Chapter Twenty-One

Electronic Commerce

After studying this chapter, you should be able to:

1. Explain the differences between e-business, e-commerce, and e-marketing.
2. Discuss the benefits of e-commerce to buyers and sellers.
3. Describe the current activity and trends in B2C and B2B e-commerce.
4. Discuss key e-commerce marketing issues in each area of the marketing mix.
5. Explain how the Internet and related technologies can help marketers improve the productivity of their activities.
6. Describe how e-commerce marketers can build long-term trust-based relationships with their customers.
7. Understand the important legal and ethical issues associated with marketing practice and e-commerce.

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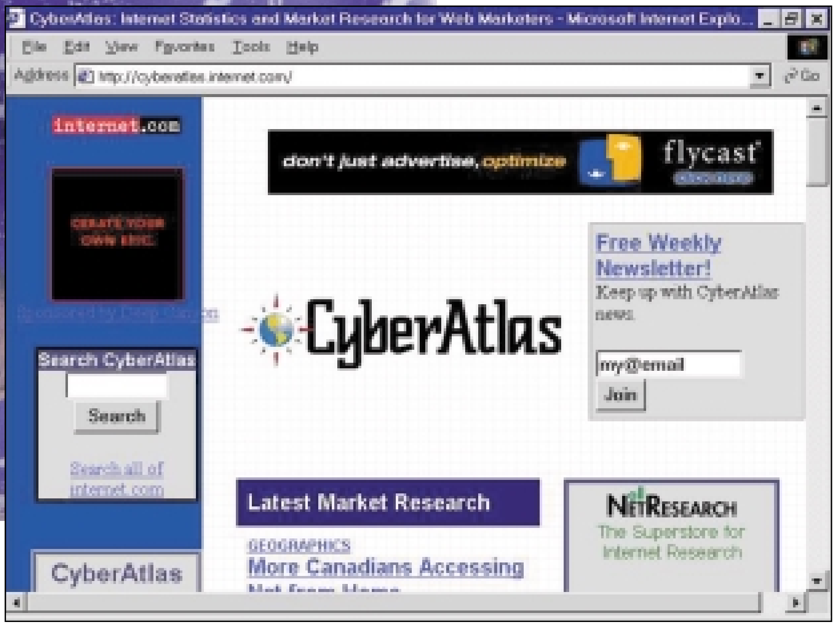


CyberAtlas provides Internet statistics and market research for those interested in electronic commerce. One of the most useful aspects of this Web site is the Latest Market Research section. This section lists the titles and short summaries of recent articles on various e-commerce topics. The articles are listed in chronological order with the most recent first. A click on the article title will produce the complete article. At the end of each article, it is possible to format the article for printing or to e-mail it to a friend. Typical e-commerce topics covered in this section are e-commerce advertising, demographics, traffic patterns, geographics, and retailing. Some of the articles provide useful statistics that are updated on a regular basis. For example, a report ranking e-commerce retailers in the United States and presenting a variety of statistics about each company is a monthly feature. There is also an Archives section, so it is possible to access articles presented in the past.

Specific types of e-commerce information can be accessed in various ways. The Search CyberAtlas function allows a user to type in one or more keywords and receive a listing of available materials related to these words. E-commerce information is also categorized in several ways to facilitate access. The Big Picture offers information according to general e-commerce statistics, demographics, geographics, hardware, and traffic patterns. The Markets section is organized according to broad industry categories, such as advertising, education, finance, professional, retail, and travel. A click on a category in either the Big Picture or Markets sections produces a listing of information related to the desired category.

CyberAtlas also offers a free weekly newsletter. The electronic newsletter highlights new developments on the CyberAtlas Web site and brief information about developments in e-commerce. The only thing needed to subscribe to the newsletter is an e-mail address. It is also possible to interact electronically with CyberAtlas by sending an e-mail from the Send Us feedback section.

The features of CyberAtlas discussed to this point are free. Most of the free materials represent summaries from large e-commerce market research studies. The All NetResearch section offers the opportunity to purchase complete reports of e-commerce studies conducted by different companies. Several of the most recent ones are normally listed on the CyberAtlas home page. However, a complete listing of all reports available from All NetResearch can be obtained by clicking on the hotlink to its Web site. Most of these reports are quite long and provide much more detailed statistics than the summary reports offered for free by CyberAtlas. **Source:** http://cyberatlas.internet.com, April 17, 2000.

The Internet can be used to perform various business and marketing activities. Garden.com represents an example of e-business, e-commerce, and e-marketing.

CyberAtlas provides a great deal of valuable information about the use of the Internet in various business activities. Business use of the Internet is relatively new, although it continues to grow at a rapid pace. Therefore, some of the terminology describing these activities is loosely defined and many terms are used interchangeably. The most common and popular terms are e-business, e-commerce, and e-marketing.

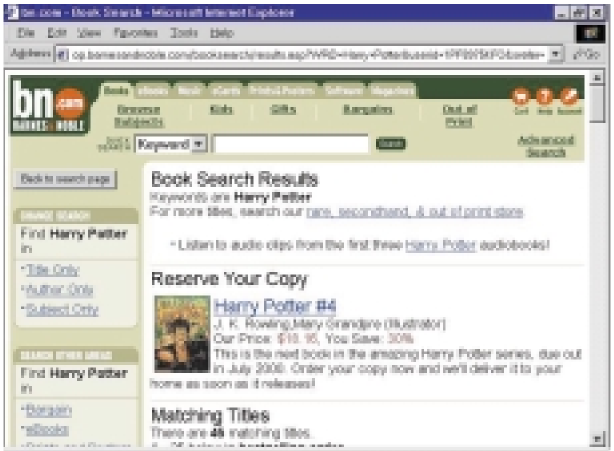
We present specific definitions for each of these terms. **Electronic business (e-business)** is defined as the use of the Internet to conduct business activities. This is the broadest term, since it encompasses all business activities performed on the Internet. **Electronic commerce (e-commerce)** is defined as the use of the Internet for buying and selling products that are transported either physically or digitally from location to location. Thus, e-commerce is the subset of e-business concerned specifically with buying and selling activities on the Internet. **Electronic marketing (e-marketing)** is defined as the use of the Internet to perform marketing activities. All e-marketing activities are considered e-business, but only those e-marketing activities focusing on buying and selling transactions are part of e-commerce. *E-commerce* is currently the most popular term, but many think *e-business* will gradually replace it since e-business includes all Internet business activities.[1]

Previous chapters have examined the use of the Internet in all aspects of marketing. All of this coverage falls within the domain of e-business and e-marketing, and some of it is also e-commerce, since it focuses directly on buying and selling activities. The purpose of this chapter is to emphasize e-commerce. We discuss the benefits of e-commerce to buyers and sellers, present statistics concerning e-commerce activity and trends, and examine key e-commerce issues with particular attention to legal and ethical issues.

Benefits of E-commerce

E-commerce offers many benefits to buyers and sellers. Consider the following purchasing situation:[2]

Mary wants to buy a *Harry Potter* book for her daughter. She could go to the local bookstore, compare the *Harry Potter* books in the store, and purchase one of these books at a stated price. Or, she might get on the Internet and start at a portal, such as Netscape.com. She could then select a search engine, such as GoTo.com, and receive a listing of Web sites with information about *Harry Potter* books. She could then look at various sites. She might go to a site like "Nancy's Magical Harry Potter Page" where she would find book reviews, discussion groups, and other information about *Harry Potter* books. She would find a link to eToys.com, and if she clicked on it, she would find that eToys has a special price on *Harry Potter* books. She could order one or more books from eToys, or she might decide to go to another bookstore site, such as Amazon.com, and compare book prices and availability. Based on all of this information, she could purchase the books she wants from the site offering the most attractive option.



E-commerce provides many benefits to buyers and sellers. The Barnes & Noble Web site illustrates some of those benefits related to *Harry Potter* books.

This situation illustrates the major differences between traditional commerce and e-commerce. Let's examine this situation to identify the benefits of e-commerce to buyers and sellers.

Benefits to Buyers

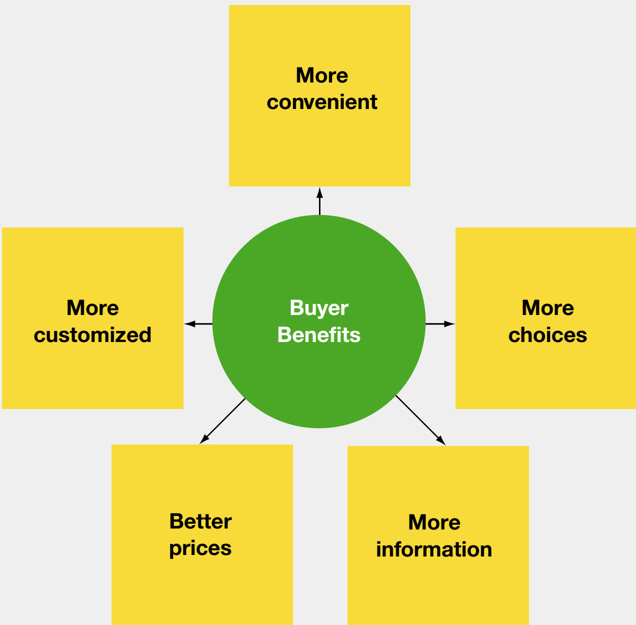
In the traditional commerce situation, Mary would have to travel to a retail bookstore when it was open for business. She could look at the *Harry Potter* books the store had on its shelves and compare the books based on the information on the book covers. A salesperson at the store may or may not be able to provide her with additional, useful information. She could then decide to purchase one or more of the available *Harry Potter* books at the prices charged by this particular bookstore. If she wanted to comparison shop, she would have to travel to other stores and repeat the above process.

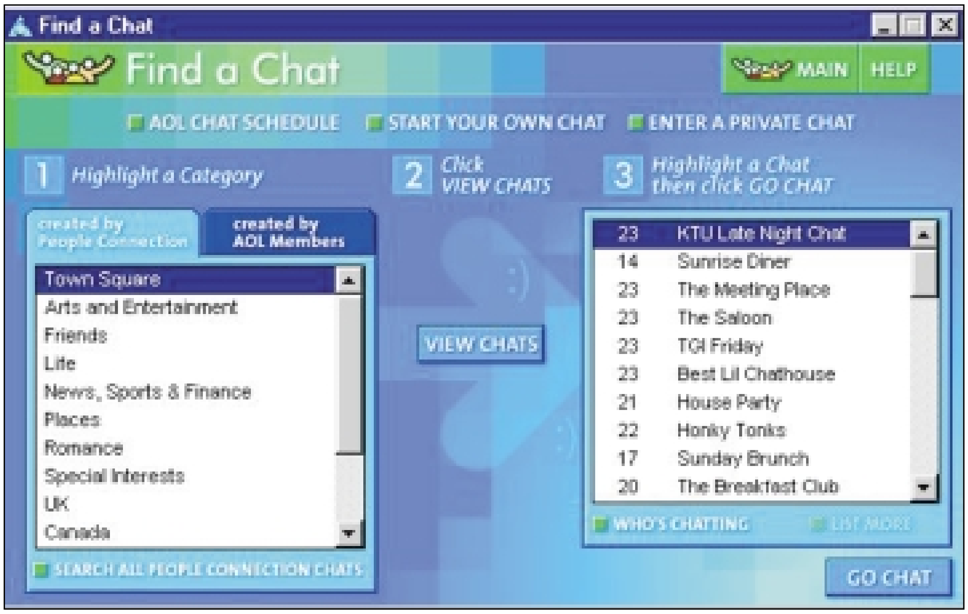
In the e-commerce situation, Mary could shop whenever she wanted from wherever she could access the Internet. She could easily get a tremendous amount of information about all *Harry Potter* titles, and much of this information would be from *Harry Potter* readers and not just from book sellers. She could then readily compare prices and delivery options from different sites and decide which was most attractive to her. She could then make a purchase and receive the books in a few days.

