Interactive Marketing and Electronic Commerce

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INTERACTIVE MARKETING AND ELECTRONIC COMMERCE

AFTER READING THIS CHAPTER YOU SHOULD BE ABLE TO:

• Understand what electronic commerce and interactive marketing are and how they create customer value.
• Distinguish among the different types of electronic networks that make electronic commerce and interactive marketing possible.
• Identify online consumers and their purchasing behaviors.
• Recognize why certain types of products and services are particularly suited for electronic commerce.
• Explain how companies create a presence in the electronic marketplace through different kinds of Web sites and different forms of online advertising.
• Describe how companies benefit from electronic commerce and interactive marketing.

BUILDING THE WORLD'S LARGEST SHOPPING MALL WITHOUT LAYING A BRICK

“Our strong retail partnerships allow us to offer exclusive merchandise and some of the best values...,” observes Wendy L. Brown. Is Brown describing the stores at your nearest shopping mall? Not at all, because Wendy Brown is vice president of commerce strategy for America Online (AOL) and the power behind AOL's powerhouse Shopping Channel, the world's largest virtual shopping mall. Merchants in AOL's Shopping Channel include mainstream "brick and mortar" retailers, such as Barnes & Noble, Eddie Bauer, FAO Schwarz, Godiva, J. Crew, JCPenney, Macy's, the Gap, and Toys "R" Us, and most of the top electronic retailers, such as amazon.com, Music Boulevard, eToys, Video Now, Digital Chef, and 1-800-Flowers. AOL's Shopping Channel is one reason almost 75 percent of Web surfers visit the AOL.com Web site at least once a month and is also why the average visitor spends 246 minutes a month interacting with its many services.

“AOL and AOL.com provide the prime real estate that is critical to the establishment of any retail brand—online and offline,” says Brown. She adds, “In addition, savvy retailers today also recognize that a strong presence online is increasingly influencing consumer buying offline by reaching a key customer base, providing increased convenience and up-to-the-minute information, and prompting purchases.”

America Online is a great success story. Its success is due in part to a revolutionary change in technology that has made possible electronic commerce and interactive marketing. The purpose of this chapter is to describe the nature and scope of electronic commerce, online consumer and purchasing behaviors, and interactive marketing practice.
THE NEW MARKETSPACE AND ELECTRONIC COMMERCE

Consumers and businesses populate two parallel and complementary markets today. One is the traditional marketplace, where buyers and sellers engage in exchange relationships in a material environment mostly inhabited by people, facilities (stores and offices), and physical objects. The other is the marketspace, an information- and communication-based electronic exchange environment mostly occupied by sophisticated computer and telecommunication technologies and digitized offerings. You enter the marketspace whenever you access the World Wide Web or log onto a commercial online service such as America Online. But the marketspace is broader than “the Web.” It is electronic commerce in its many forms. Electronic commerce is “any activity that uses some form of electronic communication in the inventory, exchange, advertisement, distribution, and payment of goods and services.”

Electronic commerce has existed for many years, and consumers benefit from it every day. Consider the familiar chore of grocery shopping. Each time a checkout clerk at the local supermarket scans your grocery items, precise data on what was purchased are electronically transmitted to the store’s warehouse and to suppliers who replenish the store’s stocks. Suppose you pay for your purchase with an ATM or debit card. You swipe the card through a transaction terminal, which reads the information on the card’s magnetic strip. Enter your personal identification number (PIN), and the terminal routes the transaction through an ATM network back to your bank for authorization against your checking account. Funds are then electronically transferred from your bank to the supermarket’s bank. The transaction is completed in a few seconds. Now comes the hard part—preparing a meal!

Your grocery transaction, eased by electronic point-of-sale scanning and payment equipment and systems, was made possible by proprietary computer and telecommunication networks devised and managed solely for companies that owned and used them. These networks dominated electronic commerce until 1996—a year etched in ancient history. The World Wide Web burst upon the scene that year, and a new era of electronic commerce and interactive marketing was born.

Interactive marketing involves buyer–seller electronic communications in a computer-mediated environment in which the buyer controls the kind and amount of information received from the seller. Interactive marketing, made possible by the Internet, the World Wide Web, and commercial online services, has numerous applications and presents new opportunities for customer value creation.

The Nature and Scope of Electronic Commerce

Electronic commerce today consists of a family of electronic networks, each with a different application. These applications illustrate the varied nature and broad scope of electronic commerce and interactive marketing.

Business-to-Consumer Electronic Commerce  The most widely visible application of electronic commerce exists in business-to-consumer interactive marketing, involving the Internet, the World Wide Web, and commercial online services. Many people view these three as being the same. They are not. The Internet is an integrated global network of computers that gives users access to information and documents. Anyone with a personal computer, a modem, and proper software can access the Internet free and can obtain and share information with
others via e-mail, electronic messages transmitted to and from Internet host computers. More than 250 million people are projected to have access to the Internet in 2005, with 29 percent residing in the United States. The Internet is a network upon which the system known as the World Wide Web runs.

The World Wide Web (WWW) is a part of the Internet that supports a retrieval system that formats information and documents into Web pages. The “Web” uses hypertext markup language (html) to format documents to be viewed by users with a browser program, such as Netscape’s Navigator or Microsoft’s Internet Explorer. A hypertext transfer protocol (http) is the means by which documents are actually delivered from a Web site to a user’s computer. A Uniform Resource Locator (URL) identifies each site, a location in the marketspace akin to the traditional marketplace street address. The typical URL for a business might be http://www.yourcompany.com; for an organization, http://www.yourorganization.org; and a government agency, http://www.youragency.gov.

