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PART 8

Emerging Directions in Marketing

The marketplace is constantly changing, and the practice of marketing must change right along with it. This section presents some of the emerging areas of contemporary marketing, along with the special marketing considerations necessary for its success.

Chapter 17 presents the fundamental activities associated with online marketing. The chapter describes the role of online marketing and examines how this new and exciting way of doing business will improve the effectiveness and efficiency of business operations.

Chapter 18 examines the unique characteristics of the services and not-for-profit marketing sectors, and shows how marketing strategies are adapted to serve customers in these markets.

Chapter 19 emphasizes the importance of analyzing global market opportunities and strategies for pursuing global markets.

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CHAPTER

17

E-Marketing



>> Learning Objectives

After studying this chapter, you will be able to

1. Explain the fundamental activities associated with online marketing.
2. Describe the role and importance of online marketing today and in the future.
3. Explain the opportunities for marketing presented by the Internet.
4. Explain how online marketing can improve the effectiveness and efficiency of business operations.
5. Describe the role the Internet can play in collecting secondary and primary information.
6. Explain basic marketing mix strategies for online marketing.
7. Describe the factors that encourage and discourage e-marketing activity.

Introduction to E-Commerce

Today's business climate can be summed up in three words: everything has changed. It may not be that apparent but the growth of electronic commerce is like an ocean rising. E-commerce is a complex subject—it involves a permanent transformation of business processes that embrace a global business community. **E-commerce** can be defined as the conducting of business transactions, and the business activities associated with those transactions, in a virtual environment. It embraces a variety of activities that include buying and selling online, digital value creation, virtual marketplaces and storefronts, and new distribution channel intermediaries.

So much has been written about e-commerce growth potential that it is difficult to accurately project how important it will be in terms of generating business. Cal Fairbanks, a director of the CATAAlliance (Canadian Advanced Technology Association), presents an optimistic viewpoint when he says, "In every type of business, you will have to use an e-commerce solution within the next three to five years (from 1999) because worldwide, consumers and businesses are all on the Internet looking for products to buy. They believe they can get a better deal on the Internet."¹

Other statistics about e-commerce suggest that the demise of old-fashioned bricks-and-mortar retailers is on the horizon. But the statistics seem to exaggerate, or they distort the true picture. To illustrate, Amazon.com is probably the biggest online retailer, but it has not turned a dime in profit yet. Wal-Mart still sells more stuff in a single weekend than Amazon.com does in an entire year. There is little doubt that Internet retailing will catch on, but it may take longer than expected.

There are two primary segments of e-commerce: business-to-business and business-to-consumer. It is the business-to-business segment that is propelling the growth of online marketing. The dollar volume of business-to-business transactions in Canada amounted to \$9.6 billion in 1999, whereas business-to-consumer transactions amounted to \$1.5 billion. Business-to-business transactions account for 86 percent of total e-commerce business.² The main reason that business-to-business e-commerce segment is outstripping the business-to-consumer segment is that businesses spend exponentially more on each transaction than do consumers. As well, businesses are more willing and quicker to turn to new technologies.³



The transition is well under way in the business-to-business segment, as large established companies in traditional industries, such as steel, forestry, and automobile manufacturing, are taking advantage of the online world. At the same time, new upstart companies are aggressively trying to dislodge the old order.

In a rather short period, e-commerce has already gone through three distinct stages.⁴ The first was e-information. Between 1996 and 1998, people and companies used the Internet to seek information (e.g., how to find out about financial services). Between 1998 and 1999, the early adopters of electronic distribution emerged, and companies used the Internet to connect with suppliers and customers. The Internet was viewed as a means of communication and a mode of delivering goods and services directly to customers. This is the stage that most online companies are still in. Progressive-minded companies that are recognizing the full potential of the Internet are entering stage three. In this stage, the company goes completely online and uses Internet technology as the mainstay of its operations. In this stage, all internal and external communications and business transactions among channel members are implemented online. Oracle, a prominent software development company, is an example of a stage-three company. In the space of 13 months, Oracle transformed itself completely into an online company.

Internet Penetration and Adoption

“Technology is like a steamroller. You are either on top of it or under it.” This expression sums up the rapid pace of Internet growth. Compared with any other form of communications technology, the Internet has been accepted more quickly. To reach 50 million households in North America, it took television 13 years, telephones 38 years, and VCRs 9 years. It took the Internet only 5 years to reach the same number of households, and the Internet is growing five times faster than television.⁵

In terms of the product life cycle, the Internet is still in its early growth stage, a stage of enlightenment and early acceptance. Next comes the rapid growth stage, when technology is in a price range suitable for the masses. Allegiance shifts from the old to the new, and the product diffuses rapidly across society. The convergence of the various media forms will help fuel the diffusion process. In the past year, Time Warner merged with CNN, and then AOL merged with Time Warner. In Canada, BCE Inc. (the parent company of Bell Telephone) acquired CTV Inc. (a television network). BCE now has access to content from CTV that can be used in its Sympatico Internet division. The stage for rapid acceptance by consumers appears to be right around the corner.

INTERNET USAGE (WHO AND WHY)

As more and more people jump on to the Internet highway, the user profile is constantly changing. Statistics Canada conducted its first survey on Internet usage in 1997 and updated it in 1998. The survey completed by 38 000 respondents collected information about the Internet activities of entire households. Refer to Figure 17.1 for details about who uses the Internet. Some of the key findings of the survey follow.⁶

A Profile of Internet Use by Canadian Households

Figure 17.1

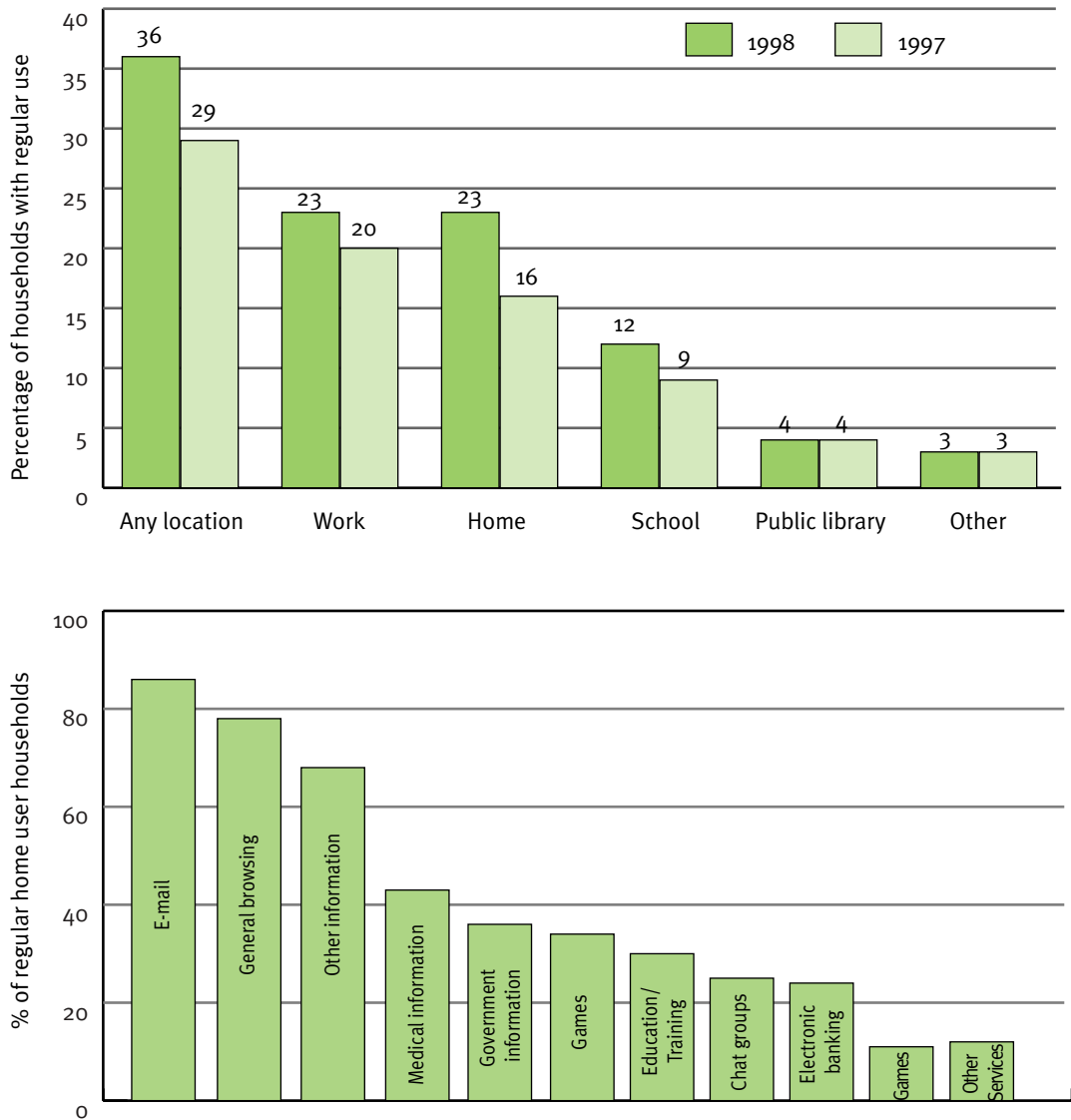
	Households Using the Internet	
	1997	1998
	Percentage	
All households	29	36
Household income		
Bottom quartile	12	13
Second quartile	18	24
Third quartile	33	42
Top quartile	54	65
Education level of household		
Less than high school graduation	9	13
H.S. graduation/some post-secondary/ college diploma	31	37
University degree	60	68
Age of household head (years)		
Less than 35	38	45
35 to 54	39	47
55 to 64	21	28
65 and over	6	7
Family type		
One-person household	16	20
Single family, no children under 18 years	28	34
Single family, with children under 18 years	38	48
Multifamily household	44	46

Source: Statistics Canada publication, *Canadian Social Trends*, Catalogue 11-008, Winter 1999, p. 8.

