CHAPTER 1

An introduction to Internet marketing

Chapter 1

Chapter 1

Chapter at a glance

Main topics

- **The Internet and the marketing concept**
- **Internet marketing defined**
- **What business benefits can the Internet provide?**
- **A short introduction to Internet technology**
- **How do Internet marketing communications differ from traditional marketing communications?**

Case studies

- **Case study 1.1 Hamleys reaches new customers using the Internet**
- **Case study 2.2 RS Components**

Learning objectives

After reading this chapter, the reader should be able to:

- **evaluate the relevance of the Internet to the modern marketing concept;**
- **distinguish between Internet marketing, e-marketing, e-commerce and e-business;**
- **identify the key differences between Internet marketing and traditional marketing;**
- **assess how the Internet can be used in different marketing functions.**

Key questions for marketers

Key questions for marketing managers addressed in this chapter are:

- **How significant is the Internet as a marketing tool?**
- **How does Internet marketing relate to e-marketing, e-commerce and e-business?**
- **What are the key benefits of Internet marketing?**
- **What differences does the Internet introduce in relation to existing marketing communications models?**

Links to other chapters

This chapter provides an introduction to Internet marketing, and the concepts introduced are covered in more detail later in the book, as follows:

- Chapters 2 and 3 explain how environment analysis for Internet marketing can be conducted.
- Chapters 4, 5 and 6 in Part 2 describe how the strategy can be developed.
- Chapters 7, 8 and 9 in Part 3 describe strategy implementation.
- Chapters 10 and 11 in Part 3 describe B2C and B2B applications

INTRODUCTION

How significant is Internet marketing to businesses? Today, the answer to this question varies dramatically for different products and markets. For companies such as electronics equipment manufacturer Cisco (www.cisco.com), the answer is 'very significant' – Cisco now gains over 90% of its multi-billion dollar global revenue online. It also conducts many of its other business processes such as new product development and customer service online. Similarly, easyJet (www.easyjet.com), the low-cost European airline gains 90% of its tickets sales online and aims to fulfill the majority of its customer service requests via the Internet. However, the picture is quite different for the manufacturers of high-involvement purchases such as cars or fast-moving consumer goods (FMCG) brands. Here the impact is less significant – the majority of their consumer sales still occur through traditional retail channels. However, the influence cannot be described as insignificant any longer since the Internet is becoming increasingly important in *influencing* purchase decisions - many new car purchasers will research their purchase online, so manufacturers need to invest in Internet marketing to persuade customers of the features and benefits of their brands. The FMCG manufacturer finds that consumers are spending an increasing proportion of their time on the Internet and less time using other media so the Internet has become an effective way of reaching its target markets. The Internet can be used to increase the frequency and depth of interactions with the brand, particularly for brand loyalists who are the advocates of these brands. For example, drinks brand Tango (www.tango.com) uses competitions and games on its web site to encourage interactions of the consumer with the brand (Figure 1-1).

Figure 1-1 The Tango web site (www.tango.com) is used to increase the frequency and depth of transactions with consumers.

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

This book covers all the different ways in which the Internet can be used to support the marketing process. In this introductory chapter we review how Internet marketing relates to the traditional concept of marketing. We also introduce basic concepts of Internet marketing, placing it in the context of e-commerce and e-business.

The Internet and the marketing concept

In this section, we introduce the marketing concept, and then consider its relationship to more recent concepts such as Internet marketing, e-commerce and e-business.

The word marketing has two distinct meanings in modern management practice. It describes:

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

2 *An approach or concept that can be used as the guiding philosophy* for all functions and activities of an organisation. Such a philosophy encompasses all aspects of a business. Business strategy is guided by an organisation's market and competitor focus and everyone in an organisation should be required to have a customer focus in their job.

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

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

marketers. Processes have a significant impact on an organisation's ability to service its customers' needs.

The Internet can be applied by companies as an integral part of the modern marketing concept since:

- It can be used to support the full range of organisational functions and processes that deliver products and services to customers and other key stakeholders.
- It is a powerful communications medium that can act as a 'corporate glue' that integrates the different functional parts of the organisation.
- It facilitates information management, which is now increasingly recognised as a critical marketing support tool to strategy formulation and implementation.
- The future role of the Internet should form part of the vision of a company since its future impact will be significant to most businesses.

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

Avoiding Internet marketing myopia

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

1 Wrongly defining which business they are in.

2 Focusing on:

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

rather than:

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

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

4 Shortsightedness in terms of strategic thinking.

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

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

Any organisation that sees and hence defines its business in anything other than customer-benefit terms has not taken the first step in achieving a *market orientation*. Any organisation that defines its business by what it produces is said to be suffering from 'marketing myopia'. Such myopia results from a company having a shortsighted and narrow view of the business that it is in.

If Internet marketing is to become integrated and fully established as a strategic marketing management tool, then the focus of attention needs to move towards understanding its broader applications within the total marketing process rather than just using it as a communication and selling tool. This is not to detract from the capability of the Internet to communicate and sell, but recognises that this is only one important aspect of the marketing process to which the Internet can contribute. The danger for those currently considering developing Internet

technology is that the focus of such involvement will be too narrow and the true power of the Internet and its potential contribution to the marketing process will be missed.

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

Internet marketing defined

What then, is **Internet marketing**? Internet marketing or Internet-based marketing can be defined as the use of the Internet and related digital technologies to achieve marketing objectives and support the modern marketing concept. These technologies include the Internet media and other digital media such as wireless mobile media, cable and satellite.

In practice, Internet marketing will include the use of a company web site in conjunction with online promotional techniques such as search engines, banner advertising, direct e-mail and links or services from other web sites to acquire new customers and provide services to existing customers that help develop the customer relationship. However, for Internet marketing to be successful there is a necessity of integration with traditional media such as Print and TV, and this will be a consistent theme in this book.

Internet marketing

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

E-marketing defined

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

E-marketing
Achieving marketing objectives through use of electronic communications technology

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

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

This definition emphasises the focus of marketing on the customer, while at the same time implying a need to link to other business operations to achieve this profitability. Smith and Chaffey (2001) note that Internet technology can be used to support these aims as follows:

- *Identifying* –the Internet be used for marketing research to find out customers needs and wants (Chapters 7 and 9);

- *Anticipating* – the Internet provides an additional channel by which customers can access information and make purchases – understanding this demand is key to governing resource allocation to e-marketing as explained in Chapters 2 and 4.
- *Satisfying* – a key success factor in e-marketing is achieving customer satisfaction through the electronic channel, this raises issues such as is the site easy to use, does it perform adequately, what is the standard of associated customer service and how are physical products dispatched? These issues of customer relationship management are discussed further in Chapter 6 and 7.

