Marketing in the e-Commerce Era

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Abstract

The article focuses on the changing face of marketing with the emergence of E-Commerce. Some of the major trends discussed in the article include: sharing for strategic advantage, customization, disintermediation, shift to integrated communication, share of market to share of the customer, transaction to relationship and realizing the Life Time Value of customers. Ethical and moral issues as well as other impediment to the growth of e-commerce are also briefly touched upon.

In the ultimate analysis, we see the emergence of the basic principles of pre-industrial days' marketing such as customization, learning and mutual destiny relationship in the form of electronic barter system.

During the Agricultural Age, probably the term marketing was not used to describe the trade on agricultural goods or the sale of handicrafts and other items. However, people did engage in the process of exchanging goods and services using the barter system. In this system, the buyers and sellers knew each other and there was no power play. There was mutual dependence on each other for survival during this period. The essence of marketing in the pre-industrial days can be summarized as follows.

- Products were custom designed
- Buyers and Sellers knew each other and they entered into a mutual learning relationship
- They operated on a mutual co-existence principle.
- There was no dominance relationship
- There was a high level of loyalty among sellers and buyers

Interestingly, it was during the Industrial age that the term marketing was coined to signify the need identification and satisfaction process. This was necessitated due to the fact that the producers/sellers (large factories producing goods of uniform quality in large quantities) did not have a face to face interaction with the consumers. Consequently the producers of goods had problems matching the customer needs with their manufacturing capabilities. Even with all the rhetoric about customer being the king, industrial era did use tools like manipulative advertising and high power selling skills to exploit the gullible customer.

As we are in the midst of the third wave (Alvin Toffler - 1980), marketing is also undergoing a tremendous change. Just as the theories and methods that were popular during the agricultural age got overthrown and new rules were invented for the industrial age, we are once again witnessing a major shift in established beliefs and methods of doing business for the information age. The well-known marketing guru, Philip Kotler (1999), in his recent book makes the following observation about marketing: "I have had a 38 year romance with marketing and continue to be intrigued. When we think that finally we understand marketing, it starts a new dance and we must follow it as best as we can." This article focuses on how marketing is changing its focus and colour as we are moving towards the information era with its E-Commerce and electronic shopping.

Cyber-shopping basically allows consumers to sit in the comfort of their households and research and purchase their goods. There are no crowds, parking problems or check-out queues. One can shop in the middle of the night and from any part of the world. At the click of a button, virtually any product can be ordered from any part of the world. That is the power of E-Commerce. This in many ways is a new paradigm, which requires a different treatment.

Information is not Power but Networking is:

As information was power in the industrial society, people tried to keep everything a secret and away from competition and thrived on the protection they obtained from patents and other means. Even today, Coca-Cola continues to harp on the secret formula used to make the original coke. It is a different matter that not many people care for that any more! Macintosh kept its operating system a secret and lost out on the advantage and the lead they had over other competitors in the personal computers market. It is by sharing that you make money and not by safeguarding your secrets.

Telegraph's dashes and dots, moving through a copper wire, transformed society by reducing the barriers of time and distance relative to hand carried messages. Television moved beyond two-way audible information transfer to include visual and audible inputs. Television and radio, unlike the telegraph and telephone, is one-way communication, which technically isn't really communicating. With the Internet, we could network with millions of people and pass on messages (audio, video and text) across the globe.

In the traditional advertising methods, only limited information could be passed on to the customers. In the Internet age, companies provide reams of information about the product, its composition, comments from users and even details about competing products and services. There is lot more transparency and openness in the buying and selling of goods and services through the net. Many conventional information vendors worry that the tremendous volume of free information on the Net could make it impossible to charge for information products and services. That may be true in some cases, yet erotica vendors exist by the hundreds even though the Net is awash in free erotic imagery. Vendors evidently succeed less through unique content than through innovative organization and the effective management of information. According to a recent Inc Online article, erotica vendors were among the first to offer periodic E-mail delivery, now a routine way of packaging products (search-engine updates, for one). They were also quick to start carrying their archives in a variety of formats. (One format might allow shorter download times, for example; another, higher-resolution graphics.) And they blazed trails developing thumbnail graphics (miniature pictures that serve as graphical file names) to help users scan large image archives.