The key benefits of e-commerce to buyers are evident from comparing the above purchasing situations and are summarized in Exhibit 21–1. One of the most important buyer benefits is convenience. Buyers can engage in e-commerce 24 hours a day and seven days a week from any location with Internet access. There are no time and place limitations for buyers. Buyers can shop whenever it is most convenient for them and not just when sellers are open for business.

Another important benefit is that buyers have more choices in e-commerce. Buyers are not limited to only what is available from a few sellers; they have access to a tremendous variety of products offered by a large number of sellers. Related to increased choice, is the substantial amount of information available to buyers in e-commerce. Some of this additional information is about alternative products, but buyers can also get detailed information about each specific alternative product. And, much of this information is from other buyers or organizations that are trying to help buyers make the best purchasing decisions and not just sell them products. Buyers are also not just passive recipients of information, but people who can interact electronically to get answers to specific questions by participating in discussion groups, chat rooms, and/or bulletin boards, or by sending e-mails.

Exhibit 21–1 *E-commerce benefits to buyers*





Buyers can get useful information about products from various sources on the Internet. Chat rooms provide an opportunity to interact with others about different products.

Another important benefit is that e-commerce encourages price competition. Since buyers have easy access to the products and prices offered by different sellers, comparison shopping is facilitated. Therefore, if sellers are not price competitive, buyers readily find this out and shop elsewhere. In addition, various services to interject price competition have been introduced on the Internet. These include auctions, such as eBay, name-your-price sites, such as Priceline, and sites that present direct price comparisons of different sellers of a particular product, such as Quotesmith for insurance. All of these developments make it easier for buyers to get the best prices for the products purchased in e-commerce.

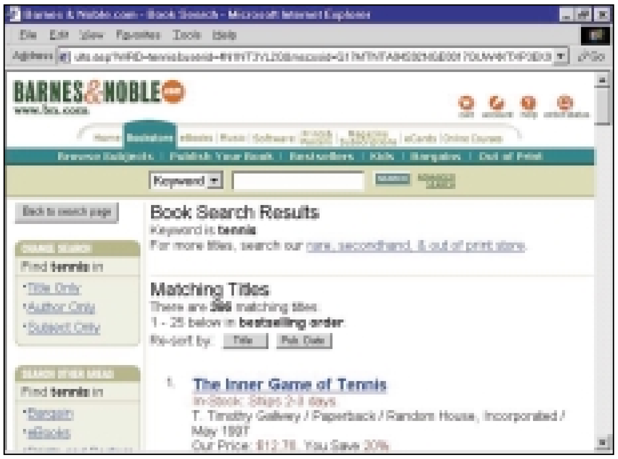
A final benefit is that buyers can customize the shopping experience as well as many products in order to meet their individual needs. Buyers have control over what is viewed at an Internet site; this allows them to access only the information desired and customize the shopping experience to meet their particular needs. Buyers can also customize many products. As presented in Chapter 2, buyers of Dell computers can build the exact computer they desire, determine how and when it will be shipped, and keep track of its progress from production through delivery. Computer service information is also available electronically, so buyers can access this service information whenever needed.

When all of the benefits of e-commerce are considered, the net effect is that e-commerce increases the power of the buyer in most transactions. In traditional commerce, sellers often have more power because buyers have only limited information and there are typically only a few alternative sellers. In e-commerce, buyers can assemble a great deal of information and purchase from a large number of suppliers. This increases the power of buyers and makes them more "product and price makers" and less "product and price takers."[3]

E-commerce makes it easier for buyers to evaluate different purchasing alternatives. mySimon.com facilitates comparison shopping.

Benefits to Sellers

In the traditional commerce situation, the bookstore where Mary shopped drew most of its customers from



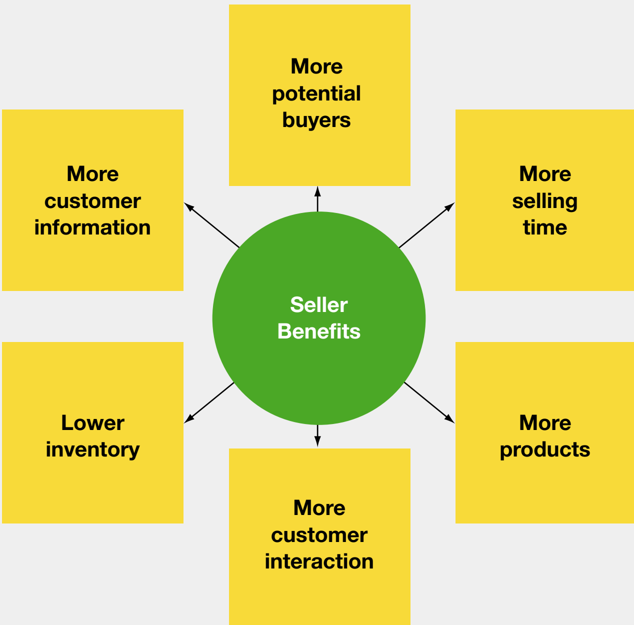
E-commerce allows sellers to serve customers from anywhere at any time. Barnes & Noble's Web site illustrates this for a customer interested in tennis books.

a geographic trading area around the store location. The bookstore served these customers during defined hours on specific days. Most sales came from books in the store's inventory, although special orders could be placed for customers. Since inventory is costly, the bookstore faced the difficult task of trying to carry the books desired by its customers while simultaneously minimizing inventory costs. The bookstore's expenses for advertising and for rent for its building were quite high. Prices for books had to cover these costs—but also remain competitive—to generate the level of sales required to earn a profit.

The e-commerce situation is much different for the seller. E-commerce book sellers can serve customers around the clock from any geographic location. These sellers can offer almost any book in print and do not usually keep these books in their own inventory. In addition, it is relatively easy for e-commerce book sellers to provide customers with a great deal of information about specific books, to interact with customers electronically, to collect and assemble information about customers, and to suggest books consistent with a customer's reading habits and interests. Although there are costs for Web design and operation, and some physical facilities are required, these costs are normally lower than those faced by traditional bookstores. The net result is that e-commerce book sellers can typically offer customers a better book selection, a more convenient shopping experience, and lower prices than can traditional bookstores.

The major benefits of e-commerce to sellers are illustrated both in the situations just described and in Exhibit 21–2. Some of the benefits to sellers are similar to those for buyers. For example, the ability to serve customers with no geographic or

Exhibit 21–2 *E-commerce benefits to sellers*



temporal limitations expands the business opportunities available to sellers and provides convenience to buyers. Similarly, being able to offer a large product selection with limited inventory is an attractive business model that simultaneously provides buyers with tremendous product choice. Electronic communication also makes it possible for sellers to cost-effectively interact with buyers, collect customer information, and provide additional product information and convenient service.

The e-commerce model has many benefits for sellers. Costs for inventory, physical facilities, and marketing are often lower than those in traditional businesses selling similar products. Although e-commerce sellers face costs in other areas and it takes time to build an electronic infrastructure and customer base, the e-commerce seller has the potential to be very profitable.

E-commerce Activity and Trends

There are two major types of e-commerce. One type is businesses selling to consumers over the Internet. This is normally referred to as **business-to-consumer (B2C) e-commerce.** Mary purchasing *Harry Potter* books over the Internet is an example of B2C e-commerce. The other type is businesses selling to other businesses or organizations over the Internet. **Business-to-business (B2B) e-commerce** is the term for this type of e-commerce. Dell selling computers to your university over the Internet is an example. We will now examine the current activity and expected trends for each type of e-commerce.

Thinking Critically

The text presents the key benefits of e-commerce to buyers and sellers. However, no business or marketing approach is without limitations. Therefore, think about e-commerce and address the following questions:

- What are the major problems faced by buyers in purchasing from e-commerce sellers?
- What are the major challenges faced by e-commerce sellers?
- Why are some e-commerce sellers not performing as well as expected?

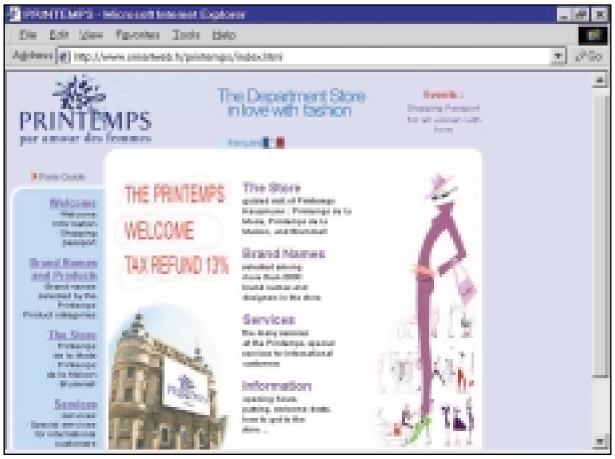
B2C E-commerce

We previously discussed consumer buying behavior (Chapter 4) and retailing (Chapter 14). B2C e-commerce builds on the key concepts covered in these chapters but only includes consumer buying from businesses over the Internet. Another term used to describe these activities is **e-retailing,** since B2C e-commerce is retailing over the Internet.

The level of B2C e-commerce is largely dependent upon the number of active Internet users. There were approximately 130.6 million active Internet users worldwide at the end of 1999. This figure is expected to increase to 361.9 million by the year 2003. About 42 percent of these Internet users currently come from the United States, but the U.S. percentage of worldwide Internet usage is expected to decline. Worldwide Internet usage percentages for 2003 are projected at 36.9 percent United States, 30 percent Western Europe, 27 percent Asia-Pacific, and 5.3 percent Latin America. Most of the growth in Internet usage will come from Asia-Pacific, Western Europe, and Latin America.[4] Although all Internet users are not purchasers, the total number and growth of Internet users provides a general assessment of the current level and future growth potential for e-commerce.

E-commerce statistics reflect this relationship. A recent study found the United States to be the leader in e-commerce accounting for 54 percent of on-line buyers. The United States also leads in the percentage of adults who have bought on-line (31 percent), followed by Sweden (21 percent), Switzerland (19 percent), Canada (18 percent), and Australia (14 percent). E-commerce also varies by countries within regions. For example, the percentage of adults buying on-line in Germany (14 percent) and the Netherlands (11 percent) is relatively high; the percentages are much lower in other European countries, such as France (5 percent), Italy (3 percent), and Spain (2 percent). The items most frequently purchased on-line include books (37 percent), computer equipment and software (21 percent), CDs (20 percent), and clothing (17 percent).[5] Interestingly, a recent study found that the longer consumers have been on-line, the more they spend per transaction. Those who have been on-line five years spend twice as much as those who recently became Internet users. And, 61 percent of Internet shoppers plan to increase their on-line spending by about 43 percent. Only 7 percent indicated their e-commerce activity would decrease.[6]

This snapshot of B2C e-commerce suggests continued growth in the future. This growth will vary geographically and be focused in specific product lines. But, even



B2C e-commerce is growing rapidly around the world. Printemps appeals to international customers for fashion products.

with this growth, B2C e-commerce will still represent a relatively small portion of the total retail market. Estimates differ, but in the United States, B2C e-commerce may reach just 15 to 20 percent of total retail sales.

B2B E-commerce

Although B2C e-commerce is the most visible, e-commerce is larger and growing more rapidly in the B2B area. B2B e-commerce is fundamentally changing the way businesses do business with each other. The basic concepts covered in Chapter 5 about business purchasing behavior apply, but the Internet is changing how some activities are being performed. For example, purchasing managers still evaluate potential suppliers based on various criteria. However, much of the evaluation process for some products now takes place electronically, instead of in person. Companies such as GE, Cisco, Oracle, Ford, and GM are moving as much of their purchasing as possible to the Internet.