According to Statistics Canada, there are 4.3 million households in Canada (36 percent of all households) in which at least one member uses computer communications regularly. While this penetration rate seems low, people have Internet access from other locations, such as work, schools, university residences, public libraries, and cybercafes.⁷ See Figure 17.2 for details. By 2002, it is estimated that 50 percent of households will be online; by 2005, it will be 65 percent.

Higher income households are more likely to use the Internet. In 1998, the highest regular Internet use (65 percent) was among individuals living in households in the top income quartile and among households where the head of the family had a university degree (68 percent). In contrast, Internet use was lowest in the lowest income quartile, and in households where the head of the family had not graduated from high school.

Internet Use by Location and Most Common Uses

Figure 17.2


Source: Statistics Canada publication, *Canadian Social Trends*, Catalogue 11-008, Winter 1999, p. 9.

Internet use also varies with the generations. Overall, Internet use is the highest among households headed by 35- to 54-year-old (47 percent) persons, followed closely by households headed by those under 35 years. Middle-aged households have higher incomes and younger family members who go online frequently. Households with children under age 18 years were more likely to be users of computer communications

than older, childless households (see Figure 17.2). Teens, for example, spend as much as 9 hours a week online—time formerly spent watching television or doing some other activity. Only 7 percent of households headed by a senior used the Internet.

The teen market is a priority market for many companies. The amount of time spent online by teens must be factored into a company's marketing communications strategy. Among teens, 85 percent use the Internet regularly, and among this group, 33 percent say they spend less time watching television. In fact, time spent with magazines, radio, and television is all down, but television time is down the most.⁸ Given this trend, companies aiming at teens will have to reassess their media strategies if they are to reach teens in a cost-efficient manner.

Research companies, such as Forrester Research, are forecasting that there will be full-scale emergence of wireless communications between 2001 and 2004. Small handheld devices that are being developed by such companies as Nokia and Motorola will make wireless communications in all forms the preferred method to connect to the Internet. Consumers will be able to shop anytime and anywhere because wireless networks will enable them. A wireless world will be the biggest factor affecting the change in e-commerce. When this transition occurs, the business-to-consumer segment of the Internet market will experience phenomenal growth, much like that of the business-to-business Internet market today.

CONSUMER BEHAVIOUR ONLINE

The Statistics Canada Survey referred to earlier reveals that e-mail is the most widely used application of home users: 86 percent of households plugged into the Internet use e-mail. Since the Internet has a wealth of information on nearly every topic imaginable, it is little wonder that searching for information and browsing for information were the second and third most common uses among home users.

Recent studies conducted by independent research companies provide additional insight about usage. A 1999 survey conducted by Ernst & Young notes that 39 percent of Canadian households are connected to the Internet, but only 9 percent are using it to make purchases. Among those who did not buy online, 85 percent said they plan an online purchase within the next year. Canadian online shoppers spent an average of \$770 in online purchases in 1999.⁹ Canadian shoppers still prefer shopping at bricks-and-mortar retailers. Refer to Figure 17.2 for details about common Internet uses.

A recent study published by management consulting firm Deloitte & Touche and pollster Angus Reid indicates that Canadians have a desire to shop Canadian online, but the scarcity of Canadian sites poses a problem for them. In 1999, Canadians made purchases at American web sites 37 percent of the time. The study showed that 49 percent of Canadian internet users have made at least one online purchase, and most among these have made multiple purchases. The primary reasons for buying online include convenience, access to items not available locally, and price. We do not buy online because of security and privacy concerns, our inability to see or touch the product, and concerns about recourse, such as returning goods and after-sales service. See Figure 17.3 for additional data on consumer online buying behaviour.

The data from these studies suggest that Canadian consumers are migrating towards the Internet quicker than Canadian companies are (Figure 17.3). Business leaders in Canada are saying they are reluctant to go ahead with electronic sites because they do not think consumers are ready to shop online. At the same time, consumers are frustrated because there is not enough Canadian content on the Internet.

Consumer Behaviour Online

Figure 17.3

Where Canadians Buy

▪ Canadian web site	52%
▪ U.S. web site	44%
▪ European web site	3%
▪ Other	1%

Extent of Canadian Shopping

▪ Always do	46%
▪ Some of the time	36%
▪ Seldom or never	14%
▪ Other	4%

Number of Purchases Made

▪ More than 6	18%
▪ 4 to 5	16%
▪ 2 to 3	40%
▪ One	15%

Why We Buy Online

▪ Convenience	75%
▪ Access to items not available locally	46%
▪ Price	40%
▪ Selection	28%
▪ No sales agent to deal with	20%
▪ Ability to download a product	18%
▪ Only available on web site	17%

Why We Don't Buy Online

▪ Security and privacy concerns	73%
▪ Inability to see or touch product	68%
▪ Concerns about...recourse	64%
▪ Giving out personal information	56%
▪ Prefer to shop in other ways	41%

Source: Deloitte & Touche/Angus Reid Group Adapted from *The Globe and Mail*, December 18, 1999, p. A7.

According to Andersen Consulting, more than 70 percent of Canadian businesses are failing to treat Internet commerce as a high business priority, although their study concludes that the Internet represents a threat to all retailers who are not selling online.¹⁰

Furthermore, consumers shopping online show a tendency to visit favourite sites for the goods and services they require. They visit sites with names they recognize (see



discussion of branding strategy later in the chapter). Presently on the Internet, a few sites attract a majority of traffic, and a few e-tailers garner the majority of the volume. Of \$4 billion in sales among 32 publicly held e-tailers in 1999, five sites—Amazon, Priceline, Egghead, ValueAmerica, and eBay—did 75 percent of the sales volume.¹¹ All these companies are Internet upstarts that pose a serious threat to traditional businesses and retailers. The trend in statistics strongly suggests the need for bricks-and-mortar business organizations to get online quickly.

ADOPTION OF THE INTERNET FOR BUSINESS TRANSACTIONS



In terms of adopting the Internet as a means of transacting business, Canadian consumers and industry are far behind the United States. Business-to-consumer sales in the United States are \$53.5 billion (1999), compared with \$1.5 billion in Canada.¹² Even after taking into consideration the traditional 10-to-1 ratio to reflect the difference in population sizes, Canada's online market is immature, compared with the United States. The lack of participation by prominent Canadian retailers is the source of the problem. A study conducted by the Retail Council of Canada found that only 25 percent of Canada's top retailers were doing business online, compared with 50 percent in the United States.

Booksellers in Canada have been very active developing an Internet presence, but it was not until Amazon.com Inc. was doing more than \$20 million a year in business with Canadians before Chapters and Indigo Books & Music Inc. moved into the market. Canadian Tire is now developing a web site that will have its catalogue offerings available to remote areas not served by its retail operations.

The Canadian business-to-business market has adopted the Internet much quicker than consumers have, even though executives acknowledge that it takes up to five years for a company to transform itself into an Internet-based operation. Business-to-business acceptance is largely due to the computer infrastructures that were already in place in organizations. The Internet allowed companies to move quickly from using computers for internal applications to external applications.

Andersen Consulting reports that 90 percent of executives representing prominent Canadian companies are prepared to start sinking cash into the development of e-commerce. According to Andersen, 20 percent of Canadian companies are considered e-commerce "leaders," 41 percent are "dabblers," and the rest are merely "side-line observers." Executives state that other initiatives take precedence over developing Internet opportunities. Among these priorities are improving customer service, increasing customer loyalty, attracting new customers, and reducing costs.¹³ Ironically, executives of e-commerce companies recognize that the Internet will help achieve all these tasks.

In the retailing sector, the Internet will have an impact on the bricks-and-mortar retailers similar to that brought about by Wal-Mart. Wal-Mart moved into markets and integrated all kinds of small stores into a single "big box" store. It converged the shoppers into its store. The Internet is now doing the same, and even the likes of Wal-Mart are slow to react. Traditional retailers are reluctant to go online for fear of cannibalizing their own sales. In the end, they will have to go online and eat their own business before a competitor does it for them.

The Internet Presents Marketing Opportunities

The marketing concept states that if you provide the consumer with something they want and do it better than the competition, sales and profits will grow. The Internet is facilitating this concept. To illustrate, consider what Dell Computers has accomplished. As one of the leading makers of desktop and laptop computers, their business was founded on the basis of direct marketing techniques. The transition to Internet-based marketing was smooth for Dell. At the Dell web site (Figure 17.4) customers can enter the exact specifications for a new computer, and Dell will ship it to them within five days. The sales of Dell's computers continue to grow annually, and online sales now represent 50 percent of all sales.¹⁴

The Internet is establishing itself as a vital marketing tool. As indicated in the previous chapter, it is a valuable communications medium and, unlike any other media, allows two-way interactive communication between company and customer. With people connecting to the Internet at a phenomenal rate, it will not be long before it is a significant vehicle for distributing goods and services directly to customers.

The Internet offers three significant opportunities. First, it will be the medium of choice for communicating detailed information about goods and services. Many

The Home Page of the Dell Canada Web Site

Figure 17.4



Dell Canada

businesses, including newspapers and magazines, specialize in the delivery of information. As well, companies that have embraced the Internet publish all kinds of information about themselves so that customers can make more informed buying decisions.

The second opportunity is the capability to conduct transactions online. Transaction systems are difficult to implement and usually require the services of professional programmers. Online storefronts, such as those for Sears and The Bay, fall into this category, as do the direct communications systems established among business-to-business buyers and sellers.

The third opportunity deals with the concept of mass customization. **Mass customization** refers to creating systems that can personalize messages to a target audience of one. Software is available that will tailor web content to individual users on the basis of information known about a user's historical surfing behaviour. Surfing behaviour is tracked by means of cookies. A **cookie** is an electronic identification tag sent from an Internet server to a browser to track a person's surfing patterns, such as ads clicked on, products purchased, and sites visited, as well as to determine the user's origin. This information is used to customize and deliver advertising messages to individuals on the basis of their behaviour (e.g., interests, hobbies, activities). It can also be used to customize web sites by making them more appealing to potential visitors. The ability to observe somebody's actions on the Internet, even though it is electronic observation, is a controversial issue.