A broader definition of marketing has been developed by Dibb, Simkin, Pride and Ferrell (Dibb et al., 2000):

> *Marketing consists of individual and organisational activities that facilitate and expedite satisfying exchange relationships in a dynamic environment through the creation, distribution, promotion and pricing of goods, services and ideas.*

This definition is useful since it highlights different marketing activities necessary to achieve the 'exchange relationship', namely product development, pricing, promotion and distribution. We will review the way in which the Internet affects these elements of the marketing mix in Chapter 5.

Many organisations began the process of Internet marketing with the development of web sites in the form of **brochureware** or electronic brochures introducing their organisations' products and services, but are now enhancing them to add value to the full range of marketing functions. In Chapters 2 and 4 we look at **stage models** of development of Internet marketing services, which start with brochureware sites, that can be used to assess and inform an organisations

current and future application of Internet Marketing. Another key aspect of Interent marketing planning is using the Internet for what it is best suited - reaching particular types of customers using innovative selling techniques. Case study 1.1 gives one example of such applications of the Internet.

<Brochureware>

A simple web site with limited interaction with user that replicates offline marketing colateral.

<Stage models>

Models for the development of different levels of Internet marketing services

Case study 1.1 Hamleys reaches new customers using the Internet

Hamleys toy shop in London's Regent Street seems quintessentially British, so it may come as a surprise to learn that the majority of the sales from its website are to the US. This is not an accident, however. The content and appearance of the shop's e-commerce site have been carefully designed to attract a very particular kind of customer: those who have the money to spend on expensive toys, but little time to visit toy shops.While its London store stocks approximately 40,000 toys, the site offers only a small fraction of that number. There are already numerous toyshops online offering cheap, plentiful toys aimed at the mass market.Hamleys wanted to differentiate itself, so it called in Equire, an e-commerce company specialising in designing and hosting websites for retailers of luxury items, including Links of London and jewellers Van Peterson.Hamleys and Equire decided to use the website to sell goods it was difficult to obtain anywhere else: Steiff bears, die-cast figures and other collectors' items. Apart from collectors, says Pete Matthews, Equire founder and chairman, customers tend to be parents and grandparents looking for unusual gifts.An article in the New York Times before Father's Day, for example, resulted in the site selling a large number of

gold-plated models of the James Bond Aston Martin.Because the brand name is crucial to the kind of customers Hamleys wants to attract, the look of the site (www.hamleys.com) is also distinctive, with numerous graphics and animations, a prominent Hamleys logo on each page and menu options with names such as Collectables, Exclusive and Executive.As well as designing and hosting the website, Equire manages all other aspects of the e-commerce operation, including holding the stock in its warehouse, taking care of orders and delivery, and running the customer care centre.Its financial arrangement with Hamleys is unusual: instead of charging a large fee for hosting the site, it charges a smaller fee and takes a cut of the revenue. The idea is that it has a stake in making sure the site works, giving the customer confidence that it will do the job well. It also means a smaller investment for the customer. "The typical cost of implementing an infrastructure like ours would be in the many millions of dollars. Typically, Equire's customers don't contribute anything like that," says Mr Matthews.Because of the site's target customers, speed of delivery is important. Some e-commerce sites have become notorious for not being able to fulfil orders quickly or efficiently. But Mr Matthews says most of the US orders are delivered within three days - and many in fewer than that.The Hamleys site uses the Broadvision e-commerce platform, which is integrated with the call centre, the fulfilment centre and Equire's despatch partners, who allow online tracking of every parcel. "When an order comes in, it automatically informs the customer-care centre. At the same time, it tells the fulfilment centre an order has come in and needs to go out today. It gets picked, packed, gift-wrapped and despatched and is then tracked throughout its life via our despatch partners, UPS and Parcelforce," says Mr Matthews. Returns are low - less than two per cent.Recently, Hamleys has announced a drop in profits. Part of its plan for drawing in more revenue is to expand the website to include a wider range of toys: 50 per cent of calls and e-mails to the customer care centre are inquiries about toys not stocked on the site.Instead of simply increasing sales to existing customers, the site has given Hamleys the opportunity to attract many new customers who, according to Mr Matthews, spend more on an average visit

to the site than visitors to the London shop. Other planned improvements include greater emphasis on "personalisation", so that customers will be guided to their particular interests.Mr Matthews believes his company has a model that works. "Over a period of five years, we're able to deliver a very healthy net margin, their revenues flow to the bottom line, they have no depreciation or amortisation to consider, while we deliver them net incremental revenue, and we help to build brand franchise outside their immediate geography."

Source: Financial Times (2000b) HAMLEYS: Where to buy a gold-plated model of James Bond's Aston Martin. Financial Times. http://www.ft.com/ftsurveys/spbf9a.htm.

By Kim Thomas

Questions

1. What best practice principles of marketing / e-marketing does this case indicate.

2. Visit the web site (www.hamleys.com) and assess changes in strategy since the article was written.

E-commerce and e-business defined

The terms e-commerce and e-business are often used in a similar context to Internet marketing, but what are the differences between these terms and do the finer distinctions between them matter to the practitioner? In fact, the differences are significant and do matter, since managers within an organisation require a consistent understanding of the opportunities to enable their organisation to have a cohesive strategy to best utilise new technology.

Electronic commerce (E-commerce) is often thought to simply refer to buying and selling using the Internet; people immediately think of consumer retail purchases from companies such as Amazon. However, e-commerce involves much more than electronically mediated *financial* transactions between organisations and customers. Many commentators now refer to e-commerce as *both financial and informational* electronically mediated transactions between

an organization and any third-party it deals with (Chaffey, 2002). By this definition, non-financial transactions such as customer enquiries and support are also considered to be part of e-commerce. Kalakota and Whinston (1997) refer to a range of different perspectives for e-commerce:

1. *A communications perspective* – the delivery of information, products/services or payment by electronic means.
2. *A business process perspective* – the application of technology towards the automation of business transactions and workflows.
3. *A service perspective* – enabling cost cutting at the same time as increasing the speed and quality of service delivery.
4. *An online perspective* – the buying and selling of products and information online.

Zwass (1998) uses a broad definition of e-commerce noting the significance of information transfer. He refers to it as:

'*the sharing of business information, maintaining business relationships, and conducting business transactions by means of telecommunications networks'*.