The worldwide B2B market was estimated to be $145 billion in 1999. It is expected to grow to $403 billion in 2000 and reach $3.95 trillion by the end of 2003. Even though growth in B2B e-commerce is rapid, it will only account for about 7 percent of the total $105 trillion in worldwide business-to-business commerce expected in 2004. And, B2B e-commerce growth is faster in some areas than others. For example, more than 65 percent of U.S. B2B e-commerce purchases in 2003 are expected to come from six sectors: retail, motor vehicles, shipping, industrial equipment, high tech, and government.[7]

One major trend driving growth in the B2B area is the establishment of on-line procurement exchanges to bring buyers and sellers from a particular industry, geographic area, or affinity group together. An example is the on-line exchange being developed by more than a dozen oil and chemical companies. Participating companies include Royal Dutch/Shell Group, BP Amoco PLC, Dow Chemical, and Mitsubishi. The total procurement of these 14 companies is more than $125 billion annually, with 40 percent in North and South America, 40 percent in Europe, and 20 percent in Asia. When the exchange is operational, it is expected to cut purchasing costs for the participating companies by as much as 30 percent.[8]

Speaking from Experience

John Parker
Director of Business Operations
Quixtar, Inc.

Quixtar.com is based on a new business model designed to allow registered members to shop from a unique array of products or to develop a Web-based business as an Independent Business Owner. John Parker is Director of Business Operations for Quixtar. His responsibilities include Business Operations, Business Relations, and Public Relations for the privately-held company founded in 1999. He earned his Business Administration degree in Finance from the University of Notre Dame. Although John is involved in all of the e-commerce trends, he thinks companies need to integrate aspects of traditional commerce with e-commerce to be successful.

"Many Web companies are discovering that much of the 'old economy' infrastructure really is necessary to satisfy 'new economy' customers. Companies have to be able to provide responsive customer service and to deliver products to customers in a reliable and timely manner. Quixtar's arrangements with sister-company Amway Corp. provide easy access to warehousing and distribution services that are needed to get products into the hands of customers quickly. Also, we're able to provide a level of customer service that many e-commerce companies never realized would be required. Even in the kind of technological age we are entering, there's a need to be connected with real people who can provide assistance and support."

E-commerce is changing many aspects of business. Inventa recognizes the different changes in B2C and B2B business.

Although B2C and B2B e-commerce activities will grow significantly in the future, not all companies will succeed. Many e-commerce companies are having trouble earning a profit, and investors are finally showing some skepticism about the stock evaluations for these companies. As in traditional commerce, many issues need to be addressed by e-commerce companies in order for those companies to be successful. We now examine the key issues facing companies involved in e-commerce.

Key E-business Marketing Issues

As indicated in earlier discussions, e-commerce and the broader area of e-business are having a significant impact on consumer and business marketing. Business analysts believe that e-business as we know it now will become an integral part of most business operations in the near future. Some companies already see e-business as an integrating mechanism for all of its business activities. For an example of how Ford Motor Company uses e-business across several functional areas, see Exhibit 21–3. Despite progressive efforts from companies such as Ford, most aspects of e-business are fairly new to marketers and the key issues for managing e-business processes deserve special consideration. In this section, we will review key marketing issues in each area of the marketing mix: marketing communications; product; channels; and pricing. We will then discuss two key marketing priorities in e-business, improving productivity and building long-term trust-based customer relationships. The final section of the chapter delves into ethical and legal issues particularly relevant for e-business.

Marketing Communications

In this section, we will discuss several important marketing communications issues in e-business. First, emerging technologies that will enhance marketing communications in the near future are discussed. We then turn our attention to the basic issues of attracting customers to e-business sites, improving customer involvement once they are attracted to sites, encouraging return visits and purchases, implementing ongoing dialogues with customers, and ensuring that e-business communications are integrated with other marketing communications.

EMERGING TECHNOLOGY Emerging technologies are bringing marketers new alternatives for communicating with customers. For example, Sprint, AT&T,

Exhibit 21–3 *Ford Motor Company's e-business approach*

Ford has launched an e-business strategy to rewire the automaker. The ultimate vision: To use the Net to do everything from ordering a car to linking 30,000 suppliers. Here is the game plan:

What	How	Goal
RETAILING	Set up BuyerConnection Web site and joined MSN CarPoint site, where consumers can order custom-assembled cars, track their progress, and apply for financing.	Reduce working capital by shrinking excess inventories and wipe out costly rebates needed to move unwanted cars off dealer lots, thus saving up to $650 per car.
CUSTOMER SERVICE	OwnerConnection Web site lets owners get on-line help, manage their warranty service, and check on financing.	Improve service with 24-hour access. Gather better data on customer problems. And cut costs with automated help.
SUPPLIERS	Launched auto-exchange Web site for on-line purchasing and swapping of information between 30,000 suppliers and 6,900 dealers.	Save up to $8.9 billion a year in discounts and reduced transaction costs on parts, raw materials, and supplies. Speed data exchange with partners while collecting up to $3 billion a year in exchange fees.
MARKETING	Teaming up with Yahoo!, TeleTech, CarPoint, iVillage, and bolt.com to monitor the interests and buying patterns of Web-surfing customers.	Improve factory efficiency by anticipating customer demand. Funnel data on customer preferences to car designers.
DIGITAL DASHBOARD	Equip new cars with Web access, satellite phone services, and e-mail capabilities.	Make Ford the carmaker for an Internet generation. Collect millions of dollars in fee-based services.
FINANCING	Shift more of the activities of Ford Credit to the Net for on-line financing and collections.	Cut service costs by 15 to 20 percent, while boosting revenues by reaching new customers.
WIRED WORKERS	Offering all 350,000 employees a computer, printer, and Net access for $5 a month.	Makes the workforce Web-savvy so it will quickly adopt the Internet initiatives, while enabling the CEO to send weekly e-mail to employees.

Source: Kathleen Kerwin, Marcia Stepanek, and David Welch, "At Ford, E-Commerce Is Job 1," *Business Week,* February 28, 2000, p. 76.

and Nextel are among the companies that offer wireless Web services via cell phones, and Motorola is installing Web technology into all of its new cell phones. With wireless technology, cell phone users can access Yahoo!, Fox Sports, MapQuest, and a fast-growing list of Web companies. Slow download speeds are a constraint, but tremendous improvements are expected sometime in 2001. Currently, it takes 20 minutes to download a three-minute song coded in MP3; with the pending improvements, it would take one minute. As connection speeds improve, the commercial application for wireless technology will explode.[9]

Technology improvements for desk-bound Web users are also imminent. For example, **broadband Internet technology,** a super-fast connection to the Web via cable modem, digital subscriber lines, or satellites, will allow marketers to greatly enhance e-business activities. Broadband is 50 times faster than a 56K modem, thus allowing users to download huge files quickly. This will allow marketers to increase multimedia and interactive aspects of their messages. By 2003, industry experts predict that a quarter of U.S. households will have broadband technology. This is good news for e-business, since broadband subscribers spend significantly more time online than do modem users.[10]

Using new technologies to communicate with customers is a challenge for marketers, if for no other reason than that the pace of new technology development is staggering. Nonetheless, marketers generally have no choice but to try to keep abreast of new methods of communicating with customers. To those marketers who can lead the charge, marketplace performance can be impressive, though short-term profitability can be problematic. Amazon.com and CDNOW have certainly found this to be the case.

ATTRACTING CUSTOMERS The continuation of the adoption of computer and communications technology guarantees a growing potential market for e-business. However, this by no means guarantees that the number of on-line shoppers will grow for any particular marketer. In fact, a lot of on-line shoppers drop out of the market after trying it for a while. Since 1997, researchers at the University of Pennsylvania's Wharton School have tracked the on-line purchases of 1,000 shoppers who bought in that year. The research shows that 15 percent did not make an on-line purchase in 1998 but did increase their catalog spending. Those that did continue on-line shopping spent 117 percent more in 1998 than in 1997, but only 25 percent more in 1999 than in 1998.[11] For marketers, this means they must work hard to attract shoppers to their sites—and quite likely even harder to keep them coming back.

To attract shoppers, many on-line merchants are using extensive promotions. Others have partnered with popular search engines or **portals.** Portals, also discussed in Chapter 14, offer general Internet functions and direct visitors to additional sites. Having a strong identity at a portal, such as Yahoo! with 120 million monthly users, can obviously help steer traffic to an individual company site. Marketers should be aware, however, that consumers are increasingly going directly to a company Web site of their choice rather than using a search engine or portal to find what they want. One study indicates that more than half of those users monitored went directly to favorite company sites, bypassing portals and search engines.[12] This implies that Internet marketers must quickly establish an identity to drive traffic to their sites.

To reach consumers who do use portals, a widespread method is **banner advertising.** These ads are "clickable" should the viewer want more information about the product or service being advertised. Banner ads are the most popular ads on the Internet, but consumers seem to be tiring of them. In the early days of e-commerce in 1997, approximately 2 percent of Web visitors clicked on one or more banner ads at portal sites. That number dropped to .5 percent in 1999 and is expected to drop further.[13] Thus, other forms of marketing communications are becoming more important to drive shoppers to Web sites.

One alternative favored by many dot com companies is conventional advertising—for example, Super Bowl ads—to increase awareness for their sites. Even well-established Internet marketers such as Amazon.com have increased their use of traditional advertising, and Autobytel uses a 35-person national salesforce to drive traffic to its Web site. Other companies that introduce their e-business capabilities to their customers via the salesforce include Airborne Express, Bank One, and Liberty Mutual Insurance.[14]

John Parker, Director of Business Operations, Quixtar, discusses the approach his company uses to build traffic for Quixtar.com: **"Many e-commerce companies rely on large advertising expenditures to build site traffic. The Quixtar business model does not include any advertising. Quixtar's marketing budget rewards Independent Business Owners (IBOs) who generate sales volume at Quixtar.com. We've built a tremendous site, but unless people know about it, that investment is wasted. Our IBOs not only spread the word about the site, but they also go on-line with their clients and prospects, helping them understand how to shop on the site and how the site can help them develop their own business. This is what we call our "High-Tech, High-Touch" approach. High tech is necessary, but high touch is what makes our model work."**

IMPROVING CUSTOMER INVOLVEMENT AND RETURN VISITS Once customers are attracted to e-commerce and e-business sites, marketers try to keep them involved long enough to accomplish communications and sales objectives. One strategy to boost customer interactions—or to increase **site stickiness**—is to incorporate search capabilities into the site so that customers can easily find the information they are seeking. Using alternative spellings of products and brands can facilitate customer navigation of the site. In an increasing number of cases, multilingual sites are also needed. Another strategy is to provide a site map that illustrates where key blocks of information are stored.

Some on-line marketers try to build site stickiness by increasing **personalization** of communications. Portals have long offered this feature whereby visitors can customize the look and content of the portal's home page. American Express, Lands' End, Fidelity Investments, and Sun Microsystems are examples of nonportal marketers who do a good job in facilitating personalization for their site visitors.[15] A step beyond personalization is **building on-line communities** where customers who share interests can interact with other like-minded customers. For example, Virgin Megastores sponsors an on-line community for customers who wish to share music reviews and discuss their favorite performing artists.

Whether or not visitors return to e-commerce sites is largely a function of the perceived value they receive when they do visit. There is little time to return to poorly designed sites, sites lacking sufficient information, or those that ultimately do not deliver a good value for the time and money spent by the consumer. As noted in Chapter 4, consumers who shop on the Web are impatient, wish to be in control, and are quick to shift to another Web site if they cannot quickly find what they want. CDNOW is aware of how on-line shoppers behave and has designed its site accordingly. The site, which can be customized according to a customer's preferences, is long on information and short on advertising. Searches are easy to conduct, and buying recorded music is a simple process. Shipping confirmation is an automatic process, and if necessary, returns are easily accomplished. All of these site attributes enhance marketing communications and provide increased value for the customer. An approach for creating value for consumers in different countries is presented in "Earning Customer Loyalty: Bol.com Recognizes Country Differences."