Systems with much of the popular appeal of the World Wide Web, but not dependent on the Internet, are commercial online services. Commercial online services offer electronic information and marketing services to subscribers who are charged a monthly fee. America Online, CompuServe, and Prodigy are well-known commercial online services. For example, America Online provides some 17 million subscribers globally with news, entertainment, e-mail, Internet access, and online shopping opportunities. Its subscribers can order thousands of products and services from more than 400 companies. They can buy and sell investments through distant brokerage services; do their banking with a local bank; make airline, hotel, and car-rental reservations; and inspect product ratings from Consumer Reports.

Business-to-consumer electronic commerce activity has skyrocketed since 1996, due in large part to the World Wide Web and commercial online services. Figure 1 charts the actual and projected growth of online consumers and expenditures. It is expected that the number of U.S. households buying online will quadruple between 1998 and 2002, with more than one-half of all U.S. households buying something online in 2002. Online U.S. consumer expenditures for products and services are also expected to quadruple between 1998 and 2002.

Business Support Functions Many companies have adapted Internet-based technology internally to support their external electronic commerce initiatives. An
Intranet is an Internet/Web-based network used within the boundaries of an organization. It is essentially a private Internet that may or may not be connected to the public Internet. Those that are connected are protected by “firewalls” from outside intrusion (“hacking”) by millions of Internet users.

Intranets serve primarily as a business support function network and facilitate the internal, electronic exchange of corporate data and files. By 2001, an estimated 133 million companies in the United States and Europe will have Intranets. The pharmaceutical giant Eli Lilly & Co. operates an extensive Intranet known as ELVIS (Eli Lilly Virtual Information System). Employees can access internal job postings, corporate policies and handbooks, and a daily news summary on scientific and competitive developments in the global pharmaceutical industry. Marketing and sales information is also transmitted to field offices and employees in more than 120 countries instantaneously and electronically to better serve Eli Lilly customers.

Business-to-Business Electronic Commerce The largest application of electronic commerce exists in the realm of business-to-business interactive marketing. Online buying between businesses accounts for a great majority of the dollar value of all online transactions in the United States.

Business-to-business electronic commerce comes in two forms. **Electronic data interchanges** (EDI) combine proprietary computer and telecommunication technologies to exchange electronic invoices, payments, and information between businesses, such as suppliers, manufacturers, and retailers. When linked with store scanning equipment and systems, EDI provides a seamless electronic link from a retail checkout counter to suppliers and manufacturers. Wal-Mart and Procter & Gamble pioneered the use of EDI in the 1980s. Today, EDI is commonly used in retail, apparel, transportation, pharmaceutical, grocery, health care, and insurance industries, as well as by local, state, and federal government agencies. About 95 percent of the companies listed in the Fortune 1000 use EDI, which is an indispensable electronic network for supply chain and logistics management. At Hewlett-Packard, for example, one million EDI transactions are made every month.

A second form of business-to-business electronic commerce is an Extranet, an extension of a company’s Intranet. An **Extranet** is an Internet/Web-based network that permits private business-to-business communication between a company and its sup-
Electronic commerce and e-corporations continue to evolve with new Internet, Intranet, and Extranet applications. Increasingly, companies are focusing on creating seamless streams of information between corporate functions (manufacturing, sales, marketing, finance, human resources); suppliers, partners, and distributors; and the ultimate customer. Computer software for the different forms of electronic commerce, called e-ware, that makes it easier for businesses to market products and services via the Web (Internet), to get the most out of customer and competitive data (Intranet), and to manage relationships with suppliers and customers (Extranet) represents the next evolutionary phase of electronic commerce and the e-corporation.

VF Corporation, the maker of Lee, Wrangler, Britannia, and Rustler jeans; Timber Creek khakis; Healthtex clothes for kids; Jantzen bathing suits; and JanSport backpacks, has taken the lead in stitching together an e-corporation with e-ware. The company has invested more than $70 million in computer software alone to link functions, people, and companies for the purpose of getting the right information, in the right form, to the right place, at the right time. According to a senior VF executive, “If we pull this off, no one else will be close” in integrating data across operations. Another executive replied, “Knock on wood.”

Despite the widespread attention given the new marketspace and electronic commerce, its economic significance is small compared with the traditional marketplace. Electronic commerce is expected to represent less than 8 percent of total U.S. consumer and
industrial goods and services expenditures in 2001, and less than 1 percent of global expenditures. Why then has electronic commerce and interactive marketing captured the eye and imagination of marketers?

Marketers believe that the possibilities for customer value creation are greater in marketspace than the traditional marketplace. Marketing creates time, place, form, and possession utilities for customers, thereby providing value. In marketspace, the provision of direct, on-demand information is possible from marketers anywhere to customers anywhere at any time. Why? Geographical constraints and operating hours do not exist in marketspace. For example, Recreational Equipment (www.rei.com), an outdoor gear marketer, reports that 35 percent of its orders are placed between 10:00 P.M. and 7:00 A.M., long after and before retail stores are open for business. Twenty percent of amazon.com book sales are from buyers who live outside the United States. Possession utility—getting a product or service to consumers so they can own or use it—is accelerated. Airline, car rental, and lodging electronic reservation systems such as Travelocity (www.travelocity.com) allow comparison shopping for the lowest fares, rents, and rates and almost immediate access to and confirmation of travel arrangements and accommodations.

The greatest marketspace opportunity for marketers, however, lies in its potential for creating form utility. Interactive two-way Internet/Web-based communication capabilities in marketspace invite consumers to tell marketers exactly what their requirements are, making customization of a product or service to fit the buyer’s exact needs possible. For instance, Bluefly.com, an apparel company, encourages customers to develop their own catalog free of unwanted items. Consumers can specify the brands, clothing category, and sizes right for their needs. Bluefly.com will instantaneously create a personalized catalog just for them.