The UK government also uses a broad definition:

'*E-commerce is the exchange of information across electronic networks , at any stage in the supply chain, whether within an organisation, between businesses, between businesses and consumers, or between the public and private sector, whether paid or unpaid*' . E-commerce@its.best.uk 1999

All these definitions imply that electronic commerce is not solely restricted to the actual buying and selling of products, but also pre-sale and post-sales activities across the supply chain.

Electronic commerce (E-commerce)

All financial and informational electronically mediated exchanges between an organisation and its external stakeholders,

When evaluating the impact of e-commerce on an organisation's marketing, it is instructive to identify the role of buy-side and sell-side e-commerce transactions as depicted in Figure 1-2. **Sell-side e-commerce** refers to transactions involved with selling products to an organisation's customers. Internet marketing is used directly to support sell-side e-commerce. **Buy-side e-commerce** refers to business-to-business transactions to procure resources needed by an organisation from its suppliers. This is typically the responsibility of those in the operational and procurement functions of an organization. Remember though, that each e-commerce transaction can be considered from two perspectives: sell-side from the perspective of the selling organisation and buy-side from the perspective of the buying organisation. So for organizational marketing we need to understand the drivers and barriers to buy-side e-commerce in order to accommodate the needs of organizational buyers. For example, marketers from RS Components (www.rswww.com) promote its sell-side e-commerce service by hosting seminars for buyers within the purchasing department of its customers that explain the cost-savings available through e-commerce.

Sell-side e-commerce

E-commerce transactions between a supplier organisation and its customers

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

Figure 1-2 The distinction between buy-side and sell-side e-commerce

E-business defined

Given that Figure 1-2 depicts different types of e-commerce, what then, is **e-business**? Let us start from the definition by IBM (www.ibm.com/e-business), who was one of the first suppliers to coin the term:

e-business (e' biz' nis)

The transformation of key business processes through the use of Internet technologies.

Referring back to Figure 1-2, the key business processes referred to in the IBM definition are the organisational processes or units in the centre of Figure 1-2. They include research and development, marketing, manufacturing and inbound and outbound logistics. Complete activity 1.1 to gain an appreciation of the type of processes involved. The buy-side e-commerce processes with suppliers and the sell-side e-commerce processes involving exchanges with distributors and customers can also be considered to be key businesses processes.

Activity 1.1 Marketing processes in the e-business (WEB)

Purpose

To highlight how Internet technologies can be used to support marketing

Question

A comprehensive analysis of all businesses processes requiring support in a typical organization is available as part of the Andersen 'Global Best Practices' site (www.globalbestpractices.com). Identify those processes that directly and indirectly relate to marketing and explain how technology can be used to enhance these processes.

<end activity>

Figure 1-3 presents some alternative viewpoints of the relationship between e-business and e-commerce. Which do you think is most appropriate? In (a) there is a relatively small overlap between e-commerce and e-business. We can reject Figure 1-3 (a) since the overlap between buy-side and sell-side e-commerce and is significant. Figure 1-3 (b) seems to be more realistic, and indeed many commentators seem to consider e-business and e-commerce to be synonymous. It can be argued, however, that Figure 1-3 (c) is most realistic since e-commerce does not include refer to many of the transactions *within* a business such as processing a purchasing order that are part of e-business. In an international benchmarking study assessing the adoption of e-business in SMEs the Department of Trade and Industry emphasises the application of technology in the full range of business processes, but also emphasise how it involves innovation. They describe e-business as:

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

So e-commerce can best be conceived as a subset of e-business and this is the perspective we will use in this book. Since the interpretation in Figure 1-3 (b) is equally valid, what is

important within any given company, is that managers involved with the implementation of e-commerce/e-business are agreed on the scope of what they are trying to achieve!

Electronic business (E-business)

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

Figure 1-3 Three alternative definitions of the relationship between e-commerce and e-business

Business or consumer model

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

Business-to-consumer (B2C)

Commercial transactions are between an organisation and consumers

Business-to-business (B2B)

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

Figure 1-4 gives examples of different companies operating in the business-to-consumer (B2C) and business-to-business (B2B) sphere. Figure 1-4 also presents two additional types of

transaction, those where consumers transact directly with other consumers (C2C) and where initiate trading with companies (C2B). Note that the C2C and C2B monikers are less widely used (e.g. The Economist, 2000), but they do highlight significant differences between Internet-based commerce and earlier forms of commerce. Consumer-to-consumer interactions were relatively rare, but are now very common in the form of customer support and feedback – the community components of sites and online auctions. Indeed, Hoffman and Novak (1996) suggest that C2C interactions are a key characteristic of the Internet that is important for companies to take into account C2C interactions as is shown by activity 1.2. It should be noted before we leave C2C and C2B interactions that although it is useful to identify these separately, both types of site are set up by intermediaries *businesses*, so they can be considered to be part of B2C.

Consumer-to-consumer (C2C)
Informational or financial transactions are between consumers, but usually mediated through a business site

Consumer-to-business (C2B)
Consumers approach the business with an offer

Figure 1-4 Summary of transaction alternatives between businesses and consumers

As well as the models shown in Figure 1-4, it has also been suggested that employees should be considered as a separate type of consumer through the use of intranets, this is referred to as employee-to-employee or E2E.

Activity 1.2 Why are C2C interactions important?

Purpose

To highlight the relevance of C2C transactions to B2C companies

Activity

Consult with fellow students and share experience of C2C interactions online. Think of C2C both on independent sites and organisational sites. How can C2C communications assist these organisations?

<end activity>

What benefits does the Internet provide for the marketer?

Case study 1.1 highlights the key reason why many companies are seeking to harness the Internet. The reason is an additional source of revenue made possible by an alternative marketing and distribution channel. The marketing opportunities of using the Internet can be appreciated by applying the strategic marketing grid (Ansoff, 1957) for exploring opportunities for new markets and products (Figure 1-5). The Internet can potentially be used to achieve each of the four strategic directions as follows:

1 *Market penetration*. The Internet can be used to sell more existing products into existing markets. This can be achieved by using the power of the Internet for advertising products to increase awareness of products and the profile of a company amongst potential customers in an existing market. This is a relatively conservative use of the Internet.
2 *Market development*. Here the Internet is used to sell into new markets, taking advantage of the low cost of advertising internationally without the necessity for a supporting sales infrastructure in the customers' country. This is a relatively conservative use of the Internet,

but it does require the overcoming of the barriers to becoming an exporter or operating in a greater number of countries. Case study 1.1 is an example of an organization using the Internet in this way.

3 *Product development*. New products or services are developed which can be delivered by the Internet. These are typically information products such as market reports which can be purchased using electronic commerce. This is innovative use of the Internet.

4 *Diversification*. In this sector, new products are developed which are sold into new markets.