IMPLEMENTING ONGOING DIALOGUE **Permission marketing,** first discussed in Chapter 16, directly connects the marketer with the customer—with the customer's permission. This frequently results in an ongoing dialogue between buyer and seller. Permission marketing is commonly conducted via e-mail, which can also be used in a number of other ways to establish dialogue with customers. Palm Computing Inc., manufacturer of the Palm Pilot, uses e-mail to regularly send messages to 400,000 customers. Palm sends about 30 messages per month, but no more than two per customer. Messages typically introduce new product accessories, tips for using the Pilot, or events of potential interest to the customer.[16]

Amazon.com uses e-mail permission marketing to alert current customers of new book releases that may be of interest to the customer. Recently, one of the authors received an e-mail from Amazon stating, "As someone who's purchased a book by sportscaster Bob Costas, you might like to know that his newest book is available with a 30% discount at the following Web link. . . ." Personally speaking, this sort

Earning Customer Loyalty

Bol.com recognizes country differences

Www.bol.com is trying to duplicate in Europe the success of Amazon.com, but by recognizing important differences between the countries it serves (e.g., Britain, France, Germany, Spain, Switzerland, and the Netherlands). The firm's strategy is based upon the need to incorporate localized differences into the options offered to consumers from different countries. Sites are also available in Malaysia, Singapore, and Hong Kong, with Japan and Italy forthcoming. For the current European sites, countries are so different in many respects that separate sites for each country greatly facilitate customer loyalty. These differences among cultures include, for example, the willingness to provide credit card information; in some areas of Europe, sole reliance on the credit card for purchases would eliminate 60 percent of potential customers. Bol.com customers can purchase books, music, and gifts, like the products sold by Amazon.com, but the country of choice is selected as the shopper enters the "bol.com store." As such, this Internet marketer is able to capitalize upon unique cultural and language differences in establishing each site. Such segmentation principles are basic to the implementation of marketing strategies designed to enhance customer loyalty.

Sources: Michael Kavanagh, "Guardian Strikes Bertelsmann Deal," *Marketing Week,* February 4, 1999, p. 35; Adrienne Mand, "Euro E-comm: Giant Bertelsmann Tests Site," *Adweek,* November 30, 1998, p. 33; http://www.bol.com/index.html; Andrew Ross Sorkin, "Bol.com Serves Local Flavors All Over Europe," *The New York Times,* March 29, 2000, p. 6.

On-line marketers try to establish ongoing dialogues with their best customers. Cyber Dialogue assists some on-line marketers in identifying valuable customers and the establishment of dialogue with these customers.

of communication is appreciated and encourages return visits to Amazon’s site. E-mail can also be used for company newsletters, for reminders of special events and promotions, and for numerous customer service applications.

Getting customers’ permission to converse with them via e-mail is becoming more important since unsolicited e-mail, or **spam,** is increasingly unpopular. Many targets of spam feel that it is an intrusion and a waste of time. Others are concerned at the incidence of fraudulent information in some spam. Further, spam, or junk e-mail, adds to the overall cost of electronic communications. Internet service providers such as America Online and Lycos have to charge higher user fees to cover the costs of more equipment to prevent system overloads that can occur with spam bulk e-mails.[17] To date, 14 states have enacted laws regulating the use of spam, and several pieces of legislation are pending in Congress. More so from a consumer preference perspective than from growing legal restraints, most marketers would be well advised to avoid junk e-mail.

Ongoing dialogue can also be established via Internet sales presentations. MCI uses Internet-delivered presentations to simultaneously reach customers in multiple markets. Participants in the Internet sales conferences are attracted by banner ads on other Web sites. They register for the conference, and can get answers to their real-time questions during the conference.[18]

For companies with seasonal or annual business cycles, maintaining an ongoing dialogue with customers can help keep them active until the next selling season comes around. This is particularly crucial for companies that have encountered service problems, such as some electronic retailers following higher-than-expected sales levels during holiday rush seasons. Toys “Я” Us opened two new distribution centers in 2000 and communicated with previous on-line customers to let them know that the new distribution centers should alleviate service problems during future rush periods.[19]

ENSURING INTEGRATED MARKETING COMMUNICATIONS Marketers must take care to ensure that messages disseminated over the Internet are consistent with other messages disseminated via other media, the salesforce, and channel partners. As an example, Val-Pak (see opener for Chapter 18), a direct-mail specialty company, sends consumers coupons redeemable at local retail stores. Val-Pak also has a Web site that offers consumers coupons good at local retail stores. For marketers using Val-Pak, the fact that the company offers consistent communications messages in both direct-mail and electronic media is an advantage over single media alternatives. According to the director of Internet business development for Val-Pak's parent company, Cox Target Media, "Val-Pak coupons on-line puts a one-two punch in our advertisers' messages in front of the consumers."[20]

It is equally important that messages put forth on the Internet are consistent with the firm's overall image and marketing strategy. There have been some noteworthy exceptions to this obvious principle of integrated marketing communications. Priceline.com, an on-line consumer bidding site, has used actor William Shatner as a leather-jacketed lounge singer in its television ads. Many industry observers rate the ads highly, and Priceline has also put the ads on its Web site due to popular demand. Priceline executives feel that the ads are effective and point out that Priceline is tied with Amazon.com as the third most-recognizable Internet brand name.[21] Consumers, however, give the ads mixed reviews: 14 percent say they like the ads a lot; 26 percent dislike the ads; 25 percent think the ads are effective.[22] While the ads have generated a fair amount of publicity for Priceline, they do not seem to complement Priceline's print ads or overall marketing strategy. Whether the ads are effective or not is a matter of opinion. The key issue here is that the ads could well be more effective if they reinforced other elements of Priceline's marketing communications.

The 2000 Super Bowl served as a powerful reminder that marketing communications should reinforce the other communications of a firm, as well as a firm's marketing strategy. Dot com companies dominated television advertising during the game's broadcast, and analysts generally gave them failing grades. Pets.com was the only dot com advertiser to run a top-five ad, and most finished far down in the rankings. Among the comments from advertising industry experts: "Eager for instant attention, the dot-coms spent millions of dollars but walked off with little more than bruised egos and red faces"; "The dot-com commercials had more incomplete passes than the game"; and "They're spending all the money and they aren't even memorable. I can't tell you what they are."[23]

Done right, the Web offers marketers exciting opportunities to integrate marketing communications with **hybrid campaigns** that blend traditional media with the Web to make the consumer an active participant. Tommy Hilfiger, for example, ran print ads in its "Unreleased Cuts" campaign featuring models from an on-line talent contest for musicians without recording contracts. The print ads invited consumers to go to tommy.com to play "record executive for the day" and help select a winner of a $10,000 recording session. Ford Motor Company used TV ads to steer consumers to its Web site where they could "direct" commercials for the Focus automobile. Nike developed "whatever.com" ads that sent consumers to its Web site to select the endings for three incomplete TV ads.[24]

With the advent of Web communication, the area of public relations offers new opportunities and new challenges for marketers. Web sites can become 24-hour-a-day public relations agents with press releases and other content favorable to the company. Publicity generated on third-party Web sites can be a big plus as well. For example, a business's becoming the Yahoo! "Daily Pick" can mean thousands of incremental visitors are driven to that company's site.[25]

The Web also offers unique challenges to marketers in the publicity area. Competitors can enter the sites of complaint groups—which are fairly common—pretending to be dissatisfied customers with legitimate complaints. The very fact that complaint sites are commonplace may encourage a higher volume of complaints than in the past. It is far cheaper and generally less time-consuming to complain online than to write a letter or reach a responsive party on the phone.

Of course, companies should make it easy for unhappy customers to resolve their complaints. On the other hand, some marketers fear that electronic communications makes it far too easy to portray a routine problem as some sort of customer service travesty. One opportunistic entrepreneur is counting on consumers' propensity to complain, developing an on-line complaint business named sucks.com.[26] Founder Dan Parisi spent about $100,000 to register the names of 500 of the largest companies in the world combined with the sucks.com suffix. Such developments have marketers and public relations professionals worried. To defend against possible damage to brand image and brand equity, companies should register variations of their brand names. For example, in a defensive move, U-Haul registered the name Uhaulsucks.com among other names related to their company name.

The Web has also been the source of some potentially damaging unfounded rumors. One hoax detailed how Tommy Hilfiger, while appearing on *The Oprah Winfrey Show,* reportedly said that he did not want African Americans wearing his clothing brand. Hilfiger had never appeared on the program. Another totally false rumor circulating on the Web was that Mrs. Field's Cookies sponsored a party for the jurors who acquitted O.J. Simpson of murder charges.[27] Many such rumors or unfounded complaints are ignored by the target companies. In other cases, companies must fight back to protect their reputations. In these cases, the Web can be a powerful tool.

Product-Related Issues

The Internet and related technologies affect numerous product decision areas. For example, marketing research can be conducted over the Internet, and the Internet is the fastest-growing source of secondary data. As such, the Internet can be a useful vehicle for determining customer preferences and developing new products. The Internet can be the delivery mechanism for digital products. Software and recorded music are increasingly transmitted to customers in digital downloadable files. In many cases, the Web has allowed companies to offer new products or services as a result of their expertise in Web site design, site security, and the procedural aspects of running a Web site.

Of the countless number of product-related issues in e-commerce, we will discuss two issues of particular importance to marketers in this section. First, we will consider the importance of customer service in e-commerce. Second, we will look at the threat posed by marketers of imitation products.

CUSTOMER SERVICE IN E-COMMERCE Customer service is a major component of any market offering. This is especially true for on-line marketers and their customers. Ultimate consumers who buy in traditional stores can examine products and interact with store personnel face-to-face in the event of a service problem. Business-to-business buyers and sellers often interact extensively through off-line methods. For companies who rely primarily on the Web to communicate with customers, customer service becomes extremely important for success.

While much was made of some companies' inability to ship complete orders during the Christmas 1999 season, approximately 85 percent of surveyed customers said they were satisfied with their on-line shopping experiences during the Christmas season.[28] Most progressive companies, however, would not settle for an 85 percent satisfaction rate when it comes to customer service. There is an increasing amount of evidence that Internet marketers have realized that customer service must improve and that they are taking appropriate steps to achieve improvements. There is also growing evidence that in many cases the Web can help deliver better customer service while possibly reducing service costs.

Customer service properly defined for e-commerce moves well beyond reactive activities such as resolving complaints and processing customer returns. Good customer service takes the offensive, designing processes that anticipate and prevent problems before they occur. Customer service professionals insist that customer satisfaction be monitored and that they be empowered to ensure satisfaction. Cisco, the world's most valuable company in terms of market value, quadrupled its sales in the 1997–2000 time period while only doubling its customer support staff. Cisco has been successful in the customer service area by shifting a lot of routine inquiries, such as order-tracking, to its Web site.[29]

Most marketing organizations have not yet integrated the Web into their customer service operations. According to McKinsey and Company and Forrester Research, only 8 percent of the almost 70,000 customer service call centers in the United States are Web-enabled. That is changing, however. By 2002, 60 percent of brokerage houses and 50 percent of banks will use the Internet for some aspects of customer service.[30] For those companies who are striving for better e-commerce customer service, it is important to recognize that customer expectations continue to rise. This means that Internet marketers must become faster at providing the information shoppers need. Surveys show that a sizable percentage of firms do not respond to e-mail inquiries, do not furnish e-mail addresses for customer service personnel, or take more than five days to respond to inquiries. Further, only a small percentage of e-commerce sites offer a functional "help" button.[31] Clearly, we expect that those who succeed in e-commerce will show substantial improvements in customer service in the immediate future.

IMITATION PRODUCTS Imitation products threaten brand image and brand equity built by legitimate marketers. This has been a chronic problem over the years, and now the Internet offers yet another avenue for unscrupulous imitators. The lack of strict regulatory guidelines for the Internet makes this threat particularly ominous. The FBI has established a consortium to fight Internet fraud, but their parent agency, the U.S. Justice Department, is taking a wait-and-see approach. According to a spokesperson, the Justice Department will take no action unless complaints are lodged more frequently.[32] Local police monitor the sale of counterfeit products in flea markets and retail stores, but they are not sure they have jurisdiction over Internet sales.