Actually, much of the free erotica content on-line is provided by the vendors themselves. Most offer unlimited access to peripheral libraries, short periods of free access to their main archives, and lists of links to sites offering free erotica. The freebies are used to demonstrate the effectiveness of their site design--its accessibility, its organizational clarity, its straightforward navigating cues, and its downloading speed. The tactic could work just as well for conventional businesses, like newspapers and magazines. The Boston Globe, for example, already gives away each day's news but sells access to the full text of the articles in its archives.

Mass marketing is over and customization is the key

The ultimate luxury that a customer can get is in terms of custom designed products and services. Using the net to sell mass produced goods will be like using a computer as a type-writer. Net offers a tremendous opportunity to understand customer needs one at a time and offer customized products and services.

Over two decades, Henry Ford manufactured 6 million Model T cars, all black. Today the average number of cars that roll off an assembly line in any single "production run" is less than 50. They come in multiplicity of colours, styles, trim, and equipment options. Software Sportswear, a California company sells mass-customized individual bikinis for individual bodies. Loop Bra is scientifically made to account for the asymmetries of individual body shapes. Both these you can get made out of 150 different fabrics and 100 odd designs and make your choice after viewing your image on the screen dressed in the bikini or brassiere of your choice.

The net offers immense possibilities to capture individual preferences and combine it with flexible production facilities to meet the individual needs. For example, a customer visiting a bookstore on the net may browse through the books and possibly order for a few chapters of a book and get billed for the same and not for the whole book. With copyright laws permitting, a customer may be able to get his book made by combining chapters from different books.

From Monologue to Dialogue

Traditional advertising used one way communication to persuade the customers to buy their products and services. In the Internet era, it is two-way communication that engages the customer in a dialogue with the company right from idea generation to product development and marketing and after sales service. In fact companies even get ideas from customers as to how they would like their used products disposed off.

The traditional marketing operates on the axiom: `We make, you take; We speak, you listen." The communication is one way and is always loaded in favour of the manufacturer. In the E-Commerce regime, it is called integrated communication, which has continuity and customized for every individual. See Box - 1 for a good illustration of the same.

I CALL YOU, YOU REMEMBER ME

By Don Peppers

Last month, MIT's Sloan School of Management awarded Minneapolis-based Net Perceptions (http://www.netperceptions.com) its E-Commerce Award for Technological Innovation because the group believed that Net Perceptions' real-time recommendation engine technology has "the greatest potential to further revolutionize Web-based commerce."

Like any good innovator, Net Perceptions is not resting on its laurels. Instead, it is extending its best-of-breed collaborative filtering technology to call-center interactions with a new product called Net Perceptions for Call Centers 1.0.

Net Perceptions developed Call Centers by asking leading catalog merchants what products they recommend to customers who purchase products over the phone. More often than not, those merchants recommend items that hold only incidental interest to a customer, such as overstocked goods, or the top five sellers from a current catalog - not what we'd classify as 1to1 recommendations. Net Perceptions realized that companies could make their call centers more profitable and customers more loyal if those customers felt like they were known and valued while they were on the phone.

The Call Centers product accomplishes this by allowing customer-service representatives (CSRs) to deliver personalized recommendations for other products based on what a particular customer is telling them in real time. Essentially, it is a second database designed to perform seamlessly alongside a company's existing customer database as a more nimble recorder of real-time interactions with customers. So, when a customer calls to purchase another item, the CSR can pick up where the last

transaction left off because Call Centers' recommendation engine has memorized the customer's preferences and stored them in its easily accessible database. It can then prompt the CSR to make another customized cross-sell or up-sell recommendation based on "community knowledge" - the insight gained from the small community of other

buyers who share similar preferences and tastes. Net Perceptions is famous principally for this recommendation technique, also called "collaborative filtering."

Call Centers is fundamentally a recommendation engine and not call-center management software, although it easily integrates with and is enhanced by such software. It also helps businesses by predicting demand for products with no purchase histories, and leveraging customer data to create 1to1 marketing efforts customized specifically to consumers' tastes, eliminating wasteful and irrelevant offerings.

