

How Will the Internet Change Marketing?

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Abstract

It has been argued that we are in the midst of a revolution that is changing marketing. This paper attempts to categorize some of the ways in which the Internet will transform marketing. Three sources of change are identified: Cultural change, marketing management change and marketing in the new medium - Internet marketing. The paper focuses on the latter, and distinguishes three types of change: facilitators, threats and new opportunities. The challenge for marketing management is to recognize and use these changes.

Keywords

E-commerce

Internet Marketing

Consumer Behaviour

Introduction

The 'Internet' is used here to include PC, TV, mobile and PDA access. Internet marketing is defined as the use of the Internet for marketing of products, or services, sold either on the Internet or through traditional channels.

The focus is on consumer Internet marketing, although it is estimated that by 2002 business-to-business will exceed consumer e-commerce. (Activ Media, 2001)

Many believe that we are in the midst of a revolution. Deighton (1997, p 347) writes, "*The ferment in the field of marketing in particular is unprecedented*" and predicts that "*marketing intellectual capital*" is depreciating faster than ever before. Horn (1999, p. 42), claims "*Information technology will change everything in the world in which we live. There will be no institution, no person and no government that will be unaffected.*" Peterson et al (1997 p. 340) states "*It is already clear, however, that the Internet is changing the rules by which marketing is conducted and evaluated.*"

Hoffman (2000) described the Internet as "*the most important innovation since the development of the printing press*", which may "*radically transform not just the way individuals go about conducting their business with each other, but also the very essence of what it means to be a human being in society*".

Coltman et al (2000) argue that the e-business revolution is a myth. Following Castells (1996), they define revolutionary change in terms of (1) pervasiveness and

(2) impact on processes. They argue the Internet is not pervasive because it has not yet transformed the lives of consumers, with much of the change occurring upstream in the business-to-business arena. They suggest that we are not seeing a revolutionary e-business change but the result of an evolutionary integration of IT into work practices. However, it is easier to recognize a revolution with hindsight, e.g. during the industrial revolution changes may have seemed evolutionary and erratic.

Whether or not this is revolution or evolution, it is essential that we understand the nature and extent of the changes we face. There appear to be at least three different sources of marketing change. Firstly, the Internet is altering our culture, and this in turn is likely to change the way we react to marketing stimuli. Secondly, the Internet is changing the way businesses operate, and consequently the pace and style of marketing management is changing. Thirdly, this new way of communicating gives rise to E-marketing or Internet marketing. This paper concentrates on this new area, which includes both the marketing of Internet companies and the use of the Internet to market traditional companies.

Conceptual Framework

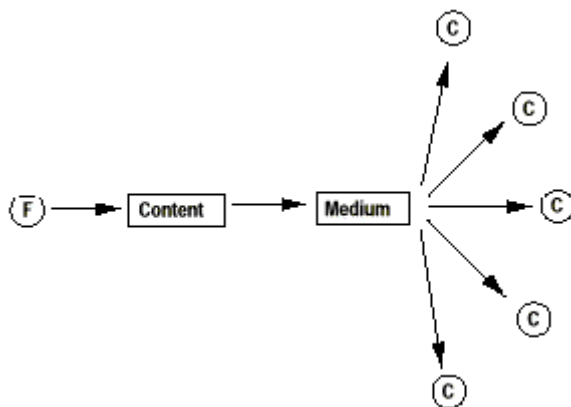
Hoffman and Novak (1996) claim that on the Internet, interactions change from a one-to-many process to a many-to-many process as shown in Figure I. In a many-to-many process consumers can interact with the medium, and with one another, in a new way. In traditional marketing communications, the consumer is passively exposed to product information. In interactive advertising, the consumer actively participates in the communication process.

Peppers and Rogers (1993) argue that digital marketing completely changes marketing from a predominantly one-way broadcast model to a model of totally interactive, totally personalised one-to-one relationships.

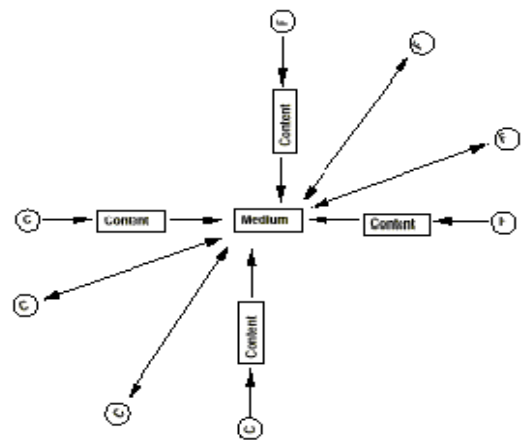
The information received by the consumer depends on how he interacts with the medium, so that the Internet changes advertising from a push to a pull medium (Bezjian-Avery, Calder, and Iacobucci 1998). The new medium increases the power of consumers in two ways, firstly, communication depends on consumer choice and secondly, the medium facilitates exchange between consumers, with potential for collective consumer action.