Makers of luxury goods are the favorite target of counterfeit manufacturers. As a rule, genuine luxury-goods makers do not sell their products on the Internet, nor do they authorize others to do so. Cartier, Gucci, Chanel, Coach, Luis Vuitton, and Tommy Hilfiger are among those companies victimized by counterfeit marketers. For advice on how to spot fake versions of these brands, see Exhibit 21–4.

Marketers have several options for fighting the sale of fake brands. Rolex takes the legal route, tracking down imitators and filing lawsuits. In one search of popular auction site eBay, Rolex discovered 747 of its watches on sale, many of which were fake. Some companies, including Louis Vuitton, Gucci, and Cartier, provide toll-free numbers for consumers to call if they suspect a product is an imitation.[33] Others use their own Web sites to stress that their products are not for sale on the Web. When counterfeiters are discovered, a cease and desist letter is typically issued, which may cause the Web site operator to quit selling the product but probably not

Exhibit 21–4 *How to spot fake products sold on the Web*

Company	Warning signs
Cartier	Cartier does sell on the Web; fake watches often lack engraved Cartier signature on the back of the watch.
Chanel	No authorized dealers on-line.
Coach	Some authentic Coach handbags are sold on the Web, but not by authorized dealers; fake products often use low-grade, smelly leather.
Luis Vuitton	Fake products often use an "LX" logo, which can be easily confused with the genuine "LV" logo.
Gucci	No authorized Internet dealers; bags marked "Made in Russia" or "Made in India" are fake, as all genuine Gucci bags are made in Italy.
Tommy Hilfiger	No authorized Internet dealers; Hilfiger watches are fake—Hilfiger doesn't make watches.

Source: Rebecca Quick, "Sleaze E-commerce," *The Wall Street Journal,* May 14, 1999, pp. W1, W10.

shut down the site. Indeed, this is a tough fight for luxury-goods makers, as many consumers seek out and support these dubious sites.

Key E-commerce Channels Issues

As the use of the Web as a channel grows dramatically, two major issues emerge. One is the potential for electronic channels to completely transform entire industries and individual companies. The second major issue is how to integrate electronic channels with existing channels. This section takes a closer look at both of these issues.

TRANSFORMATION WITH ELECTRONIC CHANNELS The channels for entire industries can be transformed with electronic channels. Take for example the automobile industry. The Big Three manufacturers, Ford, DaimlerChrysler, and General Motors, have combined forces to set up a single portal for automotive suppliers. This will allow suppliers to work through a single on-line exchange. The Big Three also use the site for auctioning surplus equipment and supplies and are encouraging their suppliers to use the site to negotiate better deals on their on-line purchases.[34] If successful, this move could restructure industry channels by encouraging more direct sales and thus fewer sales through the wholesale sector.

Another, perhaps even bigger, channels transformation could occur if the key players in entertainment, communications, and Internet sectors join forces. With the merger of AOL and Time Warner, for example, a media giant (Time Warner) brings its products to the delivery system or marketing channel (AOL). Thus, movies, music, periodicals, books, and television shows can gain an entirely new channel. What are the long-term implications for traditional resellers such as movie houses and bookstores? As the computer and other Net appliances gain penetration in the households of the world, such combinations could indeed transform the channels in several industries.

In the broadly defined entertainment and educational markets, companies such as Sony, Disney, Viacom (MTV, CBS, and Simon and Schuster) and Seagram (Universal Studios) are called **content providers.** AOL, Yahoo!, MSN, and Earthlink are among the portals through which hundreds of millions of consumers receive the content. Completing the channel structures are **pipes,** or the means used to get the content to the portals. Pipes include AT&T, MCI, Cablevision, and Comcast.[35] Some of these content providers, pipes, and portals are trying to become vertically integrated—that is, linked through ownership. Others are seeking channel partners to integrate operations from point of origin to point of consumption. As mergers and partnerships occur, the channels in the entertainment and educational sectors could be dramatically transformed.

Integrating electronic channels with existing channels is an important task for most firms. Net Vendor helps companies do this successfully.

INTEGRATING ELECTRONIC CHANNELS When electronic channels are added to existing channels, marketers must strive to minimize conflict with other channel members. In many cases, this extends to encouraging cooperation between members of alternative channels so that channels are complementary. Multiple channels are often devised to meet the needs of different market segments or customer classification. This is one factor fueling the growth of electronic channels, as some consumers and business customers prefer to buy electronically. Electronic channels can also be an attractive alternative to the seller, as on-line transactions are often less expensive than other types of transactions, especially face-to-face transactions.

The addition of electronic channels can be threatening to people who work in alternative channels. For example, employees of a retail store who receive incentive pay for in-store sales may not embrace a company selling the same products on the Web. Lids Corporation, a mall retailer best known for its extensive offering of hats and caps, added the Web as a sales channel with the full support of its in-store staff. Lids put together an educational program for employees in its 400 stores. Once the store employees were informed about the Web's ability to offer customers an additional 7,000 products and were taught how to assist on-line customers, Lids unveiled an incentive plan that let in-store employees earn money from on-line sales. Within a few months, 10 percent of store visitors became Web buyers—a sure sign that Lids had successfully integrated electronic channels into its existing channel.[36]

Pricing Issues in E-commerce

In this section, we will discuss two pricing issues particularly relevant to the e-commerce marketplace. First is the increase in price sensitivity brought about through the Web and related technology. The second issue concerns the use of price promotions, including some related accounting reporting issues.

PRICE SENSITIVITY IN E-COMMERCE The most pervasive impact of the Web in the pricing area is that of more disclosure. For sellers on the Web, the whole world, including their competitors and suppliers, can easily see and compare prices. Both economic theory and consumer studies strongly suggest that the more buyers know about a seller's price relative to other sellers' prices, the more price sensitive they become. Marketers of hard-to-differentiate products and resellers of products available in multiple stores will encounter a higher proportion of price-sensitive consumers than will marketers of specialty goods.

Since Web shoppers can rely on software robots ("bots" as discussed in Chapter 4) to surf the Web for the best price rather than having to conduct their own searches, it is reasonable to expect that price sensitivity in many product categories will increase in the future. Marketers have mixed feelings about bots. Some resent them and try to block bots from their Web sites. These marketers may contact the bot's parent company and request an end to the bot's visits. Or they may employ their own software robots to encounter visiting bots and limit their access to the site. Some company Web sites block surfers whose browsers hide the surfer's address.[37] In the end, however, it is hard to completely block bots. Further, blocking bots can give consumers the impression that a company is not price competitive. As a result, many successful on-line marketers, including Amazon.com, welcome bots to their sites. As the number of e-commerce sites multiplies, consumers will have a harder time searching sites on their own, so the use of bots is expected to

Being Entrepreneurial

BizBuyer.com automates RFQs

Some business buyers issue requests for quotes (RFQs) the old-fashioned way. They develop the specifications for the product or service desired, contact current suppliers for quotes, search directories for other bidders, and try to get the word out through direct mail and phone calls. Others turn to BizBuyer.com, a California-based Web company that brings small businesses with services to sell together with potential buyers. The entire process is conducted on-line.

Vendors like BizBuyer because they gain new customers at a low cost of sales. Potential customers are already engaged in an active search for services, something that can be said only for a small percentage of prospects listed in other sources such as the Yellow Pages. BizBuyer helps inform potential buyers about the service they are seeking by providing them with on-line buyer guides that explain industry terminology and give tips on how to assess alternative vendors. Further, BizBuyer requires potential buyers to define their needs in detail. The sales cycle moves fast because buyers can post 24 hours a day and bids are taken on a first-come, first-served basis.

Ultimately, the success of BizBuyer will depend on the quality of vendors it attracts. BizBuyer checks the credit and reputation of every vendor before allowing them to respond to RFQs. They also have a system so that buyers can rate vendors' quality, and this information is available to all potential buyers.

Source: Dana James, "Request for Cash," *Marketing News,* March 27, 2000, p. 11.

increase. For marketers of many products, the message is clear—if e-commerce is part of the plan, then be resolved to be price competitive.

Internet technology is also having an impact on business-to-business pricing. The "name-your-own-price" model, popularized by priceline.com in consumer markets, is gaining ground in business-to-business markets. Government buyers and other business purchasers who buy on bid can take advantage of Web sites that specialize in the facilitation of price quotes from a large number of vendors. For an example of such a site, see "Being Entrepreneurial: BizBuyer.com Automates RFQs."

MANAGING THE PRICE-PROMOTION MIX Extensive use of price promotions by Internet marketers poses some interesting challenges for management. Sales promotions, including price promotions, are designed for short-term use to boost site traffic and sales. As many traditional retailers can attest, once consumers get used to price promotions, they may not shop unless a promotion is in effect. Internet merchants used a multitude of expensive promotions to build business in late 1999 and may consequently have a hard time returning to more profitable pricing levels. Free shipping, a particularly popular price promotion, offers one example. According to e-commerce experts from Forrester Research, "Free shipping is a costly promotion for snagging customers. But since retailers have started down this path, they will have a tough time turning back because consumers take shipping costs seriously."[38] This will be a more serious problem in the future, as bulkier products such as computers and other home electronics are forecasted to become a larger part of the mix of products sold on-line.

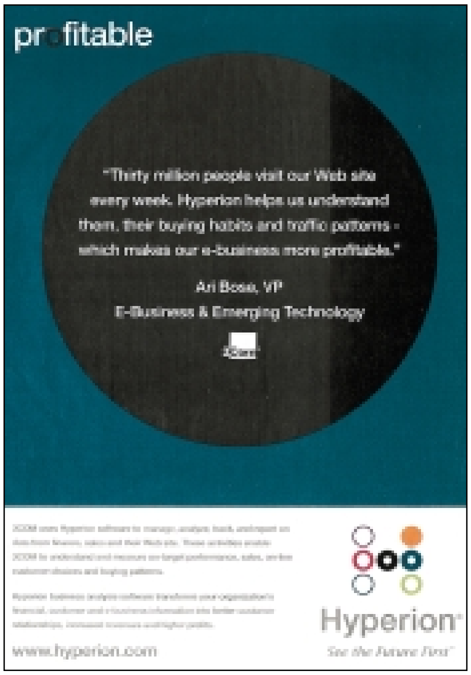
In the early years of e-commerce, price promotions were favored to build market share. However after the steep decline in stock prices for many Internet sellers in early 2000, the emphasis began to shift from volume to profitability. When price promotions are employed as a standard business practice rather than as a sales promotion, the profitability goal becomes even harder to attain. The lesson here is the same for dot coms as it has been for traditional merchants over the years—it is hard to make a profit when you give away too much in the way of promotions. Ultimately successful Internet marketers will be those who provide superior value. Some will be able to do that by operating at lower costs than their competitors do, but many will succeed by offering superior products, information, and service.

Another aspect of managing price promotions comes at the marketing/accounting/top management interface. In standard accounting practice, discounts (including price promotions) are deducted from total sales to yield net sales. Net sales less cost of goods equals gross margin. CDNOW, in a break from accepted accounting practice, charges its on-line coupons off as a marketing expense, not as a price discount. If a customer buys a $25 video and uses a $10 coupon, CDNOW books $25 in revenue, and books the $10 coupon as a marketing expense. As this book went to press, the Securities and Exchange Commission was contemplating a requirement that coupon values be subtracted; otherwise, sales revenue is overstated.[39]

E-commerce marketers face all of the traditional challenges of traditional marketers and more. Strategy that links the target market with the appropriate marketing mix is still the key to success. As e-commerce matures, two areas are becoming especially important for those firms that will succeed. These areas relate to two key marketing perspectives: improving productivity and establishing long-term trust-based relationships with customers.