CONCEPT CHECK

1. What is electronic commerce?
2. Online U.S. consumer expenditures for products and services are expected to increase ___ percent between 1998 and 2002, while online U.S. business-to-business expenditure for goods and services is projected to increase ___-fold between 1998 and 2002.
3. How can electronic commerce create customer value?

ONLINE CONSUMERS AND BUYING BEHAVIOR IN THE NEW MARKETSPACE

Who are online consumers, and what do they buy? Why do they choose to purchase products and services in the new marketspace rather than or in addition to the traditional marketplace? Answers to these questions are important to marketers today and offer clues to the future growth of electronic commerce and interactive marketing.

The Online Consumer

Many labels are given online consumers—cybershoppers, Netizens, and e-shoppers—suggesting they are a homogeneous segment of the population. They are not, but as a group, they do differ demographically from the general population.

Online Consumer Profile Online consumers differ from the general population in one important respect. They own or have access to a computer. Slightly less than 40 percent of U.S. households have a computer in their home with Internet/Web access, although access is often possible at work or school. Figure 3 profiles Internet/World Wide Web users.
Online consumers are a subsegment of all Internet/Web users. Research indicates that about 55 percent of Internet/Web users have sought product or service information online before making a purchase. For example, it is expected that 50 percent of new car buyers will visit Web sites such as Auto-By-Tel, Microsoft Carpoint, and Autoweb.com to car shop in 2001. Still by mid-1999, only about 25 percent of Internet/Web users actually purchased a product or service online. This figure is projected to exceed 50 percent in 2002.

As a group, online consumers tend to be better educated, younger, and more affluent than the general population, which makes them an attractive market. The majority are married (59 percent) and male (60 percent), although the number of online women consumers is increasing rapidly. Specially developed Web sites for women such as women.com have capitalized on this trend.

**Online Consumer Psychographics** Not all Internet/Web users use the technology the same way, nor are they all likely to be online buyers. SRI International, the same research firm that developed the Values and Lifestyles (VALS) Program has identified 10 distinct Internet/Web user profiles, called iVALS segments, which illustrate how diverse Internet/Web users can be (Figure 4).
Internet/Web users differ along two dimensions: (1) how heavily and enthusiastically they use the Internet and (2) the reason for usage.¹⁴ Wizards are the most active and skilled Internet users and possess sophisticated technical skills. Mostly male and relatively young, Wizards are likely to be active online consumers, especially for products such as computers, software, and technical information. At the other extreme are Immigrants. They are skeptical of the Internet and do not use it willingly, often only if forced to do so at school or at work. Immigrants have limited technical skills and are among the least promising online consumers.

The remaining eight segments fall between these extremes. Pioneers and Surfers are attracted to the Internet because of its recreational possibilities. They visit Web sites for the enjoyment of seeing what’s there and, like recreational shoppers, are good prospects for online buying. Socialites and Sociables are among the youngest Internet users and value the social aspects of the Internet. They are heavy users of chat rooms and online communities where they can meet new people.

Workers and Seekers use the Internet mostly as a professional tool. Workers are mainly upscale, professional males who use the Internet as a source for research and industry information. Seekers are also professionally oriented and seek to improve their productivity through Internet use. College professors, students, and consultants populate these categories because of their information-intensive needs and visit Web sites that provide news, information summaries, and directories. Finally, Upstreamers and Mainstreamers are generalists. They use the Internet for a combination of personal and professional reasons. Like Workers and Seekers, they rely on the Internet to help them in their careers. And like Pioneers and Surfers, they enjoy browsing the Internet and use it for personal tasks such as online banking, investing, and shopping.

Do any of these iVALS consumer profiles fit you? Take a break and visit the SRI International Web site listed in the accompanying Web Link. Complete the short questionnaire, and find out which iVALS segment best describes your Internet/Web activity and usage.

Online Consumer Purchasing Behavior

Much still needs to be learned about online consumer purchase behavior in the new marketspace. While research has documented the most frequently purchased products and services bought online, marketers also need to know why these items are popular and why consumers prefer to shop and buy in the new marketspace.

What Online Consumers Buy  There are six general product and service categories that appear to be particularly suited for electronic commerce.¹⁵ One category consists of items for which product information is an important part of the purchase
decision, but prepurchase trial is not necessarily critical. Items such as computers, computer accessories, and consumer electronics sold by dell.com and egghead.com fall into this category. So do books, which accounts for the sales growth of amazon.com and Barnes & Noble (www.barnesandnoble.com). Both booksellers publish short reviews of new books that visitors to their Web sites can read before making a purchase decision. According to an authority on electronic commerce, “You’ve read the reviews, you want it, you don’t need to try it on.” A second category includes items for which audio or video demonstration is important. This category consists of CDs and videos sold by columbiahouse.com, cdnow.com, and towerrecords.com. The third category contains items that can be delivered digitally, including computer software, travel reservations and confirmations, brokerage services, and electronic ticketing. Popular Web sites for these items include travelocity.com, ticketmaster.com, and schwab.com.

Unique items, such as collectibles, specialty goods, and foods and gifts, represent a fourth category. Collectible auction houses (www.auctions-on-line.com and www.eworldauction.com), wine merchant Virtual Vineyards (www.virtualvin.com), and flower and gift marketer 1-800-Flowers (www.1800flowers.com) sell these products. A fifth category includes items that are regularly purchased and where convenience is very important. Many consumer-packaged goods, such as grocery products, fall into this category, which has benefited peapod.com and netgrocer.com, two online grocers. A final category of items consists of highly standardized products and services for which information about price is important. Certain kinds of insurance (auto and homeowners), home improvement products, casual apparel, and toys make up this category. These categories dominate online consumer shopping today and for the foreseeable future, as shown in Figure 5.