The Internet Marketing Model

The challenge for marketing organizations is to determine how the Internet fits in with traditional marketing models. The Internet is not a replacement for traditional activities but rather a complementary activity that can assist the organization in achieving its marketing objectives. The success of Internet activities still rely on traditional marketing techniques, such as advertising, promotion, and public relations, for these activities draw attention to a company's Internet operations. Therefore, all companies that engage in traditional forms of communication must include their web site address in order to encourage visits to their site. Some of the key marketing functions the Internet can perform include:

1. **Creating Company and Product Awareness** Communicating essential information about the company and its brands. Such information may have a financial orientation to help attract potential investors, or it may focus on the unique features and benefits of its product lines.
2. **Branding** Branding is the responsibility of marketing communications activities. The intent is to have the public perceive a brand in a positive manner. With the amount of advertising being devoted to the Internet increasing each year, the frequency of visits to a site will also increase. Consequently, a web site will play a more prominent role in building brand image. Online communications should therefore be similar in appearance and style to communications in the traditional media so as to present a consistent brand image.
3. **Offering Incentives** Many sites offer discounts for purchasing online. Electronic coupons, bonus offers, and contests are now quite common. Such offers are intended to stimulate immediate purchase before a visitor leaves a web site and encourage repeat visits.

4. **Lead Generation** The Internet is an interactive medium. Visitors to a site leave useful information behind when they fill in boxes requesting more information (e.g., name, address, telephone number, and e-mail address). A site may also ask for demographic information that can be added to the company's database. This information is retained for future mailings about similar offers, or they can be turned over to a sales force for follow-up if it is a business-to-business marketing situation.
5. **Customer Service** In any form of marketing, customer service is important. Satisfied customers hold positive attitudes about a company and are apt to return to buy more goods. Right now, customer service is perceived as a weak link in Internet marketing. Customers are concerned about who they should call for technical assistance or what process to follow should goods need to be returned. Some customer service tactics commonly used include frequently asked questions (FAQs) and return e-mail systems. It is apparent that organizations will have to spend more time and money developing effective customer service systems. The lack of human involvement is, perhaps, something that e-customers will have to get used to.
6. **E-mail Databases** Firms do retain visitor information in a database. E-mailing useful and relevant information to prospects and customers helps build stronger relationships. A firm must be careful that it does not distribute spam on the Internet. **Spam** refers to the delivery of unsolicited or unwanted e-mail.
7. **Online Transaction** Firms are capable of selling online if the web site is user-friendly. Sites that are difficult to navigate create frustration in visitors. Presently, the business-to-business market is booming with business transactions. Firms in the supply chain are linking together to achieve efficiencies in the buying-selling process. Consumer buying has yet to take off, but it is only a matter of time before rapid growth will occur.

Research indicates that the Internet will increasingly become more of a medium that consumers use to conduct research about a product. So, if the consumer does not buy online, the Internet will play an influencing role in purchases that are made in stores. The Internet will drive sales in traditional channels. As an example, Autobytel.com bridges the gap between the Internet and real world buying by giving consumers a way of researching and placing orders online, if they wish. If they choose not to buy online, they are directed to a dealer that is part of their program.¹⁵

As discussed elsewhere in this textbook, **relationship marketing** (the partnering of manufacturers with members of the supply chain) is producing more efficient and effective operational practices in organizations. Such capabilities are enhanced when an organization uses the Internet for communicating and transacting business with other channel members. Some of the efficiencies include the following:¹⁶

1. **Purchasing** Automatic reordering reduces jobs and lowers labour costs. As well, bidding for goods online creates a downward pressure on prices.
2. **Inventory Management** Just-in-time inventory practices and electronic delivery systems can be fine-tuned so that costs are lowered. These cost savings can be re-invested in technology to keep existing products up to date.
3. **Product Development** The cycle times for developing new products is significantly reduced because all the people involved in the development process, regardless of location, communicate with each other instantaneously. As well,

customers can quickly communicate information to companies regarding product quality and potential improvements. Consequently, companies can respond to changes in the marketplace more quickly when developing new or improved product concepts.

4. **Sales Transactions** The cost of completing an online transaction is much less than personal selling or other mass marketing techniques. Very often, it is the customer who contacts the company willing to place an order.
5. **Customer Service** Some systems allow the user to diagnose the problem on their own through the use of FAQs (frequently asked questions). Assuming that an after-sales service system works effectively, the costs involved are much lower than using personal contact to solve problems.

To illustrate how companies are combining forces to become more efficient, IBM, Nortel, and six other leading electronics companies formed an electronic business-to-business marketplace to trade electronic components. The joint venture that is called e2open.com will account for \$100 billion in transactions in its first year.

Many companies have invested heavily in front-end Internet activity (e.g., systems that provide information and facilitate order processing). Investment in back-end activities, such as after-sales service, has not been as significant. Frustration among customers due to poor after-sales service defeats the principle of relationship marketing. For more insight into customer service and its impact on the effectiveness of online marketing, read the Marketing in Action vignette **E-Customers Demand Service**.



Marketing in Action

E-Customers Demand Service

An American-based study conducted by Jupiter Communications reported that more than half the top online commerce sites were not able to respond to e-mail within five days of a customer query. Obviously, a lot of firms have not integrated their web sites into traditional customer support channels. If a company cannot handle simple inquiries from customers, will it be successful in the era of e-commerce?

The speed at which the Internet operates has rubbed off on e-customers. Online shoppers are demanding and receiving red carpet treatment. Today's online shoppers expect top-notch service from the moment they log on to a site until the product arrives at their doorstep.

A study by Forrester Research indicates that 90 percent of online shoppers consider customer service a crucial component of the e-commerce experience. In fact, 42 percent of shoppers desert Internet merchants because of shoddy service. The typical demands made by online shoppers include: guidance throughout the purchase process; information about the status of their order and when it will be shipped; and detailed product search capability. Above all, they want queries handled quickly. Online companies must take steps to satisfy these expectations; otherwise, consumers will continue to perceive Internet purchases as being risky.

Initially, companies thought putting up an e-commerce site would cut customer support costs. Yet, since so many customers are new to the Internet, they need the reassurance of knowing that help is close at hand. In fact, the Internet has changed the nature of call

Andreas Polk/Stone



centres that were originally organized to handle customer complaints. Now a call-centre creates e-mails, and customer service employees have to be knowledgeable in many more aspects of company operations than they traditionally are.

At Hewlett-Packard, an integrated solution for addressing customer service was established. At HP, human web representatives monitor a customer's visit to the site. If the customer is stumbling around or seems confused, a window pops up on the customer's

screen. The customer representative will type in a real-time message offering to assist. The customer can accept or decline the offer. While this kind of service is helpful, it requires a degree of surveillance that opens up the debate about online privacy.

Forrester Research indicates that e-mail and telephone are the preferred methods of interacting with customer service staff. But e-mail boxes build up at high-traffic sites, and the gap between receipt of the question and the response widens. To reduce time, a popular solution is an automated FAQ program. According to Mark Fox, president of Novator Systems, 50 to 80 percent of customer questions can be handled this way. His company has developed a program that relies on artificial intelligence to scan incoming e-mail questions, classify the question into an FAQ category, and send an automated response. The Novatar program has processed more than 100 000 questions on the FTD site (flower delivery service).

What lies ahead for the future? According to Fox, there will be real sales representatives interacting with customers as they go through a site. The representative will be responsible for customer support and customer service. Eventually, the process will be nothing more than an ongoing conversation. ■

Adapted from Andra Mingail, "Can e-service keep up to consumer demand?" *The Financial Post*, March 6, 2000, p. E5; Jim Carroll, "People issues count when integrating e-business," *The Globe and Mail*, January 17, 2000, p. B8.

Marketing Research Applications

As discussed in Chapter 4, marketing organizations access data to make more informed marketing decisions. The Internet facilitates the collection of information as it is now used for collecting secondary data and primary data. Secondary data on the Internet are usually more current because the medium does not face the long lead times associated with the print media. The data can be accessed quickly and inexpensively. Primary data are collected through online e-mail, Internet surveys, and focus groups.

SECONDARY DATA COLLECTION

Data obtained on the Internet will be the same as those from other sources. The primary advantage of Internet information is the speed at which the information is available. Data are readily accessible 24 hours a day, 7 days a week, from all over the world, and in a matter of seconds. Secondary information can be gathered from public and private sources. The major weakness of the data secured is similar to that of other secondary sources—it rarely solves an organization's specific marketing problems.



Marketing organizations scan the macro-environment to ensure they stay on top of trends that will affect the direction of marketing strategies. Updated information on demographic trends, social and cultural trends, lifestyle trends, technological trends, and competitor activity trends is essential. The Statistics Canada web site (www.statcan.ca) is a good source of information on social, demographic, and economic trends.

Research organizations, such as Angus Reid, and consulting companies, such as Andersen Research and Deloitte & Touche, often publish the results of their surveys on the Internet. Company web sites are another source of information—very often, a good source of information for students doing marketing projects.

PRIMARY DATA COLLECTION

The most common types of online research include focus groups, observations, and online surveys.