Improving Productivity

E-commerce firms have faced the reality that they must focus on profitability, not just sales volume. In the period from March 10, 2000, through April 11, 2000, the Hambrecht & Quist Internet Index fell 33 percent, indicating that investors were losing faith in Internet-based companies.[40] Investors had become concerned about how much money it was taking to generate sales volume and the resulting lack of profit in the sector. According to Merrill Lynch, up to three-fourths of all Internet companies face elimination through bank-



This ad relates how Hyperion helps 3Com improve the profitability of its e-business operations.

ruptcy or consolidation. *Business Week* magazine offered this opinion: "Companies with unique models that are specific to the Web, like priceline.com and eBay, are considered likely winners, while those with great customer service and new revenue streams like Amazon.com are also well-positioned. But across the board, companies will have to show a clear path to profitability and the ability to manage costs. Now that's a blast from the past."[41]

For most Internet-based companies, the pressure to improve profitability falls largely on marketing, where most expenses originate. The good news is that the Web and related technology can help improve productivity and profitability. This is true both for Internet-based companies as well as for those who use the Web as a major business tool. As shown in Exhibit 21–5, the Lucent Technologies Power Systems unit used the Web to improve operations, cut costs, and improve sales.

Countless companies have found the Internet to be a cost-effective way to process orders and service requests. Citibank provides its customers e-commerce services that generate significant savings. According to Citibank's vice president for e-commerce, Vibhav Panadiker, "By processing orders over the Internet, many of our customers have been able to reduce costs by as much as 75 percent. When both front-end and back-end processes are automated, reducing costs per order from $150 to $40 is quite possible."[42]

The Web can also be more productive in some cases as an alternative to an existing marketing practice. MarketHome Inc., a direct-mail company based in California, began using Web-based e-mail campaigns instead of the traditional postal mode. MarketHome is now a believer in the Web, as its return-on-investment was five to six times greater than the previous method. According to a spokesperson, MarketHome has clients that have generated up to $1 million in revenue from a $6,000 investment in direct marketing on the Web.[43]

The Web can also take over routine activities, thus freeing current personnel to concentrate on higher-stakes activities. This is the case at Carlson Wagonlit Travel, where lower-fare airline flights, such as short shuttle trips, are booked entirely on the Web. This allows Carlson's outbound telemarketing personnel to concentrate on high-potential customers.[44]

Exhibit 21–5 *Lucent improves productivity with the Web*

Lucent Web Advantage

How Lucent uses the Net to help it cut costs and turn information into business opportunities.

Challenge	Solution	Payoff
Needed to slash costs without slashing jobs.	**Use the Web** to automate clerical functions and paperwork.	**Helped to reduce costs** from 24.2% of revenue in 1996 to 21.3% this year.
Customers who wanted Lucent to prepare cost-benefit analyses on equipment had to wait days or weeks.	**Internal Web sites** let customers prepare their own cost-benefit reports, using special Q&A templates.	**Customers bypass** the waiting list that delayed work by days, giving Lucent an edge over rivals on customer service.
It used to take days for the salesforce to get key information about competitors' contract wins and losses.	**Internal Web site** and business intelligence software keep sales teams up-to-date on competitors' movements.	**Salesforce** can tap data instantly via their laptops, helping them to customize and close deals in hours rather than days.
Administrative costs at Lucent's Texas-based Power Systems unit were rising.	**Internal Web sites** were created to speed transactions and eliminate paperwork on product orders.	**Unit's sales** rose 20% and headcount fell 16% during FY_{99}, thanks to convenience and faster service.

Source: Steve Rosenbush, "Lucent in a Rush," *Business Week,* E.BIZ, December 13, 1999, pp. EB46.

Improving marketing productivity will be a key to survival and success for most e-commerce companies. They will also need to establish long-term trust-based customer relationships to remain competitive.

Building Relationships in E-commerce

Mutually beneficial, long-term buyer–seller relationships are based on economics and trust. Economics essentially defines the value proposition—that is, does the customer receive sufficient value from the seller to maintain the business relationship? Our discussion of the marketing mix issues in e-commerce, including customer service, pricing, and product considerations, serves as a reminder that a relationship will not exist unless the seller is providing adequate value.

Trust is also a key element in the establishment of ongoing relationships. This is an especially crucial area for e-commerce marketers, as many potential consumers have some reservations about the trustworthiness of on-line marketers. Current on-line customers generally find e-commerce marketers to be highly reliable and worthy of customer trust. Yet on-line sales are made to only a small percentage of consumers. To expand this number, trust building is essential. As shown in Exhibit 21–6, trust-based collaboration between buyers and sellers is based on five building blocks: site security; merchant legitimacy; fulfillment; tone; and customer control.[45]

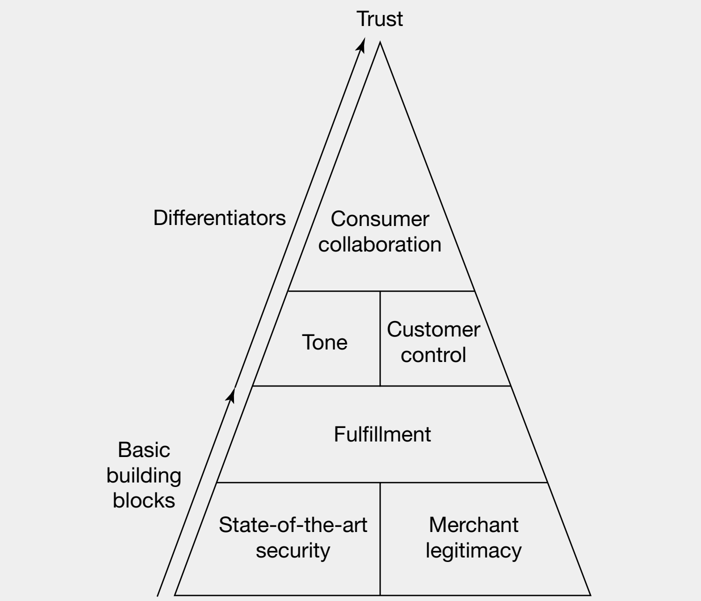
Site Security

A significant number of potential e-commerce customers are reluctant to share credit card and other personal information necessary to buy on-line. There are also concerns about viruses that could be contracted when visiting Web sites. These fears are multiplied when hackers break into e-commerce sites. Early in 2000, hackers showed just how vulnerable sites can be by breaking into Yahoo!, eBay, Amazon.com., and E*Trade. These sites were shut down for hours at a time, and consumers worried that their credit card information may have been captured by the hackers.

To maximize site security, site operators use **encryption** to convert readable messages into an unreadable format unless the reader is authorized by the system. **Authentication,** which verifies the identity of users and hardware, is also essential for secure sites. **Data integrity** is required, meaning that data cannot be corrupted by viruses, destroyed, or changed without authorization. The process of **nonrepudiation** is another key element in building site security; this precludes the later denial of a valid transaction by either the buyer or seller. **Customer privacy** (discussed in the last section of this chapter), protects the data from unauthorized viewing.[46] With these processes and safeguards in place, e-commerce marketers can offer their customers a reasonably safe site, perhaps even a guaranteed-safe site.

Exhibit 21–6

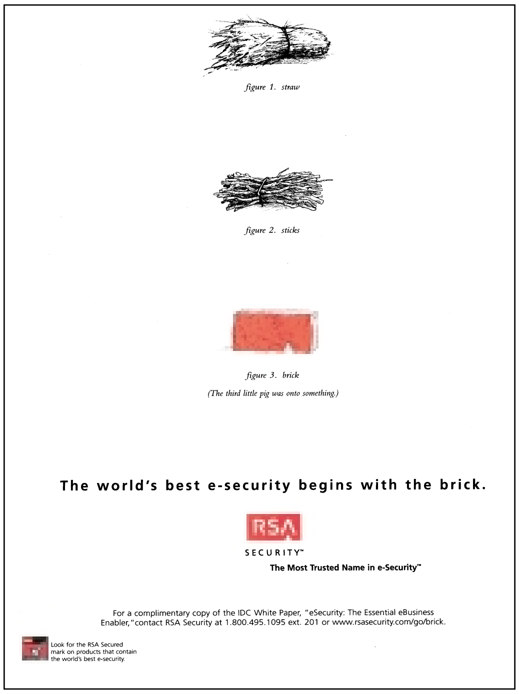
Building trust on-line



Source: Sandeep Dayal, Helene Landesberg, and Michael Zeisser, "How to Build Trust On-line," *Marketing Management,* Fall 1999, p. 65.

Merchant Legitimacy

Marketers of well-established, high-quality branded merchandise have an advantage in achieving merchant legitimacy. So do leading retailers who have added e-commerce to their store base. Examples include Barnes and Noble, Kmart, and Toys "Я" Us. Many business-to-business companies already had achieved



Online marketers must pay close attention to site security in order to build trust-based customer relationships. RSA Security offers its expertise in Web security in this ad.

legitimacy, or credibility, with customers before moving into e-commerce. For most start-ups and marketers of lesser-known brands or unbranded merchandise, offering risk-free trial periods and strong customer satisfaction guarantees could be effective.

Marketing communications can also affect the perceived legitimacy of lesser-known e-commerce merchants. Referring again to Super Bowl advertising, the most expensive ad time on television, many start-ups were trying to establish legitimacy in the minds of their target customers. While most start-ups failed to establish legitimacy with their Super Bowl ads, some did move a step closer. Examples include OurBeginning.com and Computer.com, with both reporting millions of new visitors to their sites in the days following the Super Bowl.

Fulfillment

Fulfillment refers to meeting customer expectations in an efficient manner. Customer service again comes to the forefront, and it is important to note that customer service is not restricted to after-the-sale status. The Boston Consulting Group reports that 80 percent of on-line purchasers have experienced at least one failed purchase during their past 12 months of shopping and that 25 percent of all attempted on-line purchases fail. Typical reasons for failure include technical problems with the Web site, difficulties in finding products, and delivery problems after the sale.

Lands' End and Gap offer good examples of how to ensure fulfillment. Lands' End overhauled its site in 1999—and doubled its sales. The site features multiple opportunities for the customer to interact with the company, including electronic chats with customer service agents 24 hours a day.[47] The Gap site is also customer-friendly and allows shoppers to compare the fit of items, say a loose fit versus a classic fit. By encouraging interaction and dialogue, Lands' End and Gap do a good job fulfilling customer expectations.

Tone

Web site content and dialogue with customers should always be friendly and straightforward. This is absolutely as important in electronic exchanges as it is in other communications exchanges such as between a salesperson and the customer. Web site design, content, and navigation should be coordinated and customer-focused. Disclosures and policies related to purchases and delivery should be clearly identifiable and easy to interpret.

At L.L. Bean's Web site, all of these points are covered in an inviting, simple format. The site features a "Start Here Go Anywhere" button, a "Need Help?" icon, a simplified purchase process, and interesting content to explain how their hiking boots and other apparel and equipment meets the needs of their shoppers. Further, the tone is straightforward. For example, the site speaks directly to site security and consumer privacy issues: "llbean.com is a *secure* site that respects your *privacy.*"

Control

Customer trust is more easily achieved if the customer has a significant amount of control over the interaction. For example, at CDNOW, customers have an option of "one-click" buying or of checking and even rechecking order details before making the purchase. Allowing customers the option of sharing their personal information with other marketers is another way to grant the customer control. Alternative ways of doing this are discussed later in the ethical and legal discussion.

Personalization is another way to give customers more control. When consumers can receive relevant information in their preferred format—and even products tailored to individual tastes—the customer gains control. Actually, this a mutually beneficial occurrence, as it works to the benefit of the marketer as well as the customer.

The model shown in Exhibit 21–5 includes the basic elements for trust building between buyers and sellers in e-commerce. For any given situation, additional considerations could also be important. For example, in business-to-business arrangements, companies might be sharing sensitive data and might have additional security concerns such as the extent of employee access to the data. In the final section of the chapter, we discuss some of the key ethical and legal issues in e-commerce. Along with the factors discussed in this section, proper response to these issues is critical to the trust-building process.