**Why Consumers Buy Online: The Six Cs**

Marketers emphasize the customer value creation possibilities in the new marketspace. However, consumers typically refer to six reasons why they prefer to buy online (also called the six Cs): convenience, cost, choice, customization, communication, and control (Figure 6).

Online buying is convenient. Consumers can visit Wal-Mart at www.wal-mart.com to scan and order from among 80,000 displayed products without fighting traffic, finding a parking space, walking through long aisles, and standing in store check-out lines. Alternatively, online consumers can use bots, electronic shopping agents or robots...
that comb Web sites, to compare prices and product or service features. In either instance, an online consumer has never ventured from his or her PC monitor. Consumer cost is a second reason for buying online. Recent research indicates that almost 90 percent of the 30 most popular items bought online can be purchased at the same price or cheaper than in retail stores. A consumer’s cost of external search, including time spent and often the hassle of shopping, is also reduced. Shopping convenience and external search costs are two major reasons for the growth of online buying among women, particularly for those who work outside the home.

Choice and customization opportunities are two additional reasons consumers buy online. Consumers desiring selection can avail themselves of numerous Web sites for almost any product or service they want. For instance, online buyers of consumer electronics can shop individual manufacturers such as Bose (www.bose.com) or Sony (www.sony.com) or visit iqvc.com, a general merchant with more than 100,000 products. Even with a broad selection, some consumers prefer one-of-a-kind items that fit their specific needs. Consider, for instance, buying a Barbie doll for a child. Online buyers can shop etoys.com and choose a Barbie doll from 117 versions available. On the other hand, a visit to Mattel at www.barbie.com allows buyers to design their own doll. They can specify the doll’s skin tone, eye and hair color, hairstyle, clothes, accessories, and give her a name. Fill out a questionnaire, and a computer-generated personality profile for Barbie is prepared.

Online consumers also welcome the interactive communication capabilities of Internet/Web-based technologies that allow them to engage in an electronic dialogue with marketers. These “push” technologies send information to online consumers automatically according to their expressed preferences. Garden Escapes, Inc. (www.garden.com), which provides visitors with a computer-aided design for home landscaping, is a case in point. Through state-of-the-art garden design techniques and working with plants and shrubs appropriate to particular geographical regions, online gardeners can create and then see what their finished landscape will look like instantaneously. If it meets with their approval, items can be purchased, with delivery scheduled in time for the best planting.

The sixth reason consumers prefer to buy online is the control it gives them over their purchase decision process. Online buyers are empowered consumers. They deftly use Internet/Web-based technology to seek information, evaluate alternatives, and make purchase decisions on their own terms and conditions. Online buyers regularly
engage **portals** and “search engines,” which are electronic gateways to the World Wide Web that supply a broad array of news and entertainment, information resources, and shopping services.\(^\text{22}\) Well-known portals include Yahoo!, Infoseek, Snap, Excite, Lycos, Microsoft’s Internet Start, and Netscape’s Netcenter. To evaluate alternatives, consumers visit comparison-shopping Web sites such as comparenet.com and price.com or employ bots such as Yahoo! Shopping and Excite’s Product Finder, which provide product descriptions and prices for a wide variety of brands and models. The result of these activities is a more informed consumer and discerning shopper. In the words of one marketing consultant, “In the marketspace, the customer is in charge.”\(^\text{23}\)

Even though consumers have many reasons for buying online, a segment of Internet/Web users refrain from making purchases for privacy and security reasons as described in the accompanying Ethics and Social Responsibility Alert.\(^\text{24}\) Those consumers are concerned about a rarely mentioned seventh “C”—cookies. **Cookies** are computer files that a marketer can download onto the computer of an online shopper who visits the marketer’s Web site.\(^\text{25}\) Cookies allow the marketer’s Web site to record a user’s visit, track visits to other Web sites, and store and retrieve this information in the future. Cookies also contain information provided by visitors, such as expressed product preferences, personal data, and financial information, including credit card numbers. Clearly, cookies make possible customized and personalized content
for online shoppers. The controversy surrounding cookies is summed up by an authority on the technology: “At best a cookie makes for a user-friendly Web world: like a doorman or salesclerk who knows who you are. At worst, cookies represent a potential loss of privacy.”

**CONCEPT CHECK**

1. Which iVALS segment is the least promising group for online buying? Why?
2. Why is it that travel reservations account for such a large percentage of online buying?
3. What are the six reasons consumers prefer to buy online?

**INTERACTIVE MARKETING IN THE NEW MARKETSPACE**

Interactive communication between buyers and sellers and consumer control over what, where, when, and how information is exchanged in the new marketspace have significant implications for marketing practice. Even though the fundamental tasks of marketing refined in the traditional marketplace still apply—creating customer value by providing the right product, at the right time, at the right place, at the right price—the setting is very different. A challenge for marketers in the new marketspace is to have an electronic presence that attracts the attention and interaction of the online consumer and makes a profit.

**Creating a Presence in the New Marketspace**

Marketers create a presence in the new marketspace through their Web sites and online advertising.

**Corporate and Marketing Web Sites**

Companies employ two major types of Web sites, each with a different purpose. A **corporate Web site** is designed to accommodate interactive communication initiated by a company’s employees, investors, suppliers, and customers. These sites provide information about the company such as its history, mission and corporate values, products and services, and annual report. Many contain recent news releases and offer opportunities for visitors to ask questions and make comments through e-mail. More advanced Web sites provide interactive entertainment features such as games to keep a visitor’s attention. Corporate Web sites are not specifically designed to promote and sell a company’s products or services; however, some do. Rather, they serve to build relationships with customers and other important constituencies. Visit the Gillette Company (www.gillette.com) and Gulfstream Aerospace Corporation, a leading manufacturer of business jets (www.gulfstreamaircraft.com), to see the similarity of corporate Web sites across different industries.