1. **Focus Groups** A traditional focus group collects qualitative data from 10 to 12 participants who are brought together at a central location. Unlike traditional focus groups, the online focus group brings people together in a virtual environment from diverse geographic areas. Participants respond to questions independently and are not influenced by the opinions of others. The advantage of an online focus group is that they are quicker and less expensive to operate than traditional groups. There are several drawbacks: there is a low number of participants at one time because of the problems of managing simultaneous conversations in cyberspace; body language of the participants cannot be observed; and the authenticity of the respondent can be questionable (e.g., a teenager could pose as a 35-year-old adult and vice versa).
2. **Online Observations** The technology is available to observe user behaviour automatically. The most common form of observation is to monitor the surfing patterns of users. Software, such as NetTracker, records user data for an Internet server and generates reports on the number of users who view each page, location of site visited prior to visiting the firm's site, and what users buy at a site. Such data are manipulated and used to improve future marketing strategies. Amazon (the book-seller), for example, records books ordered by customers and makes recommendations to them on the basis of trends in their database (e.g., perhaps they are interested in a certain hobby or sport). The ability to observe online behaviour is a controversial issue. Consumers view it as an invasion of privacy.
3. **Online Surveys** In an online survey, respondents type answers into an automated response mechanism (much like a multiple-choice check-off system) where users click on choices to indicate their response. Because of the large numbers of respondents, the data collected are quantitative in nature. Online surveys offer several advantages: they are fast and inexpensive, compared with traditional survey methodologies (e.g., personal, mail); participants respond immediately, and there are no fees for personal contact or return mailings; and no data entry errors occur as the respondents fill in the answers themselves. Finally, some researchers have discovered that respondents answer questions more openly and honestly when an interviewer is not present.

The primary disadvantage of online surveys is their inability to draw a probability sample. Researchers do not have access to the multitude of predetermined lists that are commonly used in other forms of quantitative research. Yet, e-commerce companies

are in the process of developing lists from the database techniques they are employing. For now, it is common for respondents to come to the researcher. Because of this bias, an organization must be careful when interpreting data. Another disadvantage is the concern about respondent authenticity. People can disguise themselves very easily on the Internet. Children can pose as adults, men can pose as women, and so on. These situations bias the survey results.

For insight into how one company is using the Internet for marketing and marketing research purposes, see the Marketing in Action vignette **Interbrew's Beer.com**.



Marketing in Action

Interbrew's Beer.com

Interbrew is the world's second largest brewing company and it owns the controlling interest in Labatt Brewing in Canada. Determining the Internet marketing strategy was a critical decision for the company. One of the options under consideration was to have a site for each individual Labatt product, but with over 4 million sites in existence and 40 000 new ones being added each week, this option was rejected.

The company opted for something completely different—an omnibus beer site (www.beer.com). It would be a site that promoted beer as a category rather than focus on specific brands. It would be the first global beer site and would include such features as an online library dealing with beer history, traditions, trivia, and brewing techniques. There would be exclusive access to beer-sponsored games, such as football, hockey, and baseball. And there would be a free e-mail service using a beer.com address. To date, over 175 000 people have signed up for an e-mail address.

The site offers loads of interactivity. There are directories to concerts and bars worldwide through links to ConcertFinder and BarFinder. There is live, behind-the-scenes footage of musical events from around the world. In short, beer.com is an extension of beer itself.

The success of the site is based on strategic partnerships. Beer.com is an affinity site with strategic partners providing content on a revenue-sharing basis. Partners include Total Sports, IMG, and the Interbrew brands themselves. The site has been a success. Money flows in from shared revenues from the various site features, advertising, and the sale of online surveys.



Courtesy: beer.com

In the area of research, Interbrew hit the jackpot! Traditional consumer surveys can be a costly but vital item for a company. The beer.com approach has slashed marketing research costs considerably, and consumers are lining up to participate. To cite one research example, the company conducted a 15-minute online survey—a long time to hold anyone's interest—but within 48 hours, there were 5600 responses. The information collected included preferences in beer, brand last purchased, frequency of purchase, and the buyer's age, gender, and income. It seems that beer drinkers are a passionate lot that are eager to talk about their likes and dislikes.

When assessing the online marketing venture, Interbrew could not be happier. Preliminary results of the survey show that 80 percent of the respondents are males under the age of 34 years. Those demographics are a beer marketer's delight! ■

Adapted from Terrence Belford, "Labatt's beer.com builds repeat traffic," *The Financial Post*, April 3, 2000, p. E3.

Online Marketing Strategies

How an organization integrates the potential offered by Internet marketing with the traditional forms of marketing is a challenge that all companies now face. Due to the newness and uncertainty of the Internet, some companies have chosen to take bold steps and are excelling, while others are moving slowly and perhaps failing.

How a company uses technology seems to be the key to success. Scanning devices at the point of sale and the electronic observation techniques employed online are producing gold mines of data. As mentioned in the chapter on Marketing Research, organizations have to invest in data mining activities if they are to exploit the full business potential of the Internet.

This section briefly examines the components of the marketing mix: product, price, distribution, and marketing communications in the context of online marketing strategy.

PRODUCT STRATEGIES

The Internet has spawned new industries offering completely new products. For example, products are needed to create, send, and read messages; to design web pages; for infrastructure products; and end-user products to connect to the Internet. To create and deliver messages, end users need PCs, modems, and an Internet server. To develop web pages requires software, such as Microsoft FrontPage or Adobe Go Live. Companies such as Cisco Systems and Nortel Networks provide the infrastructure products and services that form the backbone of the Internet. Internet Service providers (ISPs) purchase equipment from such companies as Cisco so that they can offer Internet services at home. To navigate the Internet, end users need a browser. Popular options include Microsoft Explorer and Netscape Navigator. To send and receive e-mail, end users require software programs, such as Microsoft Outlook and Netscape Messenger.

As suggested earlier in the chapter, the next five years will see a significant shift to wireless communications, and equipment will be much smaller and faster than it is today. New technology creates new products, and new products create a new set of desired benefits. For example, travel web sites, such as Travelocity and Tripeze, are causing havoc among traditional travel agents, and automobile web sites, such as Autobytel, are posing problems for traditional dealers.

To market a product successfully on the Internet, such attributes as effective web site navigation, quick download speed, site organization and attractiveness, secure transactions, and user privacy must be considered. User-friendliness is probably the most important attribute a web site can offer.

Essentially, the Internet has transformed power from manufacturers and distributors to consumers. Therefore, companies must re-examine how they offer their goods and services. Companies in the communications industry have definitely had to adapt to change quickly. Since Internet usage is increasing each year (e.g., hours spent per day or week on the Internet), people are spending less time with traditional media. Therefore, traditional media, such as newspapers, magazines, radio, and television, have reacted and established their own web sites. All the important news stories from the daily *The Globe and Mail* are readily available at www.globeandmail.com, and if you missed the morning highlight reel on TSN, you can visit their web site www.tsn.com and download the highlight package or plays of the week. Refer to Figure 17.5 for an illustration.

An Illustration of the Traditional Media Adapting to New Technology

Figure 17.5



Reprinted with permission from *The Globe and Mail*

HOT PRODUCTS ONLINE

Certain product categories are better suited for online marketing than others. While some companies are just dabbling in the Internet, others have seized the opportunity and jumped in quickly. For some, the results have been good; for others, the results are a lot less than expected. Results suggest there is a continuous need to review strategies and make improvements, when necessary. To date, the most popular products sold online include computer hardware (Dell and others), travel (online travel agents, such as Travelocity), computer software (Microsoft and many others), books and music (Amazon, Chapters, and others). In the service industry, online banking is growing rapidly, as are companies that specialize in ticket sales (Ticketmaster) and travel (Travelocity). See Figure 17.6 for details.



When the sales of online products are analyzed, it can be seen that successful online products share certain attributes that make them attractive for online sales.¹⁷ Popular sellers online tend to be:

1. **Nonperishable** The items can be shipped by common carrier without spoiling in transit. They are classified as shopping goods and include such items as toys, books, and music.
2. **Of High Relative Value** Computers and software tend to be expensive. These items are a serious purchase, and information is usually collected about the product before making a decision. Computer software is a natural for online selling because the product is delivered electronically.
3. **Information Intensive** The items require research before making a purchase decision, and that research can be conducted online. For example, people will research extensively when planning a vacation or when making an investment decision (E*trade.com) online.
4. **High-Tech in Nature** The Internet's current users have a strong interest in technical products. Computer hardware, online banking, and consumer electronics products fall into this category.

The Big Sellers Online

Figure 17.6

Canada		United States	
1. Computer software	15.7%	1. Books	11.0%
2. Music	12.7	2. Computer software	10.9
3. Books	11.4	3. Music	8.7
4. Computer hardware	8.9	4. Computer hardware	7.7
5. Online banking	8.0	5. Gifts	6.1
6. Video	4.4	6. Apparel	5.3
7. Tickets	3.7	7. Video	4.4
8. Apparel	3.5	8. Travel	4.2
9. Travel	3.3	9. Flowers	4.2
10. Consumer electronics	3.1	10. Toys and games	3.8

Figures represent product category percentage of total online sales.

Adapted from Mark Evans, "E-shopping trickles into mainstream," *The Globe and Mail*, September 16, 1999, pp. T1, T4

BRAND STRATEGY

In a traditional marketing environment, companies use family brand names or individual brand names along with symbols to create an image for the brand in the minds of customers. Names, such as McDonald's and Coke, and symbols, such as the Golden Arches and the classic shape of the Coke bottle, become registered trademarks of the company and are legally protected from imitation. A good brand name and symbol often create a deep emotional bond with consumers.

Online customers have a tendency to align themselves with just a few brand names (e.g., you use Netscape or Explorer; or you use Yahoo! or AOL). From a branding perspective, this creates a challenge for marketers. For example, Amazon broadened its scope into new product categories, but it is still considered a bookstore by most people. Says Jeff Bezos, chairman of Amazon, "Brands to a certain degree are like quick-drying cement; when they're young, they are stretchable and pliant, but over time they become more and more associated with a particular thing and harder to stretch."¹⁸ The intimacy of the Internet, however, allows a brand to take on a personal face that is relevant to each individual customer through personalized information, experiences, and products.

Companies going online face numerous brand decisions. What domain name should be used on the site? Should the name be an existing brand name or should new brand names apply if the product is new? Popular brands, such as Nike (www.Nike.ca) or Dell (www.Dell.ca), use their corporate name as the domain name, for the products and company are one and the same. Customers searching for specific information can browse through these sites once they arrive at the home page. In the case of Chapters (at one time only a bricks-and-mortar operation), it was a logical decision to use Chapters as the domain name when the company moved into e-commerce.