John Parker, Director of Business Operations, Quixtar, talks about the importance of trust in building customer relationships: **"Earning customer trust is critical for e-commerce businesses. One reason on-line shoppers trust Quixtar.com is that it's not an anonymous Web site to them, as many e-commerce sites are. People shopping at Quixtar.com are affiliated with Quixtar as an Independent Business Owner, or they know someone who is. This personal connection to the site helps shoppers feel more secure and adds a layer of personal trust that many faceless sites don't have. Security of personal information is also crucial to maintaining customer trust. We do not sell or share customer information with anyone under any circumstances. Strict adherence to this policy helps us establish long-term relationships with customers."**

Ethical and Legal Issues

The newness of the Internet coupled with rapid growth, as well as the absence of regulations and guidelines to govern individual and marketer practices, have led to a number of ethical and legal questions. These questions include concerns about privacy, weblining, and fraudulent practices. Other important, and as yet to be determined, controversies center upon the role of state and national governments in the determination of Internet legislation and taxes.

Privacy

Because of the vast amount of data that can be collected on the Internet and because of the global nature of the Internet, private citizens, privacy groups, and governments worldwide have expressed concerns regarding the privacy of individuals and other users of the Internet. Currently, the most discussed issues include the profiling of web surfer activity in efforts to track advertising effectiveness and to target customers; the sharing of private information about individuals; and, concerns related to the rights and privacy of children and teens.[48] The privacy issue attracted significant attention recently in the wake of DoubleClick's disclosure that it planned to cross-reference previously anonymous data about on-line shopping habits with real names of people and addresses. This capability was made possible from information obtained through a direct-marketing company.[49]

The U.S. government is still willing to allow private industries the opportunity to devise sufficient privacy rights policies. However, these efforts have fallen short of expectations thus far.[50] Failure to address these privacy issues will undoubtedly lead to government intervention. This possibility has already occurred in the European Union through its Data Protection Directive. The directive bars transmission of personal information to other countries that do not have parallel safety guards.[51] These concerns are not unfounded. For example, a 1999 FTC study of Web merchants found that 90 percent of the companies polled collected personal information but that only 10 percent actually followed established Fair Information Practices—a philosophical framework for privacy protection that has been generally adopted worldwide over the past 25 years.[52]

The Federal Trade Commission has identified five core principles of privacy protection that are widely accepted in the United States, Canada, and Europe:[53]

Thinking Critically

Consider the Web site for a business-to-business firm, such as www.cisco.com, and the ability of the firm to interact with its suppliers and customers.

- What effects will e-commerce relationships between manufacturers and their existing suppliers have on other suppliers trying to obtain new business from those same manufacturers?
- Should business-to-business firms that engage in weblining be obligated to inform customers the status of their account (e.g., A, B, C), and, if so, why?

- *Notice*—Making consumers aware before any personal information is gathered.
- *Choice*—The opportunity to consent to or forbid any secondary uses of information.
- *Access*—The ability to review any information gathered without significant delay.
- *Integrity and security*—Personal information is processed accurately.
- *Enforcement*—Consumer should have recourse if any of the above core principles is violated.

In response to pressures regarding the use of information obtained on the Web, many companies have posted privacy polices that disclose how they collect, use, and share data with partners or advertisers. In addition, opt-in and opt-out choices are made available to consumers. The more stringent opt-in choice forbids the gathering and sale of data unless permission is given.[54]

The worst fears about privacy on the Internet lie in the use of **cookies**—tiny computer files, stored on users' PCs, that Web sites use to track visitors to their sites. By assigning each site visitor a unique cookie, accurate tallies of behavior can be determined. This information can also be used to evaluate advertising effectiveness and to then develop strategies for targeting individual shoppers with advertising.[55] Web sites desire to obtain demographic information because advertisers are willing to pay 7 to 10 times as much for the ability to direct messages to prescreened audiences.[56]

Another domain that has attracted consistent concern since the inception of the Internet is the effects of the Web on the rights and privacy of children and teens. In response to these concerns, the Children's Online Privacy Protection Act was passed. Sites that target visitors under the age of 13 will now have to obtain parental permission before collecting personal information.[57]

Weblining

The Internet lets companies identify high- and low-value customers, such that deals and special services can be targeted only to the most profitable customers. The positive aspects of this practice, now termed **weblining,** include increased profitability for the firm and enhanced services and prices for the most-valued customers. The downside aspects of the practice are troublesome. Specifically, people may be judged by their predicted behavior rather than by their actual behavior. Moreover, low-profit customers may have to pay more for products, and the needs of these less-profitable customers get less attention. To the extent that weblining affects the disadvantaged, the practice may unfairly discriminate.[58]

Sanwa Bank in California is only one of a number of banks where customer service representatives use Net-based programs to categorize customers as being A, B, or C customers. The least-valued Cs are the ones most likely to end up on hold when they call in for service. Weblining is growing in B2B marketing as well. Once an e-business identifies a customer, it knows how profitable it is to do business with that customer. E-businesses then focus their promotions and special services on their best customers, while giving ordinary customers higher costs and less service. This is consistent with efforts to maximize profits but raises questions of equal treatment. Other critics question the accuracy of the analysis programs underlying weblining practices.[59]

Fraud

Fraud and questionable practices on the Internet, both by individuals and by companies, have grown rapidly. For example, one-fourth of all consumer complaints identified by the Federal Trade Commission are now about the Internet, up from just 3 percent in 1997. Internet Fraud Watch, operated by the National Consumers' League, reported an increase of more than 600 percent in reports of fraud between

Exhibit 21–7 *The top ten scams on the Internet*

1. Auction Fraud	You've topped the last bidder for the 1950 Gibson guitar. You send the check, but the guitar never arrives. When the goods do come, they're counterfeit or faulty.
2. Internet Access	Fly-by-night internet service providers offer too little bandwidth—or not Net connection at all—to far too many consumers.
3. Sales Fraud of Computers	This rip-off is so common it has its own category. Scammers feed on the urge by consumers to pay nearly nothing for such high-tech gear as PCs, laptop computers, or scanners. Often you get nothing.
4. All Other Sales Fraud	Shady e-commerce sites with enticing come-ons that promise huge savings on everything from televisions to old records—but never deliver.
5. Web Site Design	You just have to get your business on the Net. Be careful: Some folks promise to build a snazzy Web site, but don't.
6. Porn Sites	You can get railroaded into one of these sites. And before you know it, your phone bill is in the four-digit range because the site operator hijacked your Web connection to run up the tab.
7. Get-Rich-Quick	Just when authorities had begun to believe they had seen the end of these scams, the Net has revived pyramid schemes and other old frauds.
8. Sham Franchises	You pay serious dough for the exclusive rights to deliver widgets in your area. Guess what? No one wants them.
9. Work-at-Home	You answered the ad, and you've done the work. But the check's always in the mail.
10. Travel	That free trip you won sounds fantastic—and it turns out to be a fantasy, all right. You end up paying.

Source: Dan Carney, "Fraud on the Internet," *Business Week E.Biz,* April 3, 2000, p. EB62.

1997 and 1998. The Net has become a breeding ground for credit card fraud, auction rip-offs, get-rich schemes, and e-commerce sites that fail to deliver as promised.[60] The top ten scams on the Internet, as identified by *Business Week,* are listed in Exhibit 21–7.

Fraud on the Internet is attributable to both individuals and e-businesses. Regarding the former, individuals have used eBay's auction site to sell questionable-quality items, and a few purchases have been paid for but goods never delivered. Credit card scam artists use bogus credit cards to buy e-tickets picked up at the airport to avoid detection of differing addresses. In other instances, businesses prey on other small businesses. For example, Web page design companies have bilked small companies by charging exorbitant fees for Internet design work. Fraudulent "pump and dump" stock offerings begin with naïve consumers' buying a stock touted on the Internet via "spam" e-mail.[61]

In reaction to these abuses, both government and industry cybersleuths have begun to fight back. It should be noted that those individuals charged with identifying and prosecuting Internet abuses are becoming more and more effective. The FTC has become quite vigilant in investigating instances of fraud, deceptive advertising practices, and privacy abuses. The Securities and Exchange Commission has proposed an automated surveillance system that will search the Internet for "get-rich-quick schemes" and even monitor chat rooms for evidence of fraudulent appeals.[62]

Legislation

Given the newness of the Internet and the complex issues involved with e-commerce, regulations and legislation are still evolving. Most U.S. legislation so far has been supportive of the Internet industry. A listing of the most current legislation is presented in Exhibit 21–8. Briefly, this legislation, much of which is still pending,

Exhibit 21–8 *Legislation affecting Internet commerce*

	What It Does	Pro	Con
American Inventors Protection Act	Reduces patent fees, guarantees a 17-year patent term, and reduces litigation costs for patent owners.	Internet companies that hold many patents benefit.	Small businesses and inventors say it tips the balance in favor of big business.
Anticybersquatting Consumer Protection Act	Curbs poaching of trade-marked names for Internet addresses and imposes $100,000 fine on "dot-con artists" who profiteer.	E-commerce community believes business will grow only if trademark holders feel protected on-line.	Cyber-rights groups say individual domain-name holders and small businesses are in peril.
Internet Gambling Prohibition Act of 1999	Senate measure bans Web gambling sites, violators face fines of $20,000 and jail terms to four years; House has not yet approved companion measure.	Organized gambling was the primary supporter.	Internet gambling houses, many of which are located offshore, would lose out. Sports sites won exemption of fantasy sports games.
Millennium Digital Commerce Act/Electronic Signatures in Global and National Commerce Act	Would give digital signatures the legal weight of pen-and-paper counterparts; House and Senate measures still need to be reconciled before going to the president.	E-commerce companies see on-line signatures clearing the way for instant Internet transactions and contracts.	Consumer groups fear House version allows businesses to notify consumers by e-mail rather than letters.
Satellite Home Viewer Improvement Acts	Allows satellite-TV carriers to compete with cable companies by running local stations; does not ban Internet companies from doing the same.	Local broadcasters benefit; they won the right to charge potentially higher rates to satellite carriers than cable companies.	Excluding Net companies is a blow to the National Association of Broadcasters and the Motion Picture Association.
Ticket to Work and Work Incentive Act	Provides companies with a five-year extension of the research and development tax credit.	Benefits every technology and Internet lobbying group.	Technology lobbies were seeking a permanent extension but failed due to congressional restrictions.