Figure I

One-to-many Communication



Many-to-many Communication



Source Hoffman and Novak (1996)

Deighton (1997) identifies two critical features of Internet communication, addressability and responsiveness. Deighton argues that when addressability and responsiveness coexist, a medium has the potential for conversation and intimacy. Timmers (1999) lists as key features of the Internet: 24/7 availability, ubiquity, global yet local, digitisation, multimedia, interactivity, one-to-one communication, network effects and externalities, and information integration.

These new features of the Internet are changing traditional marketing. In the discussion below these changes are categorized into three types: changes, which facilitate traditional marketing techniques, changes that threaten traditional marketing methods and changes that create new marketing tools.

Facilitators

The Internet clearly has a role in marketing strategy, both as a segmentation and targeting instrument, and as a vehicle for market research (secondary research, online surveys, online focus groups, email panels, etc.). It can also augment the traditional areas of operational marketing: promotion, distribution, product and price.

The Internet was initially seen as a new advertising medium, with web sites as virtual perpetual posters, and banner advertisements as the gateways to these web-sites. As a medium, Internet advertising has been slow to develop, with US 1999 revenue at \$3.5 billion, (2000 projected \$5.3 billion), about 2% of total advertising. Despite declining click-through rates and the use of traditional media by Internet businesses, online advertising is growing rapidly, with revenue for 2005 projected at \$16.5 billion, (Piras et.al. 2000). There is evidence that advertising banners work better as virtual 'posters' than as gateways, with the branding and image enhancement effect being up to 10 times the click-through rate, (Briggs and Hollis 1997)

The potential of the Internet in many other areas of promotion is also being recognized. The Internet is a

low cost direct marketing tool (for example, email marketing), it can be used for P.R., sponsorship and for building brand image (for example, Pepsi's association with music sites to enhance its young image).

The potential of the Internet as an intermediary was quickly recognized, with several authors predicting disintermediation of traditional retailers (e.g. Malone, Yates and Benjamin 1987; Benjamin & Wigand 1995). Others predicted electronic commerce would lead to the emergence of new types of electronic intermediaries (Sarkar, Butler and Steinfeld 1995; Bailey and Bukos 1997). These are emerging and include virtual malls, electronic 'brokers', rating services and automated ordering services. For the manufacturer and brand manager, disintermediation and new intermediaries are an opportunity rather than a threat.

The Internet is also a low-cost and efficient distribution medium for information-intensive products such as news, software, music and video.

The Internet has made new types of products possible such as CD Now's customised CDs, and Mattel's personalised Barbie dolls, changing the role of the consumer from passive recipient to product designer. Slywotzky (2000) introduces the concept of the 'choiceboard' whereby consumers design their own products (e.g. Dell's on-line

computer configuration) and predicts that by 2010 choiceboards will be involved in 30% of US commerce. At the same time, the Internet enables new pricing mechanisms such as variable pricing (e.g. airline seat pricing) which theoretically increases both volume/utilisation and profit, and auctions, where prices are determined by the bidding of consumers or manufacturers.

The Internet has the potential to be a powerful customer service tool, because companies can use it to provide 24/7 product and service information, and can develop customer relationships, all at relatively low cost. The cost of an email is a fraction of a letter, and the cost of an Internet 'chat' is a fraction of a telemarketing call. The medium can also provide virtual evidence of intangible services, so that, for example, one can now see online insurance policies and bank accounts. Mobile Internet creates further opportunities to improve customer service. In the US Starbucks are running a trial allowing users to pre-order their drinks. Consumers send SMS text messages while walking to the coffee shop, so that their drinks are waiting for them when they get there.

Threats

While seen to facilitate some traditional marketing areas, the Internet has also been seen as a threat, particularly to brands, making brand strength weaker than ever before (Kalakota and Whinston 1996). Hagel & Armstrong (1997) argue that in virtual communities members focus less on the brand and more on product and service features.

Coltman et al (2000) distinguish between two sources of brand strength, attribute advantage and emotional association. They argue that the Internet supports highly rational shopping, encouraging dispassionate comparisons of prices and features, which may undermine brands based on facts. This is consistent with empirical research by Degeratu, Rangaswamy and Wu (1999), who suggest that brand names will be more important in categories differentiated by brand image, but less important for functional products. Branding may be partially replaced by outsourcing to trust services, by the creation of technical switching cost (for example, the cost of switching from Microsoft Internet Explorer) and the use of 'sticky' features such as users' diaries.