Other companies use acronyms or shortened versions of their company name as part of their domain name. Such use presumes widespread awareness of the acronym. Canadian Pacific (www.cp.ca), Canadian Broadcasting Corporation (www.cbc.ca), and Canadian Airlines (www.cdnair.ca) are examples of this strategy. When DaimlerChrysler launched the Chrysler PT Cruiser in 2000, the new vehicle had its own web site. Rather than use the car name, however, Chrysler used an almost tongue-in-cheek domain name that fit with other marketing strategies. To get information about the new PT Cruiser, a person would visit www.justyouraveragecar.com. The PT Cruiser is anything but an average car!

Choosing the right domain name is important because it can influence the amount of traffic at a web site. The length of the name is another factor to consider. Names that are too long can be misspelled, and the user will never find the site. Whatever the decision, the name should be consistent with the company or brand's marketing communications strategy. As mentioned earlier, domain names should always appear in all other forms of marketing communications to increase awareness of the web site.

If being remembered is a fundamental aspect of creating an online brand and sustaining it, then an organization should examine what their domain names symbolize. The structure of a domain name—which has no punctuation marks or spaces between any of the words—dictate a fundamental disruption of basic phonetic rules. Lengthy one-word names can pose problems. To illustrate, consider the name for the coupon site: www.savingumoney.com. As a single unit, the phrase is visually tricky, and the slightest glance can change the name from its intended play on "saving you money" to "saving gum money," an entirely different meaning. The name looks funny and is difficult to read.¹⁹ The same could be said of the PT Cruiser site described in the previous paragraph. Refer to Figure 17.7 for some tips on creating good domain names.

Naming and Designing a Web Site: Tips for Attracting and Maintaining Interest

Figure 17.7

- Follow brand leaders. **www.chapters.ca** reflects company identity. **www.bid.com** reflects action.
- Go for memorability. **www.dell.ca** is easy to remember.
- Go for the easiest and most direct path that reflects identity.
- Register other obvious URLs (perhaps you will need names for individual product sites or for new product launches).
- With a new online brand, think of visual simplicity in the name and support it throughout the site. Try to avoid hyphens, backslashes, and abbreviations, if at all possible.
- Web sites must be user friendly if you want people to return to it. Don't make it difficult for the visitor to contact the company.
- Keep page content low. It is frustrating to click and then wait for an elaborate yet unnecessary graphic to download.
- Put content ahead of design. Visitors may be initially impressed by attractive design, but the content must be king and provide people with a reason to return.

Adapted from Laura Wills and Nadine Perkins. "It's all in the name," *Marketing*, September 27, 1999, p. 41; Robert Fabian, "Botched business, digital business," *Digital Marketing*, March 13, 2000, p. 17.

A confusing branding issue for consumers is the use of .com (a United States designation) and .ca (a Canadian designation) in domain names. There is a tendency for browsers to automatically include the .com designation. If incorrect, an unknown host message appears on the screen. To confuse matters more, not-for-profit organizations use the .org designation.

The image a brand projects online should be identical to the image it projects offline. Brand names, symbols, and slogans that appear in print and television advertising should play a role in online advertising and on company or brand web sites. A consistent approach to creating or changing an image helps build equity in the brand name. With reference to Figure 17.8, note that the design and layout of the home page of the Delta Hotels web site is the same as what appears in print advertising. Pastel colour illustrations and lots of white space are design characteristics that are important in Delta's present communications strategy. The packaging of information at a web site plays a role in creating and enhancing an image in the browsing public's mind.


PRICING STRATEGIES

In business-to-consumer transactions, intermediaries, such as wholesalers and retailers, are eliminated in the distribution of goods. In traditional channels, when intermediaries are eliminated, there are fewer markups to be taken in the channel, so prices to consumers are lower. Initially, it was perceived that a similar situation would occur on the Internet because traditional distributors were eliminated. In practice, however,


An Illustration of Consistent Design between Traditional Advertising and Web Site Design

Figure 17.8

WHEN WE SAY WE'RE
ALL OVER THE MAP,
IT'S A GOOD THING.



We know Canada. We should. After all, with 30 Delta Hotels from coast to coast, and more to come, we're ready to greet you everywhere you need to be. And rest assured, when you choose a Delta, we won't just celebrate


DELTA
HOTELS

that you have arrived, we will also recognize that you have travelled. We won't just register you as an occupant, we will welcome you as a human being. For reservations, call 1-800-268-1133 or visit www.deltahotels.com

Your room is ready



The screenshot shows a web browser window displaying the Delta Hotels website. The page features a 'WELCOME' heading, a 'TODAY'S SPECIALS' section with a list of items, and a 'Delta Privileges' section. The Delta logo is visible in the top left corner. The browser's address bar shows 'http://www.deltahotels.com'.

Delta Hotels—Advertiser GWP Brand Engineering Ad Agency

new intermediaries were added, so prices have not been lowered that much. Therefore, marketing organizations have some work to do in order to alter consumers' perceptions of online pricing.

When marketing online, there are several factors that tend to increase prices and several factors that decrease prices. Factors that increase price include the following:

1. **Direct Distribution** Online retailers have to ship to each customer individually. Therefore, the costs of shipping are included in the price quoted to customers. The actual cost of shipping is usually withheld until the order is complete. For the customer, shipping costs may outweigh the cost savings.
2. **Auctions** An auction involves bidding among customers. In some cases, bidding can drive the price higher than fair market value (similar to a traditional auction). If so, there are no savings for the customer. Customers should be aware of fair market value before entering into an auction.
3. **Web Site Development** The costs of establishing and maintaining a site is expensive. Development costs range anywhere from \$10 000 to \$100 000, and then, a company incurs hardware, software, and Internet connection costs to maintain the site.
4. **Marketing Costs** The costs of directing Internet traffic to a site is very high. A Boston Consulting Group survey found that 43 percent of online retail revenue goes towards marketing and advertising. For bricks-and-mortar retailers, the investment is only 14 percent. If the web site name is different from the bricks-and-mortar name, there are additional costs associated with creating awareness for the domain name. At Amazon.com, the amount invested in marketing as a percentage of total operating costs is 49.6 percent. Similar figures at Autobytel.com are 65 percent, Drugstore.com 63.1 percent, and E-toys 68.3 percent.²⁰ America Online (AOL) spent \$1.3 billion on advertising in 2000. This investment paid off as AOL is the most recognized online brand among all dot.com companies in the United States, and it is the most visited web site.²¹

Factors that have a downward influence on price include the following:

1. **Competition** Consumers can search the Internet worldwide for the best possible price. There are Internet businesses that specialize in price searches, and they post comparative prices for the shopper. To save money, consumers can submit product specifications to bots (electronic robots), which, in turn, will do the search for them.
2. **Life Cycles** The rate of change is so rapid that life cycles of products in some categories are not that long. Therefore, the high price that is usually associated with first entry advantage does not last very long, either. As well, many Internet companies are financed by venture capitalists that are willing to incur losses in the short term (e.g., lower prices are acceptable while the business is developing). Profit objectives will take precedence in the longer term.
3. **Streamlined Order Processing** In business-to-business situations where partnerships have been formed in the channel of distribution (relationship marketing), automatic reordering and delivery systems save money for all partners. Savings can be passed on to customers.

4. **Inventory Management** Online storefronts, such as Amazon.com, do not need to rent expensive retail space in high-traffic locations. Its inventory is stored in warehouses that are located in low-rent and low-tax areas. The result is lower prices for the books they sell. In contrast, Chapters.com in Canada is a division of a bricks-and-mortar operation that has much higher overhead costs. Chapters Online is presently losing money due to poor profit margins and extremely high development costs.

Online firms are struggling with their pricing strategies. Low prices are not attractive to online companies, unless costs are low enough to allow a decent profit margin. Lower distribution costs ease the situation somewhat, but the fact remains that few online companies are turning a profit.

PRICING ALTERNATIVES

Online pricing strategies are different from those in offline markets. In an era of value consciousness, consumers tend to shop for the best possible deals. Shopping on the Internet is no different (e.g., you can save on vacation travel expenses by avoiding the commissions charged by traditional travel agents). If convenience is important, then consumers should be willing to pay more online. But, given the consumers' perceptions about the direct nature of the distribution channel that was discussed earlier, a price skimming strategy does not seem appropriate. On the Internet, even time-pressed consumers have time for comparison shopping, thus forcing prices down and ultimately making them less important as a differentiator.

The objective for an online company is to be competitive while offering value to potential customers. The perception of added value (e.g., convenience of ordering and delivery) offers a company some leeway in increasing prices.

A **penetration strategy** involves charging a low price for a good or service for the purpose of gaining market share. This strategy is an appropriate strategy for Internet marketers. Flat rate fees that were initially offered by America Online (AOL), an Internet service provider, illustrate the effectiveness of penetration pricing. AOL's goal was to establish a high user base that could be delivered to marketing organizations for advertising purposes. The strategy worked as AOL is the largest Internet hub in North America today. AOL attracts over 26 000 000 visitors a week.²²

Another alternative is price leadership. On the Internet, **price leadership** refers to the company charging the lowest possible price. As discussed in the previous section, such a strategy is only possible if costs are kept as low as possible. In an offline environment, the largest producer usually has the economies of scale and the lowest prices. On the Internet, however, small companies may have much lower operating costs, so ultimately the small company could have the lowest price and be the price leader. Theoretically, the playing field is more level on the Internet. Small firms can compete better with big firms, at least on price.

Distribution Strategies

The traditional functions of distribution were discussed in Chapters 12 and 13. The value of the various functions change when they become Internet based. This section briefly examines the influence of the Internet on distribution functions.

In terms of performing a **marketing intelligence** function, information is obtained in a timelier fashion (e.g. from a computer in an office). Since the information is obtained in a digital format, it can be integrated directly into a spreadsheet or other software programs for analysis and interpretation in a speedier fashion. In general, collecting information from distributors and consumers online saves an organization time and money.