A **marketing Web site** is designed to engage consumers in interactive communication or dialogue that will result in the sale of a company’s product or service or move the consumer closer to a purchase. In contrast to corporate Web sites, marketing Web sites initiate interactive communication with prospective buyers. These sites outnumber corporate Web sites by a wide margin.

Marketing Web sites come in two general forms: (1) transactional sites and (2) promotional sites. Transactional Web sites are essentially electronic store fronts, such as those operated by amazon.com and cdnow. They focus principally on converting an online browser into an online buyer. Many provide access to human service representatives to assist in making purchases. For example, two thirds of the sales through Dell Computer’s Web site (www.dell.com) involve human sales representatives.
Markets also can be used for customer research and feedback. Cathay Pacific Airlines is a case in point. Its Web site (www.cathay-usa.com) is used to interview frequent fliers to determine their travel preferences and buying habits in addition to performing other functions. A truly multifunctional transactional Web site is operated by Cisco Systems, the company that sells 80 percent of the networking products that make the Internet, and corporate Intranets and Extranets, work. Cisco generates almost 60 percent of its sales, or about $10 million per day, through its Web site, Cisco Connection Online (www.cisco.com). At last count, Cisco accounted for roughly one third of all U.S. revenues generated by electronic commerce. Cisco’s Web site blends technical support with every step in selling and servicing its products, all of which are custom-built to a customer’s specifications. For example, Cisco’s Configuration Agent software walks customers through the dozens of components that typically go into one of its products. Its Status Agent software lets customers track the progress of their orders online. Overall, 7 out of 10 customer requests for technical support are filled electronically—at satisfaction rates that eclipse those involving human interaction.

Promotional Web sites have a very different purpose than transactional sites. They promote a company’s products and services and provide information on how items can be used and where they can be purchased. They often engage the visitor in an interactive experience involving games, contests, and quizzes with electronic coupons and other gifts as prizes. Procter & Gamble maintains separate Web sites for 24 of its leading brands, including Pringles potato chips (www.pringles.com), Vidal Sasson hair products (www.vidalsasson.com), Scope mouthwash (www.scope-mouthwash.com), and Pampers diapers (www.pampers.com). Promotional sites can be effective in generating interest in and trial of a company’s products and services. General Motors reports that 80 percent of the people visiting a Saturn store first visited the brand’s Web site (www.saturn.com). The Metropolitan Life Insurance Web site (www.metlife.com) is a proven vehicle for qualifying prospective buyers of its insurance and financial services.

Marketing Web sites can be expensive to develop and maintain, particularly with the growing use of sophisticated interactive and experiential activities and eye-catching animation and three-dimensional graphics. The average marketing Web site costs $1 million to develop and takes one year to launch. The cost of creating a transaction-based Web site is about 10 times that of a promotional Web site.

Having a corporate or marketing Web site does not, by itself, guarantee that online consumers will ever visit it. While a Web site can be invaluable in conveying information,
creating product involvement, and even making sales, online consumers must first be attracted to the site. Attracting online consumers is difficult in an increasingly cluttered marketspace where 100,000 Web sites are added to the World Wide Web and commercial online services each week. Advertising plays an important role in the new marketspace just as it does in the traditional marketplace. In fact, companies prominently advertise their Web sites using conventional print and broadcast media and direct mail, in addition to using online advertising.

**Online Advertising**  A primary objective of online advertising is to generate sales directly and quickly through a marketer’s transactional Web site. However, because most companies operate both in the new marketplace and the traditional marketplace, other objectives for online advertising exist. Creating awareness and a favorable image of a company and its products and services are frequently stated objectives for corporate Web sites. Online advertising is also used to support a company’s traditional sales channel, including retail stores and building customer relationships. This is the objective of the Clinique division of Estee Lauder Companies, which markets cosmetics through department stores. Clinique reports that 80 percent of current customers who visit its Web site (www.clinique.com) later purchase a product at a retail store; 37 percent of non-Clinique buyers make a Clinique purchase after visiting the site.

Companies have adopted two approaches for placing online advertising. One approach focuses on buying space on a heavily trafficked Web portal, such as Yahoo!, or a commercial online service. The second involves buying space on commercially sponsored Web communities—Web sites that cater to a particular group of individuals who share a common interest. Members of the Web communities are prime targets for advertisements linked with the topic of the site. For instance, iVillage.com, the Women’s Network, is a Web community for women and includes topics such as...
Banner ads are a popular form of online advertising. This sequence of banners from usa.net is typical.

career management, personal finances, parenting, relationships, beauty, and health. Avon and Charles Schwab Investments are among the many companies that advertise on iVillage.com.

Companies have several options when deciding which type of advertisement to use. The most common form of advertisement are banner ads—strip ads that usually contain a company or product name or some kind of promotional offer. Online consumers merely need to click on the ad to visit either a company’s corporate or marketing Web site. About 50 percent of online advertising consisted of banner ads in 1998. The typical monthly space cost for a banner ad is $10,000. The second most common form of online advertising consists of sponsorships. These ads are typically integrated with a Web community site. For example, Schering-Plough’s allergy remedy, Claritin, is a sponsor of the OnHealth Network’s Web site (www.onhealth.com). This site provides health and fitness information for adults and families. Sponsorships accounted for 30 percent of online advertising in 1998.