One company benefiting from Call Centers is SkyMall, Inc., which publishes an in-flight compilation of merchandise from leading retailers. The company markets to more than

410 million airline passengers a year. It also offers an expanded array of goods on its e-commerce site (http://www.skymall.com). Call Centers integrates with SkyMall's existing customer database to provide, via its call-center operators, personalized product offerings based on a caller's purchase history at the point of sale. SkyMall completed its installation of Call Centers just 20 days after signing a deal with Net Perceptions and began testing it last March. Preliminary results indicate a "significant increase" in up-sells, according to Michelle Barenbaum, SkyMall's vice president of catalog marketing. Most of these up-sells have been for products costing $60 or more.

SkyMall plans soon to integrate Call Centers with its Web site, which will also feature Net Perceptions' recommendation engine. In this way, regardless of whether they buy from 1-800-SKY-MALL or the Web site, shoppers will have their preferences remembered by Net Perceptions' recommendation engine. Like its previous innovations, Net Perceptions for Call Centers is powerful 1to1 technology that helps companies take a first step toward turning their call centers into customer centers.

From niche marketing to super market format

Another intriguing feature of the on-line market is its resistance to the classic business-text precept that specialization is the best response to stepped-up competition. A tour of the popular sites will reveal that nearly all of them have

added new categories of business rather than target narrower niches. Some of those sites function like small Internets, branching off more and more services behind the same set of interface tools. In addition to its image databases, for example, New World Erotica runs classified advertising and operates on-line movie theaters, chat rooms, videoconferences, and a "mall" that sells videos, CDs, and other physical goods.

In the industrial era companies tried to focus on a specific need and get find as many customers as possible who want that need satisfied. Hence we talk about the share of the market with similar needs. In the new model, the emphasis is on the share of the customer; i.e. on getting the customer to buy more and more from a firm by retaining the customer. That simply means that the Internet sites become super markets selling a wide range of products that appeal to its customer base.

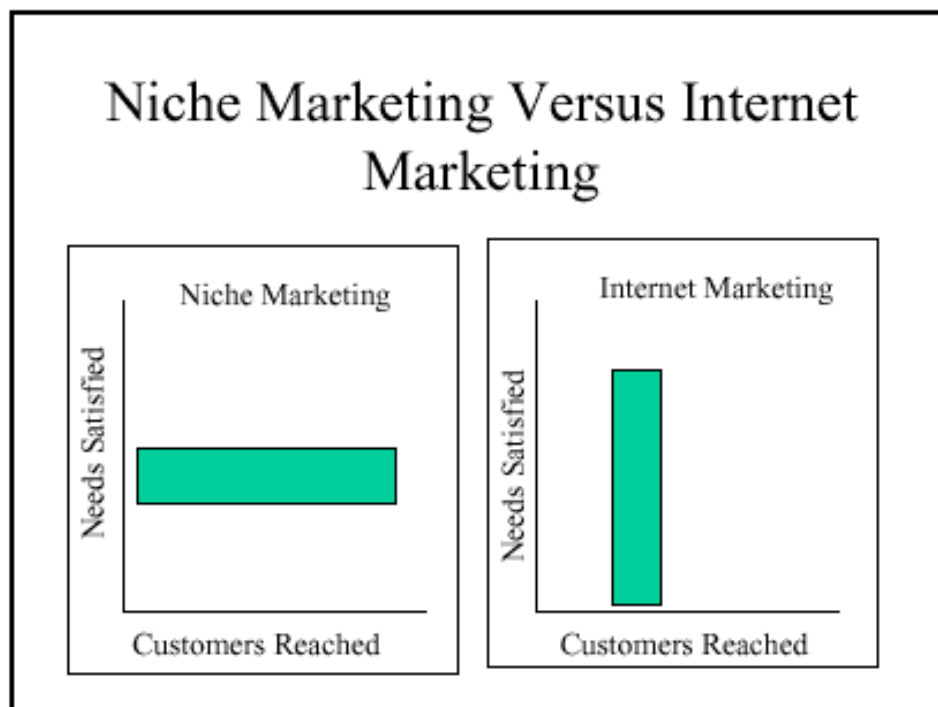Figure 1 illustrates the difference between the traditional niche marketing and Internet marketing.