Marketing communications with channel members and consumers is performed quickly—information is sent directly to literally millions of people simply by hitting a “send” button. Assuming the information is sent as solicited e-mail, it will be well received. In comparison to traditional methods, such as direct mail (which requires paper, envelopes, and postage), the cost of delivering an online message is significantly lower. As well, an individual’s behaviour can be observed and recorded on the Internet. This allows messages to be targeted to individual needs.

The Internet compliments the traditional means of **buyer contact**, such as mass advertising and direct response techniques, and adds the dimension of interactivity. Teens, especially, are moving towards interactivity in their daily communications with friends through such software programs as ICQ. Interactivity adds value since information can be targeted directly (e.g., it can be customized for each individual). Further, people can access web sites for information any time or any day of the week.

Matching products to suit consumer’s needs is easier on the Internet. Shopping agents, such as www.pricescan.com (Figure 17.9), allow consumers to compare prices and features in product categories. By altering price or feature requirements while visiting this site, the consumer can identify a product source where value is the greatest. Other companies, such as The Gap (www.gapinc.com), allow consumers to mix and match clothing in order to coordinate a wardrobe. As indicated earlier in this chapter, Amazon records and analyzes all online purchases and subsequently makes recommendations to its book and music customers. These illustrations show how value-added opportunities help create a pleasant shopping experience for consumers.

On the Internet, **physical distribution** is replaced by electronic distribution for some products. Since content is digitized, it is an ideal medium for distributing text, graphics, and audio and video content. Unfortunately, this has created a nightmare for the music industry, as people can download music from a variety of sites. On the positive side of things, newspapers (www.globeandmail.com), news, and sports reports (www.tsn.ca) are available online. In the case of computer software, there is no need to buy from stores anymore. Most manufacturers download new versions of software directly into your computer. Since intermediaries are eliminated, costs of distribution are reduced.

For goods that require physical delivery, existing specialists can play a key role. Sears, for example, offers its warehousing and distribution expertise, initially gained from its catalogue operations, to third-party companies which want to go online but do not have the expertise or financial resources to build their own infrastructure. Companies working with Sears are then capable of offering their customers the convenience of online shopping.

Receive goods directly, pay for them directly—that is the mantra of the Internet. In the business-to-business market, where cooperative working relationships have been established between buyers and sellers, the **financing** aspect of e-commerce transactions has been widely accepted. Consumers have a different view of things because they worry about providing credit card information online. Despite the advanced encryption technology available, the concern for security is one of the biggest obstacles to consumer acceptance of online shopping.

An Illustration of Comparative Shopping Online

Figure 17.9



Courtesy: Pricescan

As mentioned in the pricing strategy section, **price negotiation** is available to online shoppers. Submitting bids at auction sites is a form of price negotiation. Consumers can select products from a wide cross-section of suppliers and bid for the goods that are available. In theory, a wide supply of products should produce lower prices for bidders.

CHANNEL STRATEGIES

Any form of direct marketing, such as direct mail, telemarketing, and online marketing, involves a direct or short channel of distribution. In traditional or longer channels, intermediaries provide specialized services and functions that are beyond the capability of the source manufacturer.



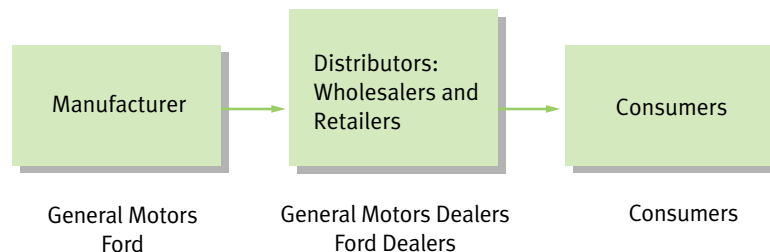
On the Internet, some intermediaries have disappeared, but their functions have not. The Internet has gone through a process of disintermediation and re-intermediation. Refer to Figure 17.10 for an illustration. **Disintermediation** refers to the disappearance of intermediaries in the channel of distribution. As intermediaries disappear, costs are reduced, so theoretically, prices of goods and services bought by consumers should be lower. Initially, it was thought that disintermediation would take hold on the Internet. Granted, traditional channel members, such as wholesaling specialists and retailers, have been eliminated, but in many cases, they have been replaced by Internet equivalents.

The replacement of old intermediaries with new and different intermediaries is referred to as **reintermediation**. For example, real-world car dealers are being replaced by online distributors, such as Autobytel and MSN CarPoint. MSN Carpoint is the most visited American online car-buying service, reaching more than 6 million consumers a month. MSN, which is owned by Microsoft Corp., opened a Canadian site in June 2000.²³

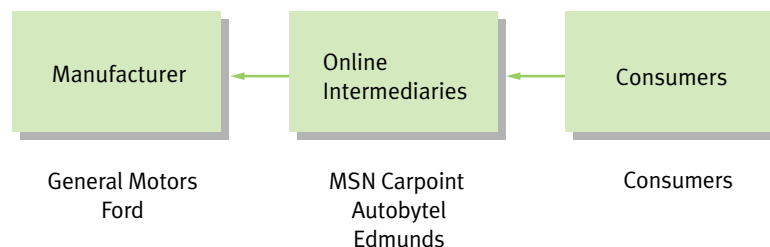
The Process of Disintermediation and Reintermediation

Figure 17.10

Traditional Channel of Distribution



Internet Channel of Distribution



In an online market, traditional distributors, such as car dealers, are eliminated (disintermediation). They are replaced by new intermediaries. These intermediaries will provide information to consumers, search the market for consumers for the best deals, and conduct transactions with consumers (reintermediation).

Let us examine the disintermediation and reintermediation process from a consumer's perspective. Assume that you are going to buy a new set of golf clubs. In a traditional marketing environment, you would buy the item in a retail store. The retailer would have purchased a quantity of sets of clubs from a wholesaler or directly from the manufacturer. This is the typical channel of distribution.

In the online environment, you may be able to buy the clubs directly from the manufacturer, or you could visit a web site, such as mySimon.com, which will search through the online merchant market and indicate where you can buy the clubs and at what price. Traditional channel members are eliminated, so this is disintermediation.

The golf clubs will be shipped directly to you from the manufacturer's warehouse or the online merchant's warehouse by a delivery specialist, such as FedEx or UPS. These warehouses have replaced wholesalers and retailers, and the delivery specialists have replaced truck and rail transporters who formerly delivered to wholesalers and retailers. This is reintermediation.

In the disintermediation and reintermediation process, costs have not been reduced that much. In fact, the manufacturer of the golf clubs must absorb inventory costs that did not exist before. As well, you will pay for shipping charges that were once buried in the channel of distribution. If goods are purchased in the United States and delivered to Canada, brokerage fees are added. All things considered, potential cost savings disappear. Therefore, marketing organizations must invest resources into activities that will change consumers' perceptions about the advantages and disadvantages of buying online.

CHANNEL CONTROL

In Canada, powerful retailers control the channel of distribution (e.g., in grocery retailing and general merchandise retailing). Wal-Mart and Canadian Tire, for example, gained control when they introduced electronic reorder systems that simply advised suppliers how much merchandise they required. Suppliers who thought they were in control of the buying-and-selling situation had to adjust to a new way of thinking.

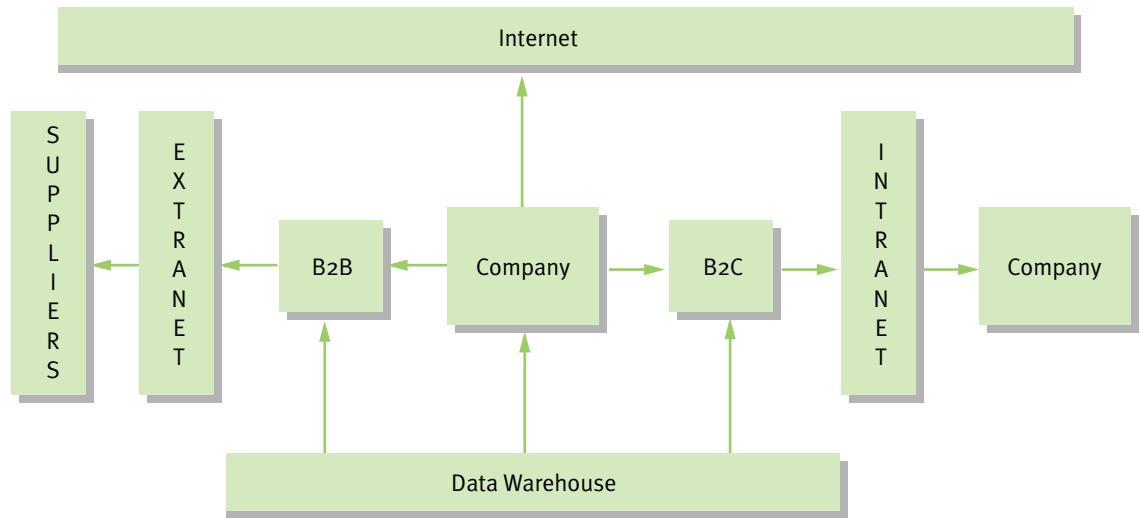
The Internet is customer centric, and despite the fact that markets are broadened, the availability of information and the ability to search, shifts a lot of the power advantage to the consumer. Also, the advent of shopping agents who rank sources of supply by price on spreadsheets gives buyers a lot of flexibility in where and who they buy from.

In business-to-business situations, the Internet has facilitated further use of electronic data interchange (EDI) systems. **EDI** refers to computerized transfer of information among business partners. Such an automated system produces efficiency in the ordering and delivery systems among partners in a distribution channel. Initially, EDI systems were expensive to install, as all partners had to be linked in order to share data.

On the Internet, EDI has changed. Most organizations have an intranet. An **intranet** is an internal web site that only employees can access. An intranet facilitates the transfer and manipulation of company information. In the context of distribution, EDI is referred to as an extranet. An **extranet** is a system that connects the intranets of individual companies together. Therefore, all partners in a supply chain or channel of distribution can be connected by an extranet, a completely paperless environment. Refer to Figure 17.11 for a visual illustration.

