cuts out a traditional intermediary in a channel relationship, then the traditional intermediary has been ___________.

4. In _____________, the company leaves it to individual customers to design the product or service offering.

5. Internet buying benefits both final buyers and sellers in many ways. It is ___________; buying is _____ and _______; buyers have greater ________ and ________; channels give comparative information; and online buying is interactive and immediate.

6. ___________ networks are huge e-marketspaces in which buyers and sellers find each other online, share information, and complete transactions efficiently.

7. When buyers use Travelocity.ca to bid for airline tickets and hotel rooms, they are conducting _____________________ e-commerce.

8. According to Figure 3-3, the three types of e-marketers are __________, ___________, and _______________.

9. The seven Cs of effective Web site design are _____________, _____________, ____________, ___________, communication, connection, and commerce.

10. _________ marketing involves creating an e-mail message or other marketing event that is so infectious that customers will want to pass it along to their friends.

11. ____________ services automatically download customized information to a recipient's computer.

12. Online users tend to be somewhat more upscale and more technology oriented than the general population. This would be an example of the ______________ challenge that online marketers face.

Concept Check Answers: 1. Digitalization and connectivity; customization and customerization; 2. Extranets; 3. Disintermediated; 4. Customerization; 5. Convenient; easy and private; product access and selection; 6. Open trading; 7. C2B (consumer-to-business); 8. Click-only; brick-and-mortar only; click-and-mortar; 9. context, content, community, customization; 10. Viral; 11. Webcasting; 12. Skewed user demographics and psychographics.

Discussing the Issues

1. Discuss how a traditional retailer or wholesaler can be *disintermediated* by the new e-tailer. Give an example to illustrate.
2. Explain and illustrate how customization differs from customerization.
3. Describe and illustrate the many benefits that e-commerce and the Internet bring to both buyers and sellers.
4. The statement has been made that all companies need to consider moving into e-marketing. List and discuss the four generally accepted ways that a company can conduct e-marketing. Pick a local retailer or service provider that has not yet moved into e-marketing and suggest how they might do this. Be specific.
5. Pick a favourite Web site and write a brief analysis of how the site rates on the seven Cs of effective Web site design. What forms of online advertising and promotion does your chosen Web site seem to be using to its advantage? How can the site be improved? Be specific.

Mastering Marketing

Having an effective e-marketing presence is of primary importance in today's competitive marketplace. Explain how CanGo has or should use marketing in the wired world. Critique the organization's efforts by using the evaluation and analysis options suggested in this chapter. How effective have their efforts been to date? What suggestions would you offer to the company? Explain.

Digital Map

Visit our Web site at **www.pearsoned.ca/armstrong** for online quizzes, Internet exercises, and more!

MAP 3 Marketing Applications

One of the oldest forms of marketing and promotion is word-of-mouth. In the new Internet age, word-of-mouth has become known as viral marketing. Viral marketing is really quite simple—tell a friend to tell a friend that something is hot and worth noticing. This has worked successfully with the Doom video game, *The Blair Witch Project* movie, Harry Potter books, Razor scooters, and Chrysler's PT Cruiser automobile, to name only a few. To create "buzz," the viral marketer targets a group of carefully chosen trend leaders in a community who are likely to use phone or Internet communication to spread the word about the product, event, or service. Think about it. Who do you believe most—your friends or an ad? The friends win easily. This form of messaging can also revive brands that have seen better days. Lucky Strike cigarettes, Lee jeans, and even Vespa scooters have seen increases in sales and interest as a result of such "new buzz" tactics. However, buzz-building in this technologically savvy marketplace is no easy task. In fact, it can become a public relations nightmare if the selected communicators choose to "trash" your product.

Effective viral marketing requires following a few simple rules to get just the right buzz about your product or service: (1) Identify trendsetters quickly and let them spread your message, (2) withhold supply early to simulate scarcity—everyone wants what they cannot have, (3) be authentic—no one wants a fake or to be tricked, and (4) be prepared to change quickly—every good firefighter knows when to retreat. If there is one thing that all viral marketers have learned it is this: start consumers talking and you will start selling.

Thinking Like a Marketing Manger

1. What applications can you think of for viral or buzz marketing on the Internet?
2. List three products that you have heard about from friends. Describe what you were told, how this matched ad claims, what action you took because of the information, and how likely you were to buy the products.
3. Assume you are the marketing manager for a new product to be sold primarily to consumers in your generation using the Internet. Describe how you would use viral marketing to accomplish this. Be specific in the descriptive steps of your plan.
4. Choose an actual product and start a positive buzz about it using one of the communication methods suggested in the chapter. Keep a record of what you communicated and how you communicated the information. What were the results of your communication? What could you do to increase the effectiveness of the communication? How were "connections" made? How could an e-marketer make the same "connections"?
5. Consider the ethics of viral marketing. What could be the potential problems with the method? What cautions should be taken by an e-marketer wanting to use this technique?