Source: Elizabeth Wasserman, "Score Another Round for the Internet Industry," *The Industry Standard,* December 6, 1999, p. 66 (www.thestandard.com).

limits the poaching of Internet addresses, restricts Web gambling sites, gives digital signatures the legal weight of paper-and-pencil signatures, and continues tax credits that benefit technology and Internet companies.[63]

The situation in Europe is much more complex and restrictive. As examples, Denmark bans advertising to children, France bans advertising in English, and Germany bans comparative advertising. The European Union has also imposed limits on the transference of data to third countries where assurances of privacy are inadequate. In one court case, Lands' End's traditional 100 percent guarantee for any clothing worn out was found to be unlawful.[64] In other areas of the world, such as China, governments are suspicious of Internet commerce because of perceived threats to government control.[65]

Taxes

The imposition of sales taxes on e-commerce continues to be debated. As long as the Web site operator has no physical presence in a state, the on-line marketer can currently avoid charging any sales tax applied in that state. Proponents of a tax-free Internet argue that e-commerce offers extensive opportunities for new growth and innovation and that governments should not threaten this growth through the addition of sales taxes. In addition, traditional retailers are going on-line more and more and the convenience of consumers should be paramount. Other detractors of Internet taxes argue that most e-commerce results from business-to-business sales, most of which are exempt from sales taxes because the goods involve purchases for resale or manufacturing or for nontaxable business services.[66]

Opposition to tax-free Internet sales comes from (1) state and local governments that receive 36 percent of their tax revenues from sales taxes and that consequently worry about future loss of government revenues and (2) some traditional brick-and-mortar retail establishments that feel they are being placed at a severe competitive disadvantage because they are required to charge and collect sales taxes. Others argue that the failure to tax Internet sales is bad social policy. This position is based upon the fact that Internet sales come disproportionately from wealthier individuals—those least in need of a tax break. According to one study, on-line shoppers have average household incomes of $56,320 compared with an average of $22,940 for families without Net access.[67]

The actual impact of imposing sales taxes on Internet revenues remains unclear. One study found that imposing taxes on the Internet would cut sales by 25 percent; most economists feel the impact of taxes would in reality be much less than that. So far, the amount of state revenues being lost is small, as e-retailing accounts for a still small percentage of total retail sales. However, state governments are concerned about the challenge and potential losses in the face of predictions that depict continuing rapid rates of growth of e-commerce retail sales.[68]

Summary

1. **Explain the differences between e-business, e-commerce, and e-marketing.** E-business includes all business activities conducted over the Internet, and e-marketing includes all marketing activities conducted over the Internet. E-commerce is restricted to using the Internet directly for buying and selling products. E-commerce is part of e-business and e-marketing.
2. **Discuss the benefits of e-commerce to buyers and sellers.** Buyers benefit from e-commerce through more-convenient shopping, more choices, better information, better prices, and the ability to customize both the shopping experience and some purchases. Sellers benefit from an expanded market of potential customers and the ability to offer buyers many product alternatives, to collect information about customers, to meet the specific needs of customers, to communicate with customers, and to have lower costs in some areas.
3. **Describe the current activity and trends in B2C and B2B e-commerce.** Both B2C and B2B e-commerce are growing rapidly; growth differs for different areas and types of products. B2C will expand as more consumers in more countries use the Internet; the longer the Internet usage, the more products purchased electronically. B2B is growing faster than B2C. This will likely continue as more firms move their purchasing activities to the Internet and purchase products electronically from specific firms or from the procurement exchanges being established.
4. **Discuss key e-commerce marketing issues in each area of the marketing mix.** In the marketing communications area, we discussed emerging technologies such as wireless Web services and broadband Internet technology, both of which will allow marketers to reach more customers with more exciting messages. Other important issues include how to attract customers, how to improve customer involvement to generate return visits, and how to implement ongoing dialogue with customers. The integration of e-commerce communications with other marketing communications was also discussed. In the product area, the discussion was devoted to the importance of customer service and the threat posed by marketers of imitation products. Key issues in the channels area include the Web's ability to completely transform the channels for entire industries and the integration of electronic channels with other channels. Our pricing coverage focuses on how the Internet is increasing price sensitivity in consumer and business markets and on issues related to managing the price-promotion mix.
5. **Explain how the Internet and related technologies can help marketers improve the productivity of their activities.** Internet marketers must concentrate on improving profitability, which as a rule has not been acceptable to date. Most expenses for e-commerce firms originate in marketing. Some e-commerce marketers are reporting productivity improvements in order processing, and some forms of marketing on the Web are showing superior return-on-investment figures compared with previously used alternatives. Using the Web for routine activities can also free up personnel to work on higher-stakes activities.
6. **Describe how e-commerce marketers can build long-term trust-based relationships with their customers.** E-commerce marketers can build trust by building site security and earning the reputation of a legitimate merchant. They must complete the fulfillment process, which ensures that customer expectations are met. It is also important to communicate with customers in a friendly, helpful tone and to allow the customer to control a significant portion of the buyer–seller interaction.
7. **Understand the important legal and ethical issues associated with marketing practice and e-commerce.** The important legal and ethical issues include concerns about privacy, weblining, and fraud. Other important, and as yet to be determined, controversies

center upon the role of state and national governments in the determination of legislation and taxes. Privacy concerns revolve around information obtained by companies and other organizations regarding customer addresses, clickstream patterns, financial data, and credit information. The Internet also allows companies to identify high- and low-value customers, such that deals and specials services can be targeted only to the most profitable customers. The positive aspects of this practice of weblining include increased profitability for the firm and enhanced services and prices for most-valued customers. Concerns have arisen, however, regarding the effects of weblining on less-fortunate customers. Fraudulent practices include credit card fraud, auction rip-offs, get-rich schemes, and e-commerce sites that fail to deliver as promised. Proponents of a tax-free Internet argue that e-commerce offers extensive opportunities for new growth and innovation. Proponents of Internet taxes argue that traditional retailers are placed a competitive disadvantage and that state and local governments will suffer from lost revenues.

Understanding Marketing Terms and Concepts

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Electronic marketing (e-marketing)	491
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Authentication	509
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Thinking About Marketing

1. How are the benefits of e-commerce different and similar for consumers versus organizational buyers?
2. How would you convince a local retailer to become involved in e-commerce?
3. What are the three most important trends you see for e-commerce in the next three years?
4. What can marketers do to attract customers to their e-commerce sites and to keep them coming back? How does trust building figure into these efforts?
5. How can the Internet transform the marketing channels for an entire industry?
6. Refer to “Being Entrepreneurial: BizBuyer.com Automates RFQs.” What are the advantages of listing with a service such as BizBuyer for vendors? For buyers?
7. Why is it crucial for e-commerce marketers to improve productivity, and how might this be accomplished?
8. Refer to “Earning Customer Loyalty: Bol.com Recognizes Country Differences.” Compare the differences in the sites for Britain and Germany. What segmentation principles are incorporated into the European-based dot com marketer?
9. What are the benefits associated with weblining that accrue to companies engaging in the practice? What ethical questions arise from the practice of weblining?
10. Contrast some of the problems associated with consumer fraud with the problems associated with marketer fraud.
11. What are the likely outcomes from the ongoing debate surrounding privacy concerns and marketer activity on the Internet?

Applying Marketing Skills

1. The growth of on-line retail sales is expected to soon reach $3 trillion. Yet, despite established brand names and marketplace presence, many traditional retailers have had difficulty in competing on-line. What aspects of marketing on-line from businesses to consumers cause problems for traditional intermediaries? Specifically, what has Kmart done to enhance its ability to compete effectively for on-line sales?

2. How do the Web sites of Ford and GM facilitate purchases from their suppliers? What cost reductions are possible from such e-commerce exchanges? What effects will e-commerce in B2B situations have on the maintenance of long-term exchange relationships? That is, will e-commerce for B2B companies strengthen or weaken efforts to develop lasting relationships among supply-chain partners?

3. Go to the www.shop.org site and consider the information presented regarding the state of on-line shopping. What are the key trends driving on-line industry sales growth? What lessons have been learned from the e-commerce experience of successful companies? What can be learned from the comparison between "Strictly Internet" and multichannel retailers? Describe the performance results from the most recent "State of On-line Retailing" annual report.

Using the www in Marketing

Activity One

Go to the CyberAtlas home page (http://cyberatlas.internet.com).

1. Select an e-commerce topic that interests you and use the search engine to identify information about this topic available from CyberAtlas.
2. Use information available from CyberAtlas to update the e-commerce statistics presented in the chapter.
3. What is your assessment of the CyberAtlas Web site? How could it be made more useful?

Activity Two

There are several other sites that provide e-commerce information similar to that of CyberAtlas. Go to eMarketer (http://estats.com) and The Standard (http://thestandard.net).

1. Compare and contrast the CyberAtlas, eMarketer, and The Standard Web sites. Which site do you think is the most useful? Why?
2. Search the CyberAtlas, eMarketer, and The Standard Web sites for the same e-commerce topic. Which site provides the most material on the topic? Does any site have information not available from the other sites?
3. How could marketers involved in e-commerce make use of these three Web sites?

Making Marketing Decisions

Case 21-1 *Toys "R" Us: Competing against Both Bricks and Clicks*

In the extreme version of predictions regarding Internet efficiency, the characteristics of the Internet will lead to markets where retailer location is irrelevant and consumers are fully informed of prices and products. Such arguments support the success of early on-line retailers like Amazon.com. A frequently asked question is,

SOURCES: Erik Brynjolfsson and Michael D. Smith, "Frictionless Commerce? A Comparison of Internet and Conventional Retailers," *Management Science,* 2000 (forthcoming); Nanette Byrnes and Paul C. Judge, "Internet Anxiety," *Business Week,* June 28, 1999, pp. 79–88; and John Peet, "E-Commerce: Shopping around the Web," *The Economist,* February 26, 2000, pp. 15–16.

Why have so many off-line businesses with well-recognized brand names been so slow to respond? The primary reasons appear to be fear that new channels (i.e., the Internet) merely cannibalize revenues from existing sources; existing salesforces and intermediaries are threatened; capital markets favor the "pure plays" of new on-line retailers; and existing distribution systems are not designed to focus on single packages delivered to individual households.

These issues and problems faced Toys "Я" Us as the firm sought to develop a presence on the Internet. Started in 1948, with the first toy supermarket opened in 1957, Toys "Я" Us has evolved into an $11 billion-plus-dollar business, with 1,450 stores worldwide. Traditionally, Toys "Я" Us has battled Kmart, Target, and Wal-Mart. During the late 1990s, even more formidable competition arose from eToys, the on-line retailer of toys and related children's products. According to Media Metrix on-line tracking data, eToys was the second-most-visited on-line site for the holiday shopping season in 1999. In 1998, in anticipation of the emergence of eToys, Toysrus.com was formed to enable shoppers to purchase on-line. It is important to note that returns to Toys "Я" Us were facilitated by allowing consumers to return problem purchases to any of their conveniently located retail stores. In addition, the Web site for Toys "Я" Us now includes search engines to assist in the identification of desired gifts and procedures for enhanced delivery.

CEO Robert Nakasone addressed the threat from eToys aggressively. First, the firm established a separate on-line unit rather than attempting to refine its previous in-house capabilities. In addition, the firm combined with venture capitalist Benchmark Capital and moved the new on-line endeavor from its New Jersey headquarters to Northern California. These rather drastic actions were intended to quickly expand their competitive abilities in the face of the emergence of eToys and other on-line competition.

Questions

1. What accounts for the initial success of on-line competitor eToys?
2. What competitive advantages does Toys "Я" Us have over eToys because of its long-term marketplace presence?
3. How can Toys "Я" Us sell effectively on the Internet and still maintain satisfactory relationships with its brick-and-mortar retail outlets?
4. What trends in e-commerce are likely to cause additional problems for Toys "Я" Us?

Case 21-2 DoubleClick: Tracking Advertising or Individual Behavior

DoubleClick describes its core purpose as "being in the business of making advertising work on the Web." The firm sells and manages on-line advertisements for thousands of Web sites. To relieve marketers from the aggravation of inserting ads on thousands of sites, DoubleClick stores ads from its advertisers on central computers and coordinates the placement of the ads. DoubleClick relies heavily upon cookies placed on computers, generally when a site is visited for the first time. As such, DoubleClick is an industry leader in using technology and media expertise to create solutions that help advertisers employ the Web for selling products and building relationships with customers. Recent events, however, have placed considerable pressures upon the New York–based firm. The first involves the furor and concern over individual privacy. Second, many large, well-known marketers want to maintain control of Web-based customer information related to their own advertising.

SOURCES: "Crisis Rx for DoubleClick," *Advertising Age,* February 28, 2000, p. 58; "DoubleClick Blinks," *Newsweek,* March 13, 2000, p. 72; Anita Hamilton, "Data Mining: DoubleClick's Double Take," *Time,* March 13, 2000, p. 95; http://www.doubleclick.com...any_info/about_doubleclick/overview.htm, March 27, 2000; Kathryn Kranhold and Michael Moss, "Keep Away from My Cookies, More Marketers Say," *The Wall Street Journal,* March 20, 2000, pp. B1, B6; Patrick Thibodeau, "Dotcoms Wary of Privacy Bills: DoubleClick Furor May Push Regulation Drive," *Computerworld,* March 13, 2000, p. 1; Fred Vogelstein, "Minding One's Business," *U.S. News & World Report,* March 13, 2000, p. 45; and Rick Whiting, "DoubleClick Gets Double Trouble with Database Plan," *Information Week,* March 6, 2000, p. 24.