Relationship Marketing Infrastructure

Figure 17.11



Dell Computer's entire business has been built around direct marketing strategies. To understand how the Internet has assisted in Dell's success, refer to the Marketing in Action vignette **Dell's Net Success**.

MARKETING COMMUNICATIONS STRATEGIES

The Internet seems to offer unlimited communications potential. It is a medium that reaches vast numbers of potential customers in a cost-effective manner, so it will play a more prominent role in a company's comprehensive marketing strategy in the future.

Advertising on the Internet is similar to traditional media, in that media companies create content and sell space to advertisers. Unlike the traditional media, online advertising can only communicate a minimum of information. Online advertising will help create awareness, create positive attitudes and image, and remind users about a good or service. The objective of online advertising is to get the viewer to the company or product web site where detailed information is provided. The Internet must be seen as a supplement to traditional forms of advertising; it is by no means a replacement. In fact, generating traffic to a company's web site involves advertising the existence of the site in all other media.²⁴

While the Internet is a medium, it has not taken much business away from traditional mass media. That said, however, online advertising spending is expected to triple in the next five years. In the United States, by 2004, it is estimated that Internet advertising will comprise 8 percent of the advertiser's marketing, and it will leapfrog yellow pages and magazines in terms of rank. If this happens, the Internet would trail behind only television, newspapers, and direct mail in popularity for advertising spending.²⁵



Marketing in Action

Dell's Net Success

From computers to fashion. It seems you can market anything on the Internet these days. In the case of Dell Canada, selling computers from a web site is no different from selling via telephone—and it does not change the underlying business model of the company. Dell is an established direct marketing company that used the 1-800 telephone service so successfully that it is presently one of the top five marketers of personal computers worldwide.

According to Scott O'Hare, president of Dell Canada, "The Internet is just another way of turbocharging our direct sales engine—it provides another vehicle to reach the customer. The Internet is the next extension of building a relationship with a customer." From the Dell web site (www.dell.ca), customers get very specific information about product specifications, pricing, and lead times for delivery. It is faster than telephone, as consumers can quickly pick the specification of their systems from onscreen options rather than stepping through many levels of menus associated with telephone service. And there are a significant number of choices. And, of course, the computer is shipped directly from the factory to the customer's office or home.

Dell's model is the envy of businesses everywhere. According to Michael Dell, the founder and CEO of all Dell operations, "Our average gross price is at least 12 percent below other computer makers' because we've eliminated the middlemen." Being the master of disintermediation, Dell has lowered the price significantly for consumers. As a result, industries of every ilk—from automakers to apparel manufacturers to financial services—are gravitating to direct sales. And they are motivated by the potential cost savings.



Copyright 2000 Dell Computer Corporation

The Internet has amplified the benefits of Dell's direct-to-consumer approach. This year, Dell Computer Corp. will register a revenue of more than \$25 billion. Its dell.com site generates nearly 50 percent of total sales, an average of \$40 million a day made online as of the end of 1999.

Going one step further, Dell recently created dedicated business portals on its web site for corporate customers. The customized home pages let approved customers' employees shop at a virtual store stocked with nothing but the chosen configuration of hardware and software. There is also a customized technical support page for each customer.

Adapted from Andrew Tausz, "The Internet rewards Dell's directness," *The Financial Post*, April 17, 2000, p. E1; Geoff Wheelwright, "Dell takes direct action," *The Financial Post*, April 18, 1998, p. 11.

The types of companies that are advertising online seem to offer goods and services that are suitable for online transactions. Among the leading advertisers are content providers (such as Yahoo! and America Online), booksellers (such as Amazon and Barnes & Noble), computer companies (such as Microsoft and Netscape), and securities companies (such as E*Trade).

ADVERTISING ONLINE

Advertising can be used to either build brands or to encourage a direct response in the form of a transaction. Because of the nature of the Internet and the way in which people use the Internet, it has not been that effective as a branding medium. For example, penetration of the Internet is nowhere near the levels of a medium such as television, newspaper, or radio. In Canada, 98 percent of households have a television, whereas only 36 percent of households have a computer. Consumers can access the Internet from other sources, however (e.g., work and school). Whether or not they are receptive to advertising when in these environments remains an issue.

The Internet's strength lies in direct response advertising. Direct response taps into the Internet's opportunity for two-way communication. If a consumer clicks on an ad, he or she arrives at a home page. After browsing through the information that is available immediately and assuming a high level of satisfaction with it, there is an opportunity to complete a transaction online. The gap between attracting attention and generating action is closed.

Banners and Buttons

A **banner** ad stretches across a page in a narrow band. Its appearance is much like that of an outdoor poster or a banner that stretches across the bottom of a newspaper page. The content of a banner is minimal. Banner ads may also appear in a smaller circle or square format. This configuration is referred to as a **button**. Within each format are several size options an advertiser can choose from. Ads of this nature are common on portal pages, such as Yahoo, Infoseek, and others.

The purpose of a banner is to stir initial interest so that the viewer clicks on the ad for more information. That information is obtained from the home page the viewer is transferred to. Presently, banner advertising accounts for 60 percent of Internet advertising revenue.²⁶

At one time, banners were nothing more than static ads. With software technology advancing, *animation* in the form of movement has been added to banner ads. More recently, banner advertising features the *interactive banner* (e.g., some banners include games, check boxes, and drop-down menus).

The success of a banner ad is determined by the click ratio or clickthrough ratio. The **click ratio** indicates the success of an advertiser in attracting visitors to click on their ad. If, for example, there are 10 000 clicks from 300 000 impressions, the ratio is 3 percent. Industry surveys gauge the average clickthrough rate at 1 to 4 percent. To increase banner effectiveness, marketers use selective targeting techniques and design factors to their advantage. As in traditional advertising, the more relevant the ad is, the greater the likelihood of it being noticed and acted upon. To target interested customers more directly, many search engines allow advertisers to buy **key words** so that their banner appears only when the user enters those words. Key word buys are more costly, since they reach a more highly targeted audience.

Sponsorships

An Internet **sponsorship** occurs when an advertiser commits to an extended relationship with a web site unrelated to a company's own site. To illustrate, Oldsmobile (a division of General Motors) in the United States signed an exclusive agreement with

HotWired Network's Packet site. The sponsorship was Oldsmobile's attempt to attract younger buyers to a struggling brand. Oldsmobile was having a tough time shaking the image of "your father's Oldsmobile." Research indicated that the Packet site was a close match to the target audience Oldsmobile wanted to attract.²⁷

Claritin, a remedy for hay fever and other allergies, has always sponsored the Pollen Report on The Weather Network. It was a natural extension for Claritin to sponsor the Pollen Forecast on The Weather Network's web site. More powerful than banner ads, these types of sponsorships sort through the multitudes of Internet users and position the company directly in front of a target audience that is seeking this information.²⁸

E-mail Advertising

Using e-mail to deliver an advertising message is the equivalent of direct mail in traditional mass advertising. Much like direct mail, e-mail distribution lists can be rented for marketing purposes. Lists are generated from web site registrations, subscription registrations, or purchase records. When a person registers at a site, a request for their e-mail address is made.

An organization must proceed with caution when using e-mail for advertising purposes. The ad must be welcomed, not resented by the target audience. If, for example, Microsoft develops a new version of a software package, it is likely that current users of Microsoft would want to know about it. After all, the consumer can download the new version almost immediately on release. In contrast, persistent messages about unrelated products could be perceived as annoying by the same consumer. Users refer to such mailings as spam. **Spam** is defined as an inappropriate use of a mailing list or other networked communications facility as if it were a broadcast medium. Companies not sensitive to spam proceed at their own peril. Too much spam sent by a company will create much negative publicity among the Internet citizens.

SALES PROMOTION

The Internet is capable of distributing coupons and samples to prospective customers. Retailers, such as Canadian Tire, distribute e-coupons through their e-flyer, which is available online. Some sites allow users to sample their products prior to purchase. Many software companies allow a free download of a demonstration version of their software. Once the demonstration period expires (30 to 60 days), the company can contact the user to see if they would like to purchase it. Other firms are experimenting with ways of getting products in the hands of Internet consumers. Chapters Online Inc., for example, offered \$10 coupons and free shipping to encourage purchases at its site. Chapters Online also ran an interactive scratch-and-win contest offering a Ford Focus ZTS as the grand prize. Other prizes included Palm-Connected Organizers, web site shopping sprees, and discount vouchers for future purchases. The objective of the contest was to build traffic at the site and encourage multiple visits.²⁹

PUBLIC RELATIONS

An organization can use the Internet to communicate information to a variety of publics in a timely and inexpensive manner. Many different publics will visit a corporate site: shareholders, prospective employees, suppliers, customers, and the media, to name just a few. The information provided must be meaningful and representative of

what the company is about. One of the primary objectives of public relations is to improve the image of the company and its products. The mere existence of the Internet encourages people to seek out information about a company. Therefore, a person's visit to a company web site should be an enjoyable experience. They should be able to navigate the site quickly, and the information should be presented in an interesting and interactive format. Information should always be kept up to date.

As is the case with other public relations tools, a web site is useful in communicating information should a company find itself in a crisis situation. When Air Canada acquired Canadian Airlines and merged the operations into one airline but under two names, an extraordinary number of customer complaints surfaced. There was mass confusion at major airports, such as Pearson International in Toronto. Passengers were booked on one airline, but when they arrived, they discovered that they were on the other and at a different terminal. Stressed out passengers vented their frustrations at frontline staff, who were not equipped to handle the situation. The airline was besieged with complaints. The Air Canada web site, along with other media, was used to communicate information that helped alleviate the stress among passengers.

THE WEB SITE

Marketers do not go onto the Internet for exposure, for that is the primary role of mass media advertising. The web site should deliver qualified leads because visitors are expressing interest simply by being there. In effect, the web site is lining up qualified buyers at an electronic showroom and giving them enough relevant information to make a buying decision. Therefore, it is not the quantity of people attracted to a site that is important but rather the quality of the experience while interacting at the site that counts. A small number of loyal customers is much more valuable than millions of hits by people who will not return.