It is argued that the Internet threatens prices by reducing buyer search costs, improving information, and

increasing market efficiency, (Bakos 1997; Peterson, Balasubramanian and Bronnenberg 1997). Price search-engines such as Bookbrain.co.uk and Shopsmart.com enable consumers to compare online prices with minimum effort. Scan.com uses SMS mobile text messaging to enable consumers to compare the prices in retail stores. Consumers simply type or scan the bar code of their planned purchase into their mobile phone, and receive a competitive quotation by return. This enables Scan's Internet partners to compete with High Street locations without their cost structure.

Reverse auctions, where consumers or groups of consumers seek tenders, or name their price (as at Priceline.com) put further pressure on prices. There is some evidence of price decreases; Brynjolfsson and Smith (2000) found prices for books and CDs were 9% - 16% lower on the Internet.

The global, yet local, nature of the Internet threatens the control of distribution and parallel importing. The Internet allows vendors to buy products in the cheapest market and sell them globally, bypassing authorised distributors. This also reduces control of pricing and product standards, which may have been tailored to a specific geographic market.

Loss of control of marketing information is another danger. Currently, manufacturers can control marketing information using segmentation to target appropriate marketing information to a specific consumer. Growing penetration of the Internet allows more consumers to find out what they want to know about brands, rather than what marketers want them to know (Mitchell 1997, cited in McEnally and de Chernatony 1999).

As a many-to-many communications medium, the Internet facilitates conversations between consumers and within virtual communities, creating the threat of negative word of mouse (mouth). Several adverse email campaigns have demonstrated this danger, for example Red Bull was damaged by thousands of emails reporting that it contains banned ingredients in the US. Third voice software enables users to leave messages on any site; these messages are visible to anyone with the software, so that a site elaborating product benefits can also carry the complaints of a dissatisfied consumer. Brand managers need to continuously monitor word of mouse, so that they can attempt to minimise possible damage.

A further threat is to the integrity of the marketing interface. It is difficult to prevent unofficial

consumer opinion sites such as Globalexchange.com on Nike, Mcspotlight.com (anti McDonalds site) or Untied.com (United Airlines). Similarly, it is hard to stop other sites from linking their site to yours, and therefore creating the impression that they are endorsed. For instance, a site about unhealthy junk food can insert links to Mars confectionary sites.

New Marketing Tools

Gillenson, Sherrell, and Chen (1999) claim that the Internet has made relationship and micro marketing possible. Hagel and Armstrong (1997) saw virtual communities as affording tremendous new business opportunities, where companies could deepen and broaden their relationships with customers.

A wealth of new marketing techniques have appeared. These include viral marketing, (which uses email to spread messages without cost from consumer to consumer), guerrilla marketing (which uses underhand tactics such as 'dropping' brand names in chat rooms), permission marketing (in which relevant targeted messages are sent to consumers with their prior permission, Godin (1999)) and affiliate marketing, where sites carry links for associate sites and share the revenue generated, (Hoffman and Novak 2000).

The digitisation of the Internet enables the recording, analysing and understanding of consumer decision-making behaviour. Analysis of web-site logs enables the marketer to identify relevant consumer behaviour, for instance the precise point at which potential consumers lose interest (currently about 66% of browsers who commence an online purchase leave the site before completing a purchase). In some cases these details can be used to create future sales, as a result of this analysis Amazon.com created Wish Lists and an 'advise when stock is available' facility.

Digital technology enables concurrent customization, so that one can customize the Internet site, the market research survey or the service offered during the marketing interchange. For example, recognizing from his online behaviour that the user is very price conscious, he may be offered a better deal; recognizing that the user is a novice or has an out of date computer, the site is tailored to his ability or technology level.

With the development of mobile and PDA Internet, segmentation and targeting can include time and place, so that communication and promotion are tailored, for

example, to those within a 1 mile radius of a restaurant at lunch time.

Hanson (2000) claims that the Internet is creating new marketing interfaces. He predicts the emergence of marketing and consumer digital agents to create three new interfaces: marketing agent to consumer, consumer agent to marketer, marketing agent to consumer agent. Avatar sales assistants, with different personalities tailored to different consumer types, are being developed.

Intelligent agents have been developed to answer marketing queries using Internet chat or through the exchange of SMS short text messages. There will also be product-to-marketing interfaces as household appliances, cars and vending machines are linked to the Internet.

Conclusion

The Internet is revolutionizing marketing, radically changing the relationships between consumer, intermediary and manufacturer. The Internet allows companies to address consumers individually and interactively, developing relationships and facilitating targeted marketing. New low cost marketing techniques enable personalized communications with consumers.

However, it also enables consumers to play a more proactive role: soliciting information, sharing information in communities, specifying products, proposing prices, and permitting marketing. This moves power towards the consumer, radically altering the nature of marketing.

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