Two other types of ads account for most of the remaining kinds of online advertising. Key word ads are linked to Web portals or search engines such as Yahoo! or Excite. Whenever a customer initiates a search using a certain key word, an ad for a product related to that word will appear. Miller Brewing Company, for instance, purchased the key word “beer” on Yahoo!. Every online consumer who searches Yahoo! using that word sees an advertisement for Miller Genuine Draft Beer. Interstitials or intermercials are similar to television ads because they often incorporate video and audio features. An interstitial appears automatically on the computer screen in the time interval after the user clicks on a Web site and before it appears on the screen just as television ads appear in the time interval between programs. Recent research suggests that interstitial ads are twice as effective at generating brand awareness than banner ads. Industry analysts project that by 2002, 50 percent of ads will be banners, 25 percent will be sponsorships, and 25 will be interstitials.

Many companies today have supplemented their online advertising with webcasting—the practice of pushing out corporate and marketing Web site information to online consumers rather than waiting for them to find the site on their own. Webcasting services, such as Pointcast (www.pointcast.com), automatically deliver customized information to an online consumer’s computer, including news, entertainment, and company product and service information, based on their preferences. Webcasting is likely to improve the effectiveness of online advertising. Why? According to one authority on electronic commerce: “Now instead of waiting for Web surfers to stumble onto their sites and banner ads, marketers can send animated ads directly to the desktops of target customers. . . . Merchants can now approach live sales prospects and not just couch potatoes.”
How Companies Benefit from Electronic Commerce and Interactive Marketing

Interactive marketing and electronic commerce have profoundly changed the exchange relationship between customers and companies. Continual advances in interactive digital technology and development of new marketing applications promise even more change in the future.

Marketers recognize the customer value creation potential in the new marketspace. However, electronic commerce and interactive marketing can provide numerous other benefits to companies. Notably, electronic commerce has been already shown to lower costs. Cost savings in inventory handling, order processing, and communications made possible by corporate Intranets, Extranets, and electronic data interchanges are huge. For example, the cost to process an order using an Extranet is $1.50. The same order using paper, including administrative costs, is $40.00—a savings of 96 percent! Similarly, online marketers are not burdened by the cost of building and operating retail stores. This fact has led many retailers to set up Web sites. The Gap, for instance, generates more sales volume from its Web site at (www.gap.com) than any one of its stores save one.

The technology of electronic commerce and interactive marketing allows for greater flexibility in managing elements of the marketing mix. For example, online marketers routinely adjust prices in response to changing environmental conditions, purchase situations, and purchase behaviors of online buyers. For example, Virtual Vineyards offers different prices and deals to its customers depending on how and what they purchased in the past. Other online marketers monitor an online shopper’s “clickstream”—the way that person navigates through the World Wide Web. If the visitor behaves like a price-sensitive shopper—perhaps by comparing many different products—that person may be offered a lower price. The life of an advertisement is
also shortened in marketspace. Many advertisements in marketspace have a life of 4 hours in any 24-hour period and are adjusted to a particular online buyer’s purchase behavior. In short, customization can apply to price and promotion elements of the marketing mix, not just products and services described earlier.

Finally, because the new marketspace has no geographical boundaries, marketers can benefit from its global reach. An online U.S. consumer from Chicago can access Marks & Spencer, the well-known British department store at (www.marks-and-spencer.co.uk) to shop for clothing as easily as a person living near London’s Piccadilly Square. Large and small consumer and business-to-business marketers alike have found that this benefit has broadened their customer base.

Despite these benefits, few companies have mastered electronic commerce and interactive marketing. More often than not, marketers have found the pathway to profit in marketspace to be more illusionary than real because of higher costs and lower profit margins than they anticipated.

**CONCEPT CHECK**

1. What is the difference between a corporate Web site and a marketing Web site?
2. Why is webcasting expected to improve the effectiveness of online advertising?
3. How do companies benefit from electronic commerce and interactive marketing?

**SUMMARY**

1. Consumers and businesses populate two parallel and complementary markets today—the traditional marketplace and the new marketspace characterized by electronic commerce networks and interactive marketing.
2. Electronic commerce consists of a family of electronic networks, each with a different application. Business-to-consumer electronic commerce is the most visible application, involving the Internet, the World Wide Web, and commercial online services. Corporate electronic networks such as the Intranet are used to perform internal company functions, while electronic data interchanges (EDI) and Extranets are used for business-to-business electronic commerce.
3. Electronic commerce creates time, place, possession, and form utility in novel ways, resulting in customer value.
4. Online consumers represent a subsegment of all Internet/Web users and differ demographically from the general population. They tend to be better educated, younger, and more affluent than the general population. The majority are married and male. They also exhibit distinct psychographic profiles.
5. Six general product and service categories appear to be particularly suited for electronic commerce. However, travel reservations, PC hardware and software, and consumer electronics account for the majority of online consumer purchases.
6. Consumers typically refer to six reasons they prefer to buy online: convenience, cost, choice, customization, communication, and control over the purchase process. However, consumers are concerned about privacy and security when making online purchases.
7. Marketers create a presence in the new marketspace through Web sites and online advertising. Web sites come in two forms, corporate Web sites and marketing Web sites. Marketing Web sites are of two types: (a) transactional sites and (b) promotional sites. The principal form of online advertising is banner ads.
8. Electronic commerce and interactive marketing not only provide novel opportunities for customer value creation but also result in cost savings, marketing mix flexibility, and global exposure.

**KEY TERMS AND CONCEPTS**

- marketspace
- electronic commerce
- interactive marketing
- Internet
- World Wide Web (WWW)
- commercial online services
- Intranet
- electronic data interchange (EDI)
- Extranet
- bots
- portals
- cookies
- corporate Web site
- marketing Web site
- Web communities
- webcasting
INTERNET EXERCISE

What are the most recent statistics and trends in interactive marketing and electronic commerce? Look no further than Nua Internet Surveys (Nua), an online service that abstracts up-to-date research on Internet/Web usage and applications from around the world. Nua conveniently organizes research by business, social, technical, demographic, and geographic categories for easy inspection.