Figure 1-5 Market and product strategic grid

Companies can use the Internet to adopt new approaches to selling products which involve positioning in one part of the grid presented in Figure 1-5, or in multiple quadrants. Examples of these applications are in Activity 1.3.

DTI (2000) has identified different types of drivers or benefits why companies adopt e-commerce. The main drivers for sell-side e-commerce are:

- *Cost/efficiency drivers*
  1. Increasing speed with which goods can be despatched
  2. Reduced sales costs
  3. Reduced operating costs
- *Competitiveness drivers*
  1. Customer demand
  2. Improving the range and quality of services offered
  3. Avoid losing market share to businesses already using e-commerce

As an example, consider Figure 1-6. The Internet provides Guinness with the opportunity to provide non-core merchandising activity at a relatively low cost.

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

Figure 1-6 Guinness transactional e-commerce for merchandise (www.guinness.com)

Activity 1.3

Using the Internet for new markets and products

For each of the following companies identify which strategy the company has adopted relative to Figure 1-5, Market and product strategic grid. Explain how the new markets or products are exploited.

1 The purchase by the book retailer WH Smith of the Internet bookshop (*www.bookshop.co.uk*) in 1998 for £9 million.

2 The PC seller Dell Computer (*www.dell.com*), which now gains over 50% of its revenue from the web site.

3 The software company Microsoft, launched a range of new sites to help consumers purchase cars, holidays, shares and other items.

4 A UK company such as HR Johnson (*www.johnson-tiles.com*), which is selling tiles to international distributors and has created an extranet to obtain orders over the Internet.

In addition to increased sales and reduced costs, the Internet can be used to advantage in all of the marketing functions, for example:

- *Sales*. Achieved through increasing awareness of brands and products, supporting buying decisions and enabling online purchase (chapter 7).
- *Marketing communications*. The use of the web site for the range of marketing communication is described in Chapter 8.
- *Customer service*. Supplementing phone operators with information available online and other techniques described in Chapters 7 and 8.
- *Public relations*. The Internet can be used as a new channel for public relations (PR) and provides the opportunity to publish the latest news on products, markets and people (chapter 8).
- *Marketing research.* Through search engines and e-mail alert services, the Internet enables more efficient techniques for finding a range of market information. It also enables new methods for collecting primary research online through focus groups and online questionnaires (chapters 7 and 9).

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

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

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

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

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

4 *Communications improvement*. These include improved communications with customers, staff, suppliers and distributors. This is a major topic within this book and is covered in more depth in Chapter 2.

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

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

The benefits that are possible through use of the Internet are also illustrated by Case study 1.2. A key phrase in this article articulated by the head of Internet trading is that the project '*isn't just about a site, it's about the whole integrated way of doing business on a very substantial scale*'. Developing a structured plan to achieve these potential benefits is considered in Part 2 of this book.

CASE STUDY 1.2

RS COMPONENTS

Figure 1-7 RS Components web site (www.rswww.com)

RS Components (*www.rswww.com*) is part of Electrocomponents plc is a distributor of electronic components for example in the motor trade. In the mid 1990s it launched a CD-ROM of its catalogue, which featured tens of thousands of products. The CD had a 25,000 print-run, but the company was surprised that its stocks of the CD were soon depleted. This was an early indication of demand from consumers for interactive services. At the same time, Internet adoption was increasing, so the organization decided to develop a transactional web site. It launched a transactional site for the 107 000 products in its catalogue in February 1998. In its first six months 44 000 customers registered as users of the site and there have been 84 000 repeat visits. The average order value is £81 and the average site visit across all 280 000 site visits is 23 minutes.

Traditionally RS Components operated in the business-to-business sector by selling direct to garages or through distributors. A benefit of the new site has been that a tenth of all registrations were from private individuals who represent a new customer sector.

The web site uses personalisation software from Broadvision to tailor over 50 different versions of the home page to different types of visitors. Further capabilities that are unavailable via other channels are:

- the facility for online users to check on stock availability
- return to unfinished orders which are interrupted part-way through
- different parcels can be sent to different fulfilment addresses from a single order

The company has made a substantial investment and commitment to new media spending £2.5 million on the new system to 1998. Bernard Hewitt, head of Internet trading at RS Components, justified this expenditure saying:

'*We're this committed to new media because we believe in the future. No one like us is doing anything close to what we're doing. It isn't just about a site, it's about the whole integrated way of doing business on a very substantial scale.*'

In the first eight months from when the site was introduced RS Components (rswww.com) recorded:

- 280 000 sessions (visits);

- 44 000 registered customers;
- 84 000 repeat visits;
- 23 minutes average time on site;
- £81 average order value.
- 10 per cent private rather than trade.

In 2001, the results from the web site are as follows:

- 350,000 site registrations.
- 80,000 visits per month.
- 53,000 repeat visits each month.
- 8,000 new registrations each month.
- 8%of sales in the UK are Internet-based amounting to £30 per year.
- Each of of Electrocomponents' operating companies in 26 countries an internet trading site with on-line catalogue, in all major languages including Chinese and Japanese. In Japan, online sales are 20% of total sales.
- Europe (Austria, Belgium, Denmark, France, Germany, Ireland, Italy, the Netherlands, Spain and the UK) is served by one central hub, the European Internet Trading Channel (Euro ITC), which manages 10 different catalogue offers, 7 different languages and 11 currencies (including the euro). Support, fulfilment and content, however, remain local.

Source: Revolution Magazine, November (1998) and Keith Laroche, E-commerce sales manager, RS Components speaking at eMarketplaceWorld, February 6th 2002. Electrocomponents plc corporate web site (http://www.electrocomponents.com/about_us/ecommerce.htm)

Questions

1 Explain how the company has used the Internet to achieve each of the '6Cs' of cost reduction, new capability, competitive advantage, communications improvement, improved control and customer service.

2 Compare the facility the Internet provides to measure the way the site is used with a traditional phone or fax-based ordering system.

3 What does the extent of the investment made by the company suggest about the directors' commitment to the Internet?

A short introduction to Internet technology

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

The Internet

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

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

Web browsers

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

Web servers

Web servers are used to store the web pages accessed by web browsers. They may also contain databases of customer or product information which can be queried and retrieved using a browser.

Figure 1-8 gives an example of a web site accessed through the Internet Explorer web browser. This site has the web address or location '*www.marketing-online.co.uk*'. The technical name for web addresses is uniform or universal resource locators (URLs). URLs can be thought of as a standard method of addressing similar to postal or ZIP codes that make it straightforward to find the name of a site.