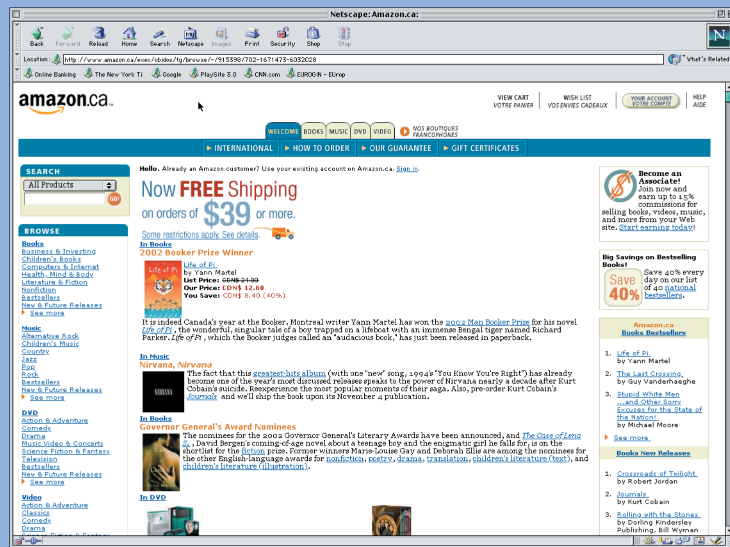
CASE 3 AMAZON.CA

On 25 June 2002, **Amazon.ca** was launched. However, unlike it's much promoted and documented U.S.-based parent, Amazon.com, the launch was quiet, almost reserved. Given that Canada is Amazon.com's biggest export market, with hundreds of thousands of regular customers, why would the company launch in Canada?

As possible clues to the answer, it is worthwhile to look at Amazon.com's history. Amazon.com first opened its virtual doors in mid-July 1995, selling books out of founder Jeff Bezos's garage in suburban Seattle. It still sells books—by the millions. But it now sells products in a dozen other categories as well: from music, videos, consumer electronics, and computers to tools and hardware, kitchen and housewares, toys, and baby products. "We have the Earth's Biggest Selection," declares the company's Web site.

In only a few short years, Amazon.com has become the best-known name on the Net. In the process, it is also rewriting the rules of marketing. "Amazon.com is blazing a trail in the world of commerce where no merchant has gone before," asserts business analyst Robert Hof. "By pioneering—and darn near perfecting—the art of selling online,…[Amazon.com has caused] a wrenching shift to a new way of doing business." Its most ardent fans view Amazon.com as *the* model for new economy businesses of the twenty-first century. If any dot-com can make it, they believe, Amazon.com will.

Attracting customers and sales hasn't been a problem. In just the past two years, Amazon.com's customer base has grown more than sevenfold to 32 million customers in more than 220 countries. Sales have rocketed from a modest U.S.$15



million in 1996 to more than U.S.$3.1 billion at year-end 2001. So, what's the problem? Profits—or a lack thereof. Amazon.com's losses have mounted almost as fast as its sales, reaching more than U.S.$1.1 billion in 2000, or 40 percent of sales. Amazon.com, however, turned a modest profit in the fourth quarter of 2001 and continued to be profitable in the first quarter of 2002. Supporters attribute initial losses to high start-up costs. After all, they note, the company has started what amounts to several new businesses within only a few years.

No matter what your view of its future, there's little doubt that Amazon.com is an outstanding marketing company. To its core, the company is relentlessly customer-driven. "The thing that drives everything is creating genuine value for customers," says founder Jeff Bezos. "Nothing happens without that." A few years back, when asked when Amazon.com would start putting profits first rather than growth, Bezos replied, "Customers come first. If you focus on what customers want and build a relationship, they will allow you to make money."

The relationship with customers is the key to the company's future. Anyone at Amazon.com will tell you that the company wants to do much more than just sell books or DVDs or digital cameras. It wants to deliver a special *experience* to every customer. "The customer experience really matters," says Bezos. "We've focused on just having a better store, where it's easier to shop, where you can learn more about the products, where you have a bigger selection, and where you have the lowest prices. You combine all of that stuff together and people say, 'Hey, these guys really get it.'"

And they do get it. Most Amazon.com regulars feel a surprisingly strong and personal relationship with the company, especially given the almost complete lack of actual human interaction. To offset the lack of human contact, Amazon.com was first to use "collaborative filtering" technology, which sifts through each customer's past purchases and the purchasing patterns of customers with similar profiles to come up with personalized site content. "We want Amazon.com to be the right store for you as an individual," says Bezos. "If we have 30 million customers, we should have 30 million stores."

The Canadian site is no different. Visitors to Amazon.ca's Web site receive a unique blend of benefits: the site is bilingual and offers a huge selection, good value, convenience, and what Amazon.com vice president Jason Kilar calls "discovery." In the book section, for example, Amazon.ca offers an easily searchable virtual selection of more than 1.5 million titles, seven and a half times more than any physical bookstore. Good value comes in the form of reasonable prices, with everyday discounts on the suggested retail price. And at Amazon.ca, it's irresistibly convenient to buy. With Amazon.ca's one-click checkout feature, you can log on, find what you want, and order with a single mouse click, all in less time than it takes to find a parking space at the local mall.