Visit the Nua Web site at www.nua.ie/surveys. Your assignment is as follows:

1. Choose a topic covered in the chapter that interests you, such as the demographics of Internet/Web users. Compare and contrast the most recent research published in Nua with information contained in the chapter. Don’t be surprised if you find differences!

2. Choose two regions of the world, such as North America and Europe. How does Internet/Web usage and electronic commerce differ between the two regions based on the most recent research?

APPLYING MARKETING CONCEPTS AND PERSPECTIVES

1. How do marketers use the Internet, Intranets, electronic data interchanges (EDI), and Extranets to create customer value through electronic commerce?

2. By mid-1999, only about 25 percent of Internet/Web users had actually purchased something online. Have you made an online purchase? If so, why do you think so many people who have access to the Internet and the World Wide Web are not also online buyers? If not, why are you reluctant to do so? Do you think that electronic commerce benefits consumers even if they don’t make a purchase?

3. Compared to the marketplace, the marketspace offers marketers opportunities to create greater time, place, form, and possession utility. How do you think electronic commerce rates in terms of creating these values? Take a shopping trip at a virtual retailer of your choice (don’t buy anything unless you really want to), or choose from one of the companies listed below. Then compare the time, place, form, and possession utility provided by the virtual retailer with that you enjoyed during a nonelectronic experience shopping for the same product category. Here are some sites you might like to visit: www.usairways.com; www.jango.com; www.dell.com.

4. Visit each of the following Web sites: www.singles.com; www.wsbnbc.com; www.schwab.com; www.virtualemporium.com; www.gateway.com. Which of the iVALS segments would be most attracted to each of these sites? Why?

5. Suppose you are planning to open an electronic store on the World Wide Web. How likely would a Web site featuring each of the following product categories be to succeed? Why?
   a. High-priced, high-fashion women’s shoe salon.
   b. An energy comparison shopping service where consumers can shop for the best gas and electricity rates.
   c. Video rental service.

6. Visit Internet bookseller www.amazon.com or www.barnesandnoble.com. As you tour the company’s Web site, think about how shopping for books online compares with a trip to your university bookstore to buy books. Specifically, compare your shopping experiences with respect to each of the six Cs of electronic commerce.

7. Suppose you are planning to buy a new car so you decide to visit www.autobytel. Based on your experience visiting that site, do you feel you would enjoy more or less control in negotiating with the dealer when you actually purchase your vehicle?

8. Visit the Web site for your university or college. Based on your visit, would you conclude that the site is a corporate or a marketing site? Why? If it is a marketing Web site, is it a transactional site or a promotional site? Why?

9. Visit a Web community such as www.women.com or www.parents.com. What companies/products advertise on the community’s Web site? Why do you think those companies/products chose the Web community as an advertising venue? Do you think the choice was a good one? Why?

10. One of the benefits that electronic commerce and interactive marketing provides for companies is the ability to obtain consumer information that can be used to more effectively manage the marketing mix. Catalina Marketing Corporation, for example, creates profiles of its online customers’ product category and brand preferences and use this information to generate personalized coupons. Some consumers, however, worry about their privacy as companies like Catalina create highly detailed customer databases. Visit Catalina’s Web site at www.valuepage.com to determine what information you must provide to obtain your own customized coupons. Is the added value of the coupons worth the price of the information you must reveal to get it? Why or why not?
“America Online started as a vision of Steve Case to provide basic e-mail and bulletin board communication services,” says Wendy Brown, vice president of commerce strategy at America Online (AOL). This, of course, was several years before the commercialization of the World Wide Web (WWW) and the Internet. Over the years, AOL has added a variety of communication services, information “channels,” shopping opportunities, and personalization features. Today, AOL has become the convenient tool that, according to Brown, “people use to be able to manage their lives, stay in touch with others, buy things, and learn.”

THE COMPANY

Myer Berlow, senior vice president of interactive marketing, says, “the important thing to understand about our business model is that we have a dual income stream. We have subscriber revenues and we have other revenues, namely advertising and e-commerce.” To maintain its revenue growth, AOL has had to address several key challenges—including attracting new members and managing its network “access” capabilities.

The essence of AOL’s growth strategy is to be the easiest and most convenient Internet online service. To increase the number of members, AOL has developed several programs to get its software in the hands of potential customers. For example, AOL has mailed disks to computer users, shrinkwrapped copies with computer magazines, and placed freestanding displays in selected retailers. In addition, AOL has offered up to 250 free hours to potential customers to encourage them to explore the service during a one trial-month period. To ensure that installation is easy, the software is designed so that trial users of AOL’s service only need to “point and click” and the software installs itself. To make the access and navigation of its online service easy, AOL designed a well-organized, graphical user interface to allow users to quickly and easily navigate the service. These and other design features have been important elements in converting trial users to paying members.

AOL has also grown through key acquisitions and alliances. In 1997, AOL purchased Internet pioneer CompuServe, which had approximately 2 million members worldwide. In 1998, AOL’s acquisition of the leading Internet browser, Netscape, brought an additional 15 million members to the company. “Our merger with Netscape provides us with another world-class brand, a fast-growing portal, innovative talent, and cutting-edge technologies,” said Steve Case. AOL also entered into strategic alliances with Sun Microsystems to provide software for e-commerce, Bell Atlantic to provide convenient and affordable high-speed online access to millions of AOL members across the United States, and DirectTV, Philips Electronics, and others to add interactivity to the television viewing experience.

To manage growth, AOL has had to revise how to predict and deal with unexpected demand for its service. When AOL switched from usage (time spent) to flat-rate (monthly fee) pricing a few years ago, it created an “access crisis” that made the nightly news. Demand temporarily surged beyond AOL’s capacity and caused members to receive unwanted busy signals. AOL failed “to estimate what kind of pent-up demand there was among our members,” Brown said. That challenge has since been resolved, as AOL spent millions of dollars to add connectivity capacity.