Web addresses are structured in a standard way as follows:

http://www.domain-name.extension/filename.html

The domain name refers to the name of the web server and is usually selected to be the same as the name of the company and the extension will indicate its type. The extension is also commonly known as the global top level domain (gTLD). Note that gTLDs are currently under discussion and there are proposals for adding new types such as .store and .firm.

Uniform (universal) resource locators (URL)

A web address used to locate a web page on a web server

Common gTLDs are:

- **.com** represents an international or American company such as http://www.travelagency.com
- **.co.uk** represents a company based in the UK such as http://www.thomascook.co.uk/.
- **.ac.uk** a UK based University (e.g. http://www.derby.ac.uk)
- **.org.uk or .org** are not for profit organisations (e.g. www.greenpeace.org)
- **.net** a network provider such as www.freeserve.net.

The 'filename.html' part of the web address refers to an individual web page, for example 'products.html' for a web page summarising companies' products. When a web address is typed in without a filename, for example www.bt.com, the browser automatically assumes the user is looking for the home page, that by convention is referred to as index.html. When creating sites, it is therefore vital to name the home page index.html.

Figure 1-8 A web site providing links to different Internet marketing information sources viewed using Microsoft Internet Explorer browser

World Wide Web

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

How does the Internet work?

The Internet enables communication between millions of connected computers world-wide. Information is transmitted from client PCs whose users request services to server computers that hold information and host business applications that deliver the services in response to requests. As such, the Internet is a large-scale **client/server** system. By end 2000, Nua compilations estimated that worldwide, there were over 450 million users of clients accessing over 30 million web sites hosted on servers (Web update, www.nua.ie/surveys , www.cyberatlas.com). The client PCs within homes and businesses are connected to the Internet via local **Internet Service Providers (ISPs)** who, in turn, are linked to larger ISPs with connection to the major national and international infrastructure or **backbones** (Figure 1-9). In the UK, at the London Internet Exchange which is the Docklands area of East London, a facility exists to connects multiple backbones of the major ISPs within the UK onto a single

high-speed link out of the UK into Europe and through to the US. These high speed links can be thought of as the motorways on the 'information superhighway' while the links provided from ISPs to consumers are equivalent to slow country roads.

<Client/server>

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

<Internet Service Provider (ISP)>

A provider enabling home or business users a connection to access the Internet. They can also host web-based applications.

<Backbones>

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

Figure 1-9 Infrastructure components of the Internet

Figure 1-10 shows the process by which web browsers communicate with web servers. A request from the client PC is executed when the user types in a web address, clicks on a hyperlink or fills in an online form such as a search. This request is then sent to the ISP and routed across the Internet to the destination server using the mechanism described in the section on protocols. The server then returns the requested web page if it is a **static (fixed) web page**, or if it requires reference to a database, such as a request for product information will pass the query on to a database server and will then return this to the customer as a **dynamically created web page**. Information on all page requests is stored in a **transaction**

log file which records the page requested, time it was made and the source of the enquiry. This information can be analysed using a **log file analyser** along with different browser-based techniques to assess the success of the web site as explained in Chapter 9

<Static web page>

A page on the web server that is invariant.

<Dynamic web page>

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

<Transaction log files>

A web server file that records all page requests

<Log file analyzer>

Software to summarise and report the information in the transaction log file

Figure 1-10 Information exchange between a web browser and web server

Web page standards

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

Content

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

Text information – HTML (Hypertext Markup Language)

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

HTML (Hypertext Markup Language)

HTML is a standard format used to define the text and layout of web pages. HTML files usually have the extension .HTML or .HTM.

A simple example of HTML is given for a simplified home page for a B2B company in Figure 3.7. The HTML code used to construct pages has codes or instruction tags such as <TITLE> to indicate to the browser what is displayed. The <TITLE> tag indicates what appears at the top of the web browser window. Each starting tag has a corresponding end tag usually marked by a '/', for example <B>plastics</B> to embolden plastics.

Figure 1-11 Home page index.html for The B2B Company in a web browser showing HTML source in text editor

The simplicity of HTML compared to traditional programming languages makes it possible for simple web pages to be developed by non-specialists such as marketing assistants, particularly if templates for more complex parts of the page are provided. Interactive forms and brochures and online sales are more complex and usually require some programming expertise, although tools are available to simplify these. See detailed information on creating HTML pages (Chapter 12, p00)

Text information and data – XML (Extensible markup language)

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

<metadata>

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

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

XML or eXtensible Markup Language

A standard for transferring structured data unlike HTML which is purely presentational

<startbox>

Mini case - example XML for Online Marketplace catalogue

This example is taken from the Commerce One (www.commerceone.net) xCBL 3.0 statndard for

Publishing catalogue data. It can be seen that specific tags are used to idenity:

- Product ID
- Manufacturer
- Long and short description
- Attributes of product and associated picture.

There is no pricing information in this example.

```
<CatalogData>
<Product>
<Action Value="Delete"/>
<ProductID>118003-008</ProductID>
```

```
</Product>
<Product Type="Good" SchemaCategoryRef="C43171801">
<ProductID>140141-002</ProductID>
<UOM><UOMCoded>EA</UOMCoded></UOM>
<Manufacturer>Compaq</Manufacturer>
<LeadTime>2</LeadTime>
<CountryOfOrigin>
<Country><CountryCoded>US</CountryCoded></Country>
</CountryOfOrigin>
<ShortDescription xml:lang="en">Armada M700 PIII 500
12GB</ShortDescription>
<LongDescription xml:lang="en">
This light, thin powerhouse delivers no-compromise performance in a sub-five
pound form
factor. Size and Weight(HxWxD): 12.4 X 9.8 X 1.1 in 4.3 - 4.9 lbs (depending on
configuration) Processor: 500-MHZ Intel Pentium III Processor with 256K
integrated
cache Memory: 128MB of RAM, expandable to 576MB Hard Drive: 12.0GB Removable
SMART Hard Drive Display Graphics: 14.1-inch color TFT with 1024 x 768
resolution
(up to 16M colors internal) Communication: Mini-PCI V.90 Modem/Nic Combo
Operating
System: Dual Installation of Microsoft Windows 95 &amp;amp; Microsoft Windows 98
</LongDescription>
<ProductAttachment>
<AttachmentURL>file:\5931.jpg</AttachmentURL>
<AttachmentPurpose>PicName</AttachmentPurpose>
<AttachmentMIMEType>jpg</AttachmentMIMEType>
</ProductAttachment>
<ObjectAttribute>
<AttributeID> Processor Speed</AttributeID>
<AttributeValue>500MHZ</AttributeValue>
</ObjectAttribute>
<ObjectAttribute>
<AttributeID>Battery Life</AttributeID>
<AttributeValue>6 hours</AttributeValue>
</ObjectAttribute>
</Product>
```

Source: http://www.commerceone.com/download/xCBL3ForContent.pdf

<end box>

Graphical images (GIF and JPEG file)

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

GIF (Graphics Interchange Format)

A graphics format and compression algorithm best used for simple graphics

JPEG (Joint Photographics Experts Group)

A graphics format and compression algorithm best used for photographs

Animated graphical information (GIFs and plug-ins)

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

the Macromedia Flash and Shockwave products for producing interactive graphics (www.macromedia.com).