Figure 1

Transaction Value of a Customer to the Long-term Value of the Customer.

The Internet bookseller Amazon.Com is yet to make money. But its stock prices are soaring day by day. What is in it that makes the investors' confidence to soar day by day? It is simply the customer base that Amazon is creating for itself. From books, it can cross-sell several items to the same customer base. Hence the customer base forms the core asset of a company. Once customers get used to doing business on the net in a particular way, they get locked to that and companies like Amazon can exploit the same in many different ways.

The traditional marketing tries to maximize the value per transaction and the new rules on the net suggest that marketers form relationship with the customers and look at the long-term value maximization. It is a different ball game altogether.

Consider the following illustrative case. Most mothers spend close to Rs. 15,000/- on each baby over a three year period on baby foods alone. Suppose you enter into a deal with a new mother for supply of baby foods to the house every week. Also you can give a free gift of a bike (tricycle) for entering into a contract with you. Then you start offering diapers, baby clothes, baby powder, baby wipes, toys and so forth. As the baby grows you offer school uniform, books, video games etc. It will all add up to a huge sum.

Learning Relationship:

In order to exploit the full potential of the customer base, companies need to form a learning relationship. The steps in the process are as indicated below.

• The customer tells the enterprise what he wants, with interaction and feedback. (tailor, hair-stylist ...)
• The enterprise meets these specifications by customizing its products or services and it remembers these specifications.
• With more interaction and feedback the customer the enterprise learns more about the individual.
• The customer will get locked in as the switching costs become too high.

Basically this is the route followed by tailors and barbers. If you go to a new barber, you need to teach him exactly the kind of hairstyle will suit you. That is the reason why the heads are loyal to the barbers.

The same thing is today achieved by modern computer systems that learn about the customer with every interaction. To buy a pair of jeans, you need to get scanned once and the data will be available with the computer. Next time you log on to the web site of the jeans seller, the conversation can begin at the place where you left last time. The computer will remember all your previous interactions and will offer you your favourite design, style and colour straightaway. See Box - 2 for a good example of learning relationship built by a drycleaner.

CUSTOMER LOYALTY ZOOTS THEM

By Josh Stailey, Senior Consultant, Stamford

A good dry cleaner naturally relies on 1to1 relationships. If you've found one that doesn't have to ask time after time how you like your shirts starched or your pleats pressed, then you know it's memorized your personal information from all the previous interactions it's had with you.

An even better dry cleaner learns your needs and preferences early in the relationship. A new business called Zoots (http://www.zootscleaners.com) wants to be the leading dry-cleaning chain in the country by stealing you away from your old standby. Todd Krasnow, one of the founders of Staples, Inc., and now Zoots, is betting that his Newton, Massachusetts-based venture will be able to deliver more convenience for a better price and guaranteed service quality. With three Massachusetts locations so far, Zoots even helps customers feel good by forwarding their clothing donations to Goodwill Industries so customers can receive a tax break in return!

Here's how Zoots works: Customers drop off and pick up their dry cleaning at a drive-through window, where Zoots employees can exchange a customer's dirty laundry for fresh-pressed clothes. An "Express Service" allows customers to give Zoots their credit card information to memorize for future transactions, along with their preferences for how they like their laundry. In exchange, Zoots gives them bar-coded garment bags, which customers can fill with laundry and drop off inside the store or at the drive-through window. Zoots does their laundry and charges their account. If a customer wishes, Zoots

leaves the clean laundry (folded or hanging, depending on preference) in a customer's personal locker, which can be accessed outside the store 24 hours a day.

Zoots is also an Information Age dry cleaner: Customers can monitor the progress of their order on Zoots' Web site. Zoots can also email customers, notifying them when their laundry is ready for pickup.

Old habits die hard, however. Some people may never give up their old dry cleaners. But by cementing customer relationships with more convenient service, Zoots is counting on its customers to remain loyal, even if competitors end up copying its services.

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Disintermediation

Traditional economic theory taught us the need for employing intermediaries for the effective distribution of goods and services. The Middlemen are supposed to provide the place and time utilities to the ultimate consumers. The intermediary effects an economy of effort by making the required assortment of goods in quantities needed by the customers at a time and place where they are needed.