AOL has now become the largest online service in the world with over 18 million “members” or paid subscribers who connect to the service an average of 55 minutes per day. Millions more access its Web site, www.aol.com. In 1998, about 16 percent of AOL’s $2.6 billion in revenues came from advertising and e-commerce, a substantial increase from 9 percent in 1996.
E-COMMERCE AT AOL

Nearly 9 million U.S. households had shopped via the Internet in 1998, generating $7.8 billion in online retail sales, according to a report from Forrester Research, Inc. By 2003, more than 40 million U.S. households will shop online, producing $108 billion in revenues, and accounting for 6 percent of U.S. consumer retail spending. “The Internet is the first medium that really solves the marketers dilemma. It lets consumers seek information about a particular brand and enables them to buy it quickly, thereby simplifying the entire purchase process,” says Berlow.

The potential of e-commerce became clear during the 1998 holiday season when AOL members spent $1.2 billion online. During this period, almost 1.25 million AOL members made their first purchase online. AOL estimates that 84% of its present members “window-shopped” and 44% bought merchandise through AOL or aol.com. Members who shopped online were very satisfied with the experience. They said they appreciated AOL’s ease-of-use, convenience, and security of their online transactions, not to mention the great values offered by many of its retail partners. Moreover, research indicates that once members shop online, they develop an e-commerce habit, purchasing one to three items during the first three months alone.

This success was largely due to the 110 merchants and “e-tailers” (such as Eddie Bauer, J. Crew, Toys “R” Us, Macy’s, Barnes and Noble, Digital Chef, etc.) AOL partnered with to enhance AOL’s Shopping Channel. AOL’s e-commerce goal is to offer consumers “one-stop shopping” convenience, branded products and services, and value. What are AOL shoppers buying? Based on traffic averages to AOL Shopping Channel departments, the Toys, Kids, and Babies category held the number-one spot, followed closely by apparel. The average AOL holiday shopper purchased two items online every week during the holiday shopping season and spent about $54. Since interactive marketing and e-commerce are growing rapidly, AOL continues to attract e-tailers, other mass merchandisers, and service providers to sell their wares through AOL. Recent agreements with Unilever, First USA (credit cards), Citibank, AmeriTrade and e-trade (brokerage), eBay (online auctions), and The Financial Times (news) are among many companies partnering with AOL in long-term relationships.

ENSURING THE FUTURE OF E-COMMERCE

While the future of e-commerce looks bright, AOL faces several important issues. According to a Boston Consulting Group study, retailers must continue to offer consumers compelling reasons to shop online. Further advances in convenience, cost, choice, customization, communication, and control must be made for more consumers to change their shopping behavior. With respect to convenience, “portals” are expected to be the primary means consumers will use to access and browse the Internet. While AOL is the world’s leading Internet online service, it will need to promote and defend its leadership position against the efforts made by Disney, Microsoft, Yahoo!, and other formidable competitors.

In terms of cost, consumers should benefit by reduced costs for products and services purchased online because they can order directly from the manufacturers, retailers, or service providers. Moreover, they can search the Internet for the best price for the products and services they desire. However, retailers often must resolve channel conflicts that arise as a result of selling online directly to consumers. Specifically, some potential online retailers may hesitate or choose not to sell online because it might cannibalize sales through existing channels, alienate existing distribution partners, and, more important, lower margins for all in the channel. Retailers who choose to sell online may be able to charge a premium if they provide superior service, enhanced features, and a strong brand presence not found on other online portals’ or retailers’ Web sites.

Giving consumers choice in their Internet experience will continue to be critical. AOL must continue to expand the choices available to its subscribers, both in terms of the types (shopping, e-mail, messaging, news, etc.) and depth (number of retail partners for each shopping category) of the services offered. These retail partners must provide AOL members with a broad array of goods and services available for browsing or purchasing online. To date, AOL has offered the most comprehensive array of top brand names and it must continue to do so.

As Dell Computer, Mattel, and other companies have demonstrated, “build-to-order” systems allow customers to customize their product and service purchases with the feature set they want and at a price they can afford. For AOL and its partners, the continued integration of manufacturing, database, customer service, and fulfillment or service delivery systems must provide consumers with the customization they desire. In addition, communications issues must be resolved. Cable modems, digital subscriber lines (DSL), fiber optics, and other technologies
need to become more readily available to consumers. AOL’s alliances with telecommunication companies and acquisitions of Personalogic and When.com are a start but more needs to be done.

Finally, online consumers want to control the personal and financial data that is gathered during an online visit or transaction. Specifically, they want to know whether their data is safeguarded, how it is used by e-tailers, and if it is disclosed to other organizations for marketing purposes. Consumers also want the ability to restrict access to morally objectionable Web sites and “chat rooms” and to protect their computers from “viruses.” International Data Corporation estimates the market for Internet security software to reach $7.4 billion by 2002. While AOL has taken the lead in developing its “Parental Controls” as well as an extensive privacy policy, additional efforts may be required as international e-commerce grows and demands for a “safer” Internet increase. Overall, consumers seem to be—as was the case with ATM machines—becoming more and more comfortable with shopping online, which is—at least on AOL—safer than handing over your credit card at a restaurant.

Questions

1. How has the vision or mission of AOL changed from the early 1980s to the present?
2. How does AOL facilitate online shopping or e-commerce? What are the advantages and disadvantages of using AOL for online shopping versus the more traditional method you may use?
3. What challenges has AOL overcome to attract both consumers and retailer partners to engage in e-commerce? What challenges do they still need to overcome?
4. What are the six “C’s” of e-commerce and what is AOL’s marketing strategy in each of these areas?
CREDITS