The web site educates the customer through information transfer, and it can generate a sale. Vast quantity of information is made available and at low cost. It is nothing like an expensive television commercial that is only on for 30 seconds or an ad buried deep in a daily newspaper—here one day and gone the next. On the web site, the information is always there. The Internet, then, is a less expensive and more expansive medium than the mass media.

As suggested above, a person's experience at a site is important. Some experts describe the experience in terms of **flow**. They say the experience should integrate the active and the passive to absorb and immerse the customer in a memorable and enjoyable experience that makes them want to come back again and again.³⁰ A consumer who faces frustration in securing information or in placing an order will find another site to shop at.

Customer Service

The ability for a customer to communicate with a company after a sale has been made is vital. Good customer service communications fosters a sound relationship between customers and the company. At web sites, feedback buttons are used to initialize customer communications. The company acknowledges receipt of communications and indicates when a reply can be expected. Poor response rates by companies have been a problem, and it has affected satisfaction levels among customers.

If a company promises customer service, an infrastructure must be in place to handle mass e-mailings within a suitable timeframe. Some firms take customer service communications to incredible levels. Mercedes Benz, for example, uses “teleweb” technology, which allows a consumer to type a question on a web form and then receive an immediate phone call from a Mercedes representative. The customer and the representative can then discuss the consumer’s questions while they each view the same web pages.³¹

Online customer service strategies go well beyond post-sale activities. The Internet provides a vehicle for a company to develop a true customer relationship management program. Online marketers must be able to do three things well:³²

1. Predict the changing needs, wants, behaviours, and expectations of e-consumers
2. Pursue an e-marketing strategy that is relevant to each e-consumer
3. Identify high-value e-consumers and repeatedly satisfy them better than competitors can

If marketers do these things, then marketing, sales, and customer service will be joined as a unified dialogue, not a monologue. Organizations must acknowledge that the Internet is a “product pull” individual-user multi-medium, not a “product push” mass-marketing medium. Therefore, if the 80/20 rule of business applies to the Internet, 20 percent of customers will be in the high-value category and will generate 80 percent of profits. These high-value and tech-savvy customers must be part of an effective and efficient customer relationship management program. If they are not, they will do business with other companies.

Factors Encouraging E-Marketing

Several factors are contributing to the growth of e-marketing. Marketers recognize the Internet’s ability to target customers directly. Since it is possible to track surfing behaviour, sites visited, and products purchased, relationships can be developed between marketing organizations and buyers. The fact that messages can be delivered to individuals on the basis of their demonstrated preferences provides an effective and efficient platform for organizations to market their goods and services. Direct targeting is possible due to advanced database technology.

Fundamental social and economic influences, such as time-pressed families and the convenience of purchasing by credit and debit cards, are factors that have expanded the use of e-marketing techniques. Like traditional forms of direct marketing (telemarketing, direct mail, and home shopping channels), the Internet offers the consumer the convenience of shopping without leaving home. Such a benefit is making the Internet an attractive alternative for higher-income and higher-educated households. Refer back to Figure 17.1 for details.

Finally, some online marketing programs can be measured for success. Since marketing is expensive and managers are held accountable for the investment they make in marketing activities, the ability to measure success is important. While it is difficult to measure the effectiveness of advertising on the Internet, companies can record the number of visits that are made to their sites. If the sites have transaction capability, they will be able to predict future sales on the basis of conversion ratios (e.g., actual sales expressed as a percentage of inquiries). As well, they can track how various promotion incentives influence buying decisions.

Factors Discouraging E-Marketing

The acceptance of e-marketing practice suggests that a fundamental shift in shopping behaviour will occur, that there will not be any significant technological impediments, and that consumer-perceived risks will be eliminated.

For many, shopping is a social activity. Direct buying over the Internet eliminates tangibility and assumes that consumers are looking for convenience. Right now, the Internet only accounts for about 1 percent of business-to-consumer transactions, and a majority of these purchases are from American-based web sites. Therefore, it should be viewed as supplementary to other forms of transaction vehicles, namely, traditional retailers. The transition from bricks-and-mortar to clicks is progressing slower than anticipated in business-to-consumer marketing.

The penetration of computers, modems, and the necessary software remains relatively low in Canadian households, compared with other media, such as television and radio. While there is strong growth in computer purchases, only 36 percent of households have a member who uses computer communications regularly, and 65 percent of those households are in the top half of income levels.³³ Widespread e-marketing will not occur until technology is available in lower-income households. From a consumer's perspective, the speed of Internet service is an issue, especially when downloading large files. Delays lead to user frustration, something Roger's Cable advertises as "download rigor mortis."

Consumers buying on the Internet are buying blind. They may have access to product information, but the process of finding and evaluating prices and benefits for various products is not easy. Consequently, consumers are not certain if they are getting good value for their money.

As mentioned earlier, the transfer of credit information is the most widely cited reason for resisting Internet purchases by consumers. Even though a process known as encryption is used, consumers are still hesitant to divulge credit card numbers. **Encryption** is a set of complex algorithmic codes that ensure network privacy. When two computers on the Internet communicate in the secure mode, the messages are encrypted in both directions. To illustrate, a user's browser (e.g., Netscape or Explorer) encrypts a credit card number and then sends it to a merchant; the merchant, in turn, encrypts confidential information sent back to the user. Each side uses a key to decrypt the other's message.

Consumers perceive a loss of privacy due to the information that is collected about them as they browse and shop online. Cookies that are placed on an individual's computer (a form of electronic snooping by web sites) collect information about users without their knowledge. The issue of how information is collected and how it is used to market goods and services is a concern that marketing organizations must address.

SUMMARY

Due to the rapid pace of change in technology and the growing acceptance by businesses and consumers to conduct transactions electronically, organizations are integrating e-marketing techniques into their marketing strategies. Presently, the business-to-business segment of e-commerce is much larger than the business-to-consumer segment. Business-to-business accounts for 86 percent of e-commerce volume, whereas business-to-consumer accounts for only 14 percent of volume.

The typical Internet user has a higher than average level of education and household income. Future growth of online commerce between companies and consumers is dependent on technology being more readily available to lower-income households.

For marketers, the Internet offers three opportunities: it is a medium to communicate with customers, it allows a company to conduct transactions online, and mass customization is possible. Online marketing compliments other marketing strategies, as it can help build awareness and image, offer incentives to stimulate sales, generate leads, improve customer service, and conduct transactions without the use of intermediaries. If programs are implemented effectively, cost efficiencies in distributing goods are achieved and prices are lowered for consumers.

The Internet is an effective medium for collecting secondary information. It offers the advantages of speed and convenience. Online primary research in the form of focus groups, electronic observation, and surveys also provides a lower cost and speedier means of collecting information from consumers.

Consumers shopping online tend to search for the best possible price. Therefore, a penetration price strategy is desirable. Unlike the offline environment, small companies can compete with large companies more effectively online. Since their overhead costs are lower, theoretically they should be able to offer lower prices to consumers.

The Internet performs all distribution functions but in a different manner. The primary benefit for online companies is their ability to communicate with channel members and consumers in an interactive manner. As well, some goods can be delivered directly online. The response time between ordering a product and having it delivered by an independent carrier is shortened due to the directness of the channel. Although the Internet is still in its infancy, the distribution channel has already gone through a process of disintermediation and reintermediation. Distributors that are key members of the channel in the offline market have been replaced by new distributors in the online market.

Internet marketing communications are effective as they encourage direct response purchases. The various forms of online advertising include banners and buttons, sponsorships, and e-mail advertising. Other forms of communications include sales promotions and public relations.

The combination of targeting capability, favourable social and economic influences, and the ability to measure the results of online marketing strategies favour the growth of online marketing in the future. Factors that discourage growth include the users' concern about online security and potential invasion of privacy. The lack of technology among lower-educated and lower-income households is also a restricting factor.

Key Terms

e-commerce 451	penetration strategy 472	electronic data interchange (EDI) 476	button 479
mass customization 459	price leadership (online) 472	intranet 476	click ratio 479
relationship marketing 460	disintermediation 475	extranet 476	key words 479
spam 460, 480	reintermediation 475	banner 479	sponsorship 479
			encryption 483

REVIEW QUESTIONS

1. Explain the concept of mass customization. Provide an Internet illustration of this concept.
2. What is a “cookie,” and what role does it play in online marketing?
3. Identify and briefly explain some of the key marketing functions that can be conducted on the Internet.
4. Assess the benefits and drawbacks of conducting focus groups and surveys in an online environment.
5. Identify the profile of successful products marketed on the Internet.
6. Identify the basic elements that contribute to a successful online branding strategy.
7. Identify and briefly explain two factors that contribute to increasing the cost of online operations and two factors that decrease the cost of online operations.
8. In the context of online marketing, what does “price leadership” mean?
9. In the context of online marketing, explain the concepts of disintermediation and reintermediation.
10. What is the difference between an intranet and an extranet? What impact have extranets had on electronic data interchange (EDI)?
11. In an online marketing environment, what is “spam”?
12. Identify and briefly explain two factors that encourage e-marketing and two factors that discourage e-marketing.

DISCUSSION AND APPLICATION QUESTIONS

1. What is your assessment of Internet marketing over the next five to 10 years? Will it be as significant as industry forecasters believe it will be?
2. Canada lags behind the United States in terms of growth and development of Internet marketing practices. What are the implications for Canadian retailers and other marketing organizations if this trend continues?
3. Are consumers’ concern for security and privacy valid? Conduct some online secondary research and present an opinion on these issues.

E-ASSIGNMENT

1. Review the Marketing in Action vignette “Interbrew’s Beer.com” and then visit the web site. Assess the merits of the site in the context of what it will do to sell Labatt’s beer. Is the site effective or ineffective? Provide some concrete marketing recommendations to improve the site.
2. Visit the mySimon.com web site and conduct a search for the purchase of an item of your choosing. What is your assessment of the effectiveness of mySimon’s service? Are you satisfied with the results of the search, or are there better deals to be had offline?

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