But it's the "discovery" factor that makes the Amazon.com or the Amazon.ca experience special. Once on the Web site, you're compelled to stay for a while—looking, learning, and discovering. Amazon.ca continues the concept of the online *community*, in which customers can browse for products and research purchase alternatives in books, music, and movies.

In addition to the ability to develop personalized relationships with millions of customers, selling on the Internet gives Amazon.ca some real advantages over its brick-and-mortar rivals. By selling direct to customers, Amazon.ca reaps significant cost advantages. At the Canadian site, management and transaction handling is still located in Seattle, within Amazon.com. It avoids the huge costs of building and operating stores and carrying large inventories. And whereas traditional retailers must continually build new stores to grow revenues, Amazon.ca can boost sales by simply attracting more customers to its new Web store.

Selling on the Web also presents serious challenges. Although it doesn't face store costs, Amazon.ca has had to make large initial investments in such things as computer systems, distribution centres, and customer acquisition. Perhaps more important, many people still like shopping in a real store, where they can rub elbows with other shoppers, touch and try out the merchandise, buy goods on the spot, and easily return purchases that don't work out.

Many experts predict that the future will belong to retailers who offer *both* "clicks" and "bricks," the current business model of Indigo Books and Music Inc. In fact, almost 60 percent of consumer online revenues are now captured by companies that sell both online and through traditional stores. In response to these new realities, Amazon.com is already partnering with real-world retailers. It recently teamed up with Toys "R" Us to create a co-branded toys and games Web site. Toys "R" Us handles purchasing and inventory. Amazon.ca oversees the customer experience—maintaining the Web site, filling orders, and managing customer service. Amazon.com is exploring a similar partnership with brick-and-mortar giant Wal-Mart. The Amazon.ca site has yet to promote these partnerships, preferring to focus on books, music, and DVDs, but as demand grows for the services that the Amazon.ca site offers, these partnerships will become part of the business expansion strategy.

So, what do you think? Does Amazon.ca really create superior value for customers? Will it eventually become the Wal-Mart of the Web? Or will it end up as just another dot-com has-been? Jeff Bezos, the founder and chief executive officer of Amazon.com characterized the new bilingual Canadian site as a benefit for Canadian publishers and consumers, as well as a champion for Canadian culture as a whole. "Anyone who is a proponent of Canadian culture should be ecstatic," Bezos stated in an interview. "We are going to make it available to the world."

Heather Reisman, chief executive officer of Indigo Books and Music Inc. predictably disagrees. She believes that Amazon.ca "opens the door to all kinds of things and changes the nature of the Canadian industry." Toronto retail consultant Wendy Evans, however, states that "any competition at the retail end is good in Canada," an obvious reference to Indigo's current dominant position as the major player in the Canadian industry.

It is clear that Amazon.ca will shake up the Canadian book-selling industry. The analogy in Canadian retailing would be that Indigo must feel like Zellers did when Wal-Mart said it was planning to expand into Canada.

Today's successful companies at all levels have one thing in common: Like Amazon.com and Amazon.ca, they are strongly customer focused and heavily committed to marketing. These companies share an absolute dedication to understanding and satisfying the needs of customers in well-defined target markets. They motivate everyone in the organization to produce superior value for their customers, leading to high levels of customer satisfaction. As cofounder Bernie Marcus of Home Depot asserts, "All of our people understand what the Holy Grail is. It's not the bottom line. It's an almost blind, passionate commitment to taking care of customers."

Questions

1. What are the relative advantages and disadvantages of doing business in the bricks-and-mortar retail environment?
2. What are the advantages and disadvantages of doing business strictly on the Internet?
3. Does Indigo have any competitive advantage over Amazon.ca? If so, how can it be exploited to differentiate Indigo from Amazon.ca? For example, do Canadians prefer to deal with Canadian companies? Recall that Canada is Amazon.com's largest export market.
4. As a consumer, how do you prefer to purchase books, music, and DVDs? Is your personal experience typical of consumers today? How about five years from now?
5. Put yourself in the position of senior marketing management at Indigo Books and Music Inc. What actions should Indigo take to compete effectively with Amazon.ca?

Sources: Stewart Alsop, "I'm Betting on Amazon," *Fortune,* 30 April 2001; Robert D. Hof, "Amazon.com: The Wild World of E-Commerce," *Business Week,* 14 December 1998; Kathleen Doler, "Interview: Jeff Bezos, Founder and CEO of Amazon.com Inc.," *Upside,* September 1998; Mathew Ingram, "On Balance, Amazon.ca Is Likely a Good Thing," *The Globe and Mail,* 26 June 2002, p. B12; Hollie Shaw, "Amazon.ca Takes Direct Aim at Indigo," *The Financial Post,* 25 June 2002, p. FP1; Elizabeth Church, "Amazon.ca Set to Go Today," 25 June 2002, p. B6; and "About Amazon.com," accessed online at **www.amazon.com**, July 2002.

Video Case 3

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