However the new developments in the Information Technology is turning the conventional wisdom upside down and the current move is towards disintermediation. When producer and consumer become closer, middlemen serve no economic purpose, contributing to the layoffs occurring throughout the corporate world. When manufacturer and retail store connect electronically, warehouses and inventories are reduced. When inventories are reduced, less working capital is needed. When money is transferred electronically between seller and buyer, checks and the banking facilities are no longer needed. Intermediaries must objectively justify their existence.

Provide Value.

Jack Welch, CEO General Electric once said, "The value decade is upon us. If you can't sell a top-quality product at the world's lowest price, you are going to be out of the game." It is not enough to form friendly and personalized relationship with the customers. Ultimately customers will favour those products that offer better value for the money they spend.

Disintermediation and reduction in inventories result in cost savings for companies operating on the net which get passed on to the consumers. The idea here is to give 'more for less'. Companies that constantly work on providing better value for the consumers' money will be the ones that will survive for long on the Internet.

Ethical and Moral issues in E-Commerce.

Adult material is the first fully developed sector in Internet commerce, the first market with large numbers of buyers and sellers. In April 1996, ActivMedia, a market-research firm, found 780 Web stores (up from 60 in April 1995) selling erotic goods, interactive services, or files. And the search engine Yahoo! lists dozens more erotica sites opening for business each week.

Erotica entrepreneurs are pushing the envelope in all major categories of multimedia information commerce: database access (graphic, audio, and video files), interactive services (keyboard chats, Internet telephony, and videoconferencing), and real-time data feeds (continuous video broadcasts from the floor or stage of a nightclub). True, some aspects of this form of commerce are deplorable. Apparently one of the early applications of videocassettes was to record pornography. Does it really matter to us anymore?

Is it possible to shift everything on to the net?

Going by the current trends, virtually anything can be sold on the net. An Ernst & Young Internet Shopping study estimates that $10 to $13 billion overall sales would take place on the net during 1999. Apart from sex and software, the products that sell on the net include books, clothing/apparel, recorded music, gifts, consumer electronics, and filmed entertainment. In the case of products like computers, consumer electronics, cars, etc. people use internet to research on the prices and features and may finally end-up buying through other means. For services like beauty parlours/saloons, internet may be used for fixing up appointments.

Other Concerns:

• Consumers are apprehensive about a number of factors such as:

• Sending credit card data across the net

• Not being able to see the product before purchasing

• Not being able to talk to a sales representative

• Not being familiar with Internet navigation

• Non availability of easy Internet access

• Too much time wasted on the Internet

Day by day technology is getting sophisticated and costs are crumbling to make Internet easy and cheap to access. Eventually, even for buying a product from a shop situated just across the street, one may use Internet to place the order and

may get the product delivered immediately. With the developments in multi-media and virtual reality, it should be possible to help the consumers get a feel of the product before placing the order.

Everything Old is new again:

The new developments in e-commerce point to the fact that e-commerce has a lot in common with the marketing of the pre-industrial days. Don Peppers and Martha Rogers (1993) have the following comments to offer on the new developments in marketing. Before the Industrial Revolution, before mass-produced products, and before mass media, merchants and craftsmen built their businesses one to one. The proprietor of a general store, a bank, a barbershop, or a town livery stable visualized his business in-terms of share of customer without ever imagining share of market. The local grocer met and knew every one of his customers, one on one. He knew the kind of groceries Mrs. Smith needed each week. Although the terms had not been invented, the pre twentieth century grocer was a relationship marketer, who cared about and nurtured his customers as individuals. He had a customer satisfaction program in place and was committed to his own customer retention program. He relied on a form of "database marketing", treating every customer differently, relying on his knowledge about that particular customer. He carried his database in his head.

The One to One interactive future addresses a way of doing business that wasn't feasible just 10 years ago - although it is a direct reflection of business as it was practiced a hundred and ten years ago! Technology has brought us back to an old fashioned way of doing business by making it possible to remember relationships with individual customers - sometimes millions of them - one at a time, just as shop owners and craftspeople did with their few hundred customers 150 years ago.

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