Plug-ins

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

Audio and video standards

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

Streaming media

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

Internet access software applications

Over its lifetime, many tools have been developed to help find, send and receive information across the Internet. Web browsers used to access the World Wide Web are the latest of these

applications. These tools are summarised in Table 1.1. In this section we will briefly discuss the relevance of some of the more commonly used tools to the modern organisation. The other tools have either been superseded by the use of the World Wide Web or are of less relevance from a business perspective.

The application of the Internet for marketing in this book concentrates on the use of e-mail and the World Wide Web since these tools are now most commonly used by businesses for digital marketing. Many of the other tools such as e-mail, IRC and newsgroups, that formerly needed special software to access them, are now available from the WWW.

Table 1.1 Applications of different Internet tools

Internet tool	Summary
Electronic mail or E-mail	Sending messages or documents, such as news about a new product or sales promotion between individuals. A primitive form of 'push' channel.
Internet Relay Chat (IRC)	This is a synchronous communications tool which allows a text based 'chat' between different users who are logged on at the same time. Of limited use for marketing purposes.
Usenet newsgroups	A widely used electronic bulletin board used to discuss a particular topic such as a sport, hobby or business area. Traditionally accessed by special newsreader software, can now be accessed via a web browser from www.deja.com (now part of Google (www.google.com).
FTP file transfer	The File Transfer Protocol is used as a standard for moving files across the Internet. FTP is available as a feature of web browsers that is used for marketing applications such as downloading files such as product price lists or specifications. Also used to update

	HTML files on web pages.
Gophers, Archie and WAIS	These tools were important before the advent of the web for storing and searching documents on the Internet. They have largely been superseded by the web which provides better searching and more sophisticated document publishing.
Telnet	This allows remote access to computer systems. For example a retailer could check to see whether an item was in stock in a warehouse using a telnet application.
Push channel	Information is broadcast over the Internet or an intranet and received using a web browser or special program for which a subscription to this channel has been set up. This technique is still used for automated software distribution, but has not proved popular as a method for accessing web content by users
World Wide Web	Widely used for publishing information and running business applications over the Internet.

From the Internet to intranets and extranets

Intranet and **extranet** are two terms that have arisen in the 1990s to describe applications of Internet technologies that do not only involve communicating with customers, but rather with company staff (intranet) and third parties such as suppliers and distributors (extranet). While everyone connected to the Internet can access a company Internet web site, only those who have been given authorisation can access an intranet or extranet. This relationship between the Internet, intranets and extranets is indicated by Figure 1-12. It can be seen that an intranet is effectively a private-company Internet with access available to staff only. An extranet permits access to trusted third parties, and the Internet provides global access.

Extranets provide exciting opportunities to communicate with major customers since tailored information such as special promotions, electronic catalogues and order histories can be provided on a web page personalised for each customer.

Figure 1-12 The relationship between access to intranets, extranets and the Internet

Intranet

A network within a single company which enables access to company information using the familiar tools of the Internet such as web browsers. Only staff within the company can access the intranet, which will be password protected.

Extranet

Formed by extending the intranet beyond a company to customers, suppliers, collaborators or even competitors. This is again password protected to prevent access by all Internet users.

Opportunities for using intranets and extranets to support the marketing process can be divided in two different ways. First, we must consider that the Internet can be used for marketing communications both within and beyond the company. As well as using the Internet to communicate with customers, companies find that internal use of an intranet or use of an extranet facilitate communication and control between staff, suppliers and distributors. Second, the Internet, intranet and extranet can be applied at different levels of management within a company. Table 1.2 illustrates potential marketing applications of both the Internet and intranet for supporting marketing at different levels of managerial decision making. Vlosky et al. (2000) examine how extranets impact business practices and relationships in more detail.

Table 1.2 Opportunities for using the Internet, extranets and intranets to support marketing functions

Level of management	*Internet*	*Intranet and extranet*
Strategic	Environmental scanning	Internal data analysis
	Competitor analysis	Management information
	Market analysis	Marketing information
	Customer analysis	Database
	Strategic decision making	Operations efficiency
	Supply chain management	Business planning
		Monitoring and control
		Simulations
		Business intelligence (data warehouses)
Tactical and operational	Advertising/promotions	Electronic mail
	Direct marketing	Data warehousing
	Public relations	Relationship marketing
	Distribution/logistics	Conferencing
	Workgroups	Training
	Marketing research	Technology information
	Publishing	Product/service information
		Customer service
		Internet trading
		Sponsorship

How do Internet marketing communications differ from traditional marketing communications?

Internet marketing differs from conventional marketing communications because of the digital medium used for communications. The Internet and other digital media such as digital television, satellite and mobile phones create new forms and models for information exchange. A useful summary of the differences between these new media and traditional media has been developed by McDonald and Wilson (1999) which they describe as the '6Is of the e-marketing

mix'. Note that these can be used as a strategic analysis tool, but they are not used in this context here. The 6Is are useful since they highlight factors that apply to practical aspects of Internet marketing such as personalisation, direct response and marketing research, but also strategic issues of industry restructuring and integrated channel communications. By considering each of these facets of the new media, marketing managers can develop marketing plans that accommodate the characteristics of the new media. This presentation of the '6Is', is an interpretation of these factors using new examples and diagrams to illustrate these concepts.

1. Interactivity

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

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

Figure 1-13 (a) shows how traditional media are predominantly *push media* where the marketing message is broadcast from company *to* customer and other stakeholders. During this process, there is limited interaction with the customer, although interaction is encouraged in some cases such as the direct response advert or mail-order campaign. On the Internet, it is usually a customer who initiates contact and is *seeking* information on a web site. In other words it is a '*pull*' mechanism unless e-mail is used (this can be considered as a push technique). Figure 1-13 (b) shows how the Internet should be used to encourage two-way

communication, these may be extensions of the direct-response approach. For example, FMCG suppliers such as Nestle (www.nescafe.co.uk) use their web site as a method of generating interaction by providing incentives such as competitions and sales promotions to encourage the customer to respond with their names, addresses and profile information such as age and sex.

Figure 1-13 Summary of communication models for (a) traditional media (b) new media

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

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

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

2. Intelligence

The Internet can be used as a relatively low cost method of collecting marketing research, particularly about customer perceptions of products and services. In the competitions referred to above Nescafe are able to profile their customers on the basis of the information received in

questionnaires. The Internet can be used to create two-way feedback which does not usually occur in other media. Financial services provider Egg (www.egg.com) collects information about their online service levels through a questionnaire that is continuously available in the customer service part of their site. What is significant is that the company responds via the web site to the main concerns from customer; if the length of time it takes to reply to customer service e-mails is seen as a problem it will explain what the organisation is trying to do to resolve this problem.

A wealth of marketing research information is also available from the web site itself, since every time a user clicks on a link this is recorded in a transaction log file summarising what information on the site the customer is interested in. Since these log files quickly grow to be many thousands of lines long, analysis software tools are needed to summarise the information contained within them. Log file analysers, of which Webtrends (www.webtrends.com) is the most widely used, will highlight which type of products or promotions customers are responding to and how patterns vary through time. This enables companies to respond in real-time to buyer behaviour. UK e-tailer Jungle.com uses this technique to change the offers on its home page if customers are not responding to a special offer.

3. Individualisation

Another important feature of the interactive marketing communications referred to above is that they can be tailored to the individual (Figure 1-14 (b)) unlike traditional media where the same message tends to be broadcast to everyone (Figure 1-14 (a)). The process of tailoring is also referred to as *personalisation* and is an important aspect of achieving customer relationship management online. Personalisation is often achieved through extranets which are set up with key accounts to manage the buying and after-sales processes. Dell (www.dell.com/premierpages) has set up 'Premier Pages' for key accounts such as the Abbey

National where special offers and bespoke customer support are delivered. Another example of personalisation is that achieved by business-to-business e-tailer RS Components (www.rswww.com). Every customer who accesses their system is profiled according to their area of product interest and information describing their role in the buying unit. When they next visit the site information will be displayed relevant to their product interest, for example office products and promotions if this is what was selected. This is an example of what is known as *mass customisation* where generic customer information is supplied for particular segments i.e. the information is not unique to individuals, but to those with a common interest. The online booksellers such as Amazon (www.amazon.co.uk) use this approach to communicate new books to groups of customers. Gardeners for instance, who have previously purchased a gardening book, will receive a standard e-mail advertising the latest gardening tome. This is again mass customisation. These concepts are explored further in chapter 6.

Personalisation

Delivering individualised content through web pages or e-mail.

Mass customisation

Delivering customised content to groups of users through web pages or e-mail.

Figure 1-14 Summary of degree of individualisation for (a) traditional media (same message) (b) new media (unique messages and more information exchange between customers)

4. Integration

The Internet provides further scope for integrated marketing communications. Figure 1-15 shows how it is just one of many different media channels (these channels are also offered by intermediaries). When assessing the success of a web site, the role of the Internet in communicating with customers and other partners can best be considered from two perspectives. First organisation to customer direction, how does the Internet complement other channels in communication of proposition for the company's products and services to new and existing customers with a view to generating new leads and retaining existing customers? Second customer to organisation, how can the Internet complement other channels to deliver customer service to these customers? Many companies are now considering how they integrate e-mail response and web-site call-back into their existing call-centre or customer service operation. This may require a substantial investment in training and new software.

Some practical examples of how the Internet can be used as an integrated communications tool are as follows:

- The Internet can be used as a direct response tool enabling customers to respond to offers and promotions publicised in other media.
- The web site can have a direct response or call-back facility built into it. The Automobile Association have a feature where a customer service representative will contact a customer by phone when the customer fills in their name, phone number and a suitable time to ring.
- The Internet can be used to support the buying decision even if the purchase does not occur via the web site. For example, Dell has a prominent web-specific phone number on their web site that encourages customers to ring a representative in the call-centre to place their order. This has the benefits that Dell are less likely to lose the business of customers who are anxious about the security of online ordering and Dell can track sales that result partly from the web site according to the number of callers on this

line. Considering how a customer changes from one channel to another during the buying process is referred to as **mixed-mode buying**. It is a key aspect of devising online marketing communications since the customer should be supported in changing from one channel to another.

- Customer information delivered on the web site must be integrated with other databases of customer and order information such as those accessed via staff in the call-centre to provide what Seybold (1999) calls a '360 degree view of the customer'.
- The Internet can be used to support customer service. For example EasyJet (www.easyjet.com), who receive over half their orders electronically, encourage users to check a list of frequently asked questions (FAQ) compiled from previous customer enquiries before contacting customer support via phone.

Mixed-mode buying
The process by which customer changes between online and offline channels during the buying process

Figure 1-15 Channel requiring integration as part of integrated e-marketing strategy

Activity 1.4 Integrating online and offline communications

Purpose

To highlight differences in marketing communications introduced through the use of the Internet as a channel and the need to integrate these communications with existing channels.

Figure 1-16 The role of mixed-mode buying in Internet marketing

Activity

List communications between PC vendor and a home customer over the lifetime of a product such as a PC. Include both communications using the Internet and traditional media. Refer to channel swapping alternatives in the buying decision in Figure 1-16 to develop your answer.

<End activity>

5. Industry restructuring

Disinteremediation and reintemediation, are key concepts of industry restructuring that should be considered by any company developing an e-marketing strategy and are explored in more detail in chapters 2, 4 and 5.

For the marketer defining their companies communications strategy it becomes very important to consider a companies representation on these intermediary sites by answering questions such as 'which intermediaries should we be represented on?' and 'how do our offerings compare to those of competitors in terms of features, benefits and price?'

Disintermediation

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

Reintermediation

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

6. Independence of location

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

Kiani (1998) has also presented differences between the old and new media, which are shown in Table 1.3. Annotations to the differences between the old and new media have been added to the table.

Table 1.3 An interpretation of the differences between the old and new media

Old media	*New media*	*Comment*
One-to-many communication model	One-to-one or many-to-many communication model	Hoffman and Novak (1996) state that theoretically the Internet is a many-to-many medium, but for company-to-customer-organisations communications it is best considered as one to one
Mass marketing push model	Individualised marketing or mass customization. Pull model for web marketing	Personalisation possible because of technology to monitor preferences and tailor content (Deighton, 1996)

Monologue	Dialogue	Indicates the interactive nature of the World Wide Web, with the facility for feedback
Branding	Communication	Increased involvement of customer in defining brand characteristics. Opportunities for adding value to brand
Supply-side thinking	Demand-side thinking	Customer pull becomes more important
Customer as a target	Customer as a partner	Customer has more input into products and services required
Segmentation	Communities	Aggregations of like-minded consumers rather than arbitrarily defined target segments

Source: After Kiani (1998).

Conversion marketing

One of the key features of Internet marketing using the web is that the customer has to consciously decide to visit a particular site according to the particular information or experience he or she is seeking (Hofmann and Novak, 1996). As we have said, it is a pull medium, which contrasts with the push media used for mass marketing.

The problem of encouraging site visitors is compounded since it is difficult for potential customers to find a company web site. It is estimated that there are over one billion web pages amongst which a company is competing for the attention of customers. It follows that promoting the location of the web site is critical for companies.

The implication for marketers is that Internet marketing communications strategies for most companies should focus on the acquisition of site visitors, converting them to a required action on the site and then retaining these visitors. Internet marketers seek to use **conversion marketing** to convert as many *potential* site visitors into *actual* visitors and then convert these

into customers and repeat visitors. A widely quoted conceptual measurement framework based on the industrial marketing concepts of purchasing decision processes and hierarchy of effects models has been proposed by Berthon et al. (1998) which can be applied for conversion marketing. The model assesses efficiency of offline and online communications in drawing the prospect through different stages of the buying decision. The main measures defined in the model were:

- *Awareness efficiency*. Target web-users/all web-users.
- *Locatability/attractability efficiency*. Number of individual visits/number of seekers.
- *Contact efficiency*. Number of active visitors/Number of visits.
- *Conversion efficiency*. Number of purchases/number of active visits.
- *Retention efficiency*. Number of repurchases/number of purchases.

This model is instructive for improving Internet marketing within an organization since these different types of conversion efficiency are key to understanding how effective online and offline marketing communications are in achieving marketing outcomes. Figure 1-17 is an adaptation of the original model of Berthon et al. (1998) from Chaffey (2001), which highlights the key conversion metrics of attraction efficiency and conversion efficiency. It shows key traffic or audience measures (Q_0 to Q_4) and key conversion efficiency ratios. The model has been revised to reflect current nomenclature. Also the original work was focused on conversion to purchase – the model is more widely applicable since it applies to any marketing outcome achieved on site, whether this is a new lead from a potential customer, a competition entrant or a sale. Additionally, it has been modified to distinguish between first time visitors (Q_2) and repeat visitors (Q_{2R}). E-marketers need to know how conversion effectiveness differs between first-time users and repeat users. An additional important aspect of online buyer behaviour not shown in the figure is the site path or **clickstream** for different audience types or segments.

Figure 1-17 A model of the Internet marketing conversion process

<Conversion marketing>

Using marketing communications to maximise conversion of potential customers to actual customers.

<Clickstream>

The sequence of clicks made by a visitor to the site to make a purchase

Figure 1-18 shows an example of how measuring conversion rates can be used to improve web marketing. Numbers are across a fixed time period of one month. If for a particular market there is a potential audience (market) of 250,000 (Q_1), then if online and offline promotion techniques (Chapter 8) achieve 100,000 visitors to the site (Q_2), marketers have achieved an impressive conversion rate of 50%. The online marketers are then looking to convert these visitors to action. Before this is achieved, the visitors must be engaged. Data from log files, shows that many visitors leave when they first visit the home page of a site if they do not find the site credible or they are not happy with the experience. The number of visitors engaged (Q_3) is 50,000, which is half of all visitors. For the visitors that are engaged, the next step is to convert them to action. This is achieved for 500 visitors (Q_4) giving a conversion rate (Q_4/Q_3) of 1%. If this is calculated as is most common as (Q_4/Q_2) this gives a conversion rate of 0.5%.

Figure 1-18 An example of the conversion process

In this example, the organization seems highly efficient in attracting visitors to the site, but less efficient at converting them to action – future marketing improvements could be directed at improving this. Some organisations will measure different conversion rates for different segments and for different goals such as generating new leads, responding to a sales promotion or signing up for a seminar. Analysis by Agrawal et al. (2000) suggests that the strongest sites may have conversion rates as high as 12 percent, as against 2.5 percent for average sites and 0.4% for poorly performing ones. Clearly measurement of the conversion rate and taking actions to improve this rate are key e-marketing activities. The marketing communications techniques used to increase these conversion rates are considered further in chapters 7 and 8.

SUMMARY

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

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

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

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

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

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

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

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

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

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

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

EXERCISES AND QUESTIONS

Self-assessment exercises

1 Which measures can companies use to assess the significance of the Internet to their organisation?

2 Why have companies only started to widely use the Internet for marketing in the 1990s, given that it has been in existence for over thirty years?

3 Distinguish between Internet Marketing and e-marketing.

4 Explain what is meant by electronic commerce and electronic business. How do they relate to the marketing function?

5 What are the main differences and similarities between the Internet, intranets and extranets?

6 Summarise the differences between the Internet and traditional media using the 6Is.

7 How is the Internet used to develop new markets and penetrate existing markets? What types of new products can be delivered by the Internet?

Essay and discussion questions

1 The Internet is primarily thought of as a means of advertising and selling products. What are the opportunities for use of the Internet in other marketing functions?

2 'The World Wide Web represents a *pull* medium for marketing rather than a *push*-medium.' Discuss.

3 You are a newly installed marketing manager in a company selling products in the business-to-business sector. Currently, the company only has a limited web site containing electronic versions of its brochures. You want to convince the directors of the benefits of investing in the web site to provide more benefits to the company. How would you present your case?

4 Explain the main benefits that a company selling fast-moving consumer goods could derive by creating a web site.

Examination questions

1 Contrast electronic commerce to electronic business.

2 Internet technology is used by companies in three main contexts. Distinguish between the following types and explain their significance to marketers.

(a) intranet

(b) extranet

(c) Internet

3 An Internet marketing manager must seek to control and accommodate all the main methods by which consumers may visit a company web site. Describe these methods.

4 Imagine you are explaining the difference between the World Wide Web and the Internet to a marketing manager. How would you explain these two terms?

5 What is the relevance of 'conversion marketing' to the Internet?

6 Explain how the Internet can be used to increase market penetration in existing markets and develop new markets.

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Marketing Online (*www.marketing-online.co.uk*) is a source for links to web sites concerned with Internet marketing strategy, implementation and practice. Updated by Dave Chaffey.

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

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

Market reports on electronic commerce (see also further references in Chapter 2*)*

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

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

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