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How the Internet is Changing Traditional Marketing

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Contents

Abstract

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

Keywords

E-commerce, Internet Marketing, Consumer Behaviour, Marketing Management

How the Internet is Changing Traditional Marketing

Introduction

The 'Internet' is used here to include the PC (Personal Computer), TV (Television), mobile (telephone), and PDA (Personal Digital Assistant) access. Internet marketing is defined as the use of the Internet for marketing of products, or services, sold either on the Internet or through traditional channels. The focus is on consumer Internet marketing, although it is estimated that by 2002 business-to-business will exceed consumer e-commerce (***Activ Media***, 2001).

Many believe that we are in the midst of a marketing revolution. Deighton (1997: 347) writes, "The ferment in the field of marketing in particular is unprecedented" and predicts that "marketing intellectual capital" is depreciating faster than ever before. Peterson ***et al*** (1997: 340) maintain, "It is already clear, however, that the Internet is changing the rules by which marketing is conducted and evaluated". Sheth and Sisodia (1999: 86) took a similar view, "Collectively, these changes are rendering much of marketing's toolkit and conceptual inventory somewhat obsolete"; but urged marketers to adapt to the changes facing them. Robbins (2001: 270), claims "Internet marketing has definitely arrived, will grow apace, and will rapidly exert a pervasive influence on all marketing and business practice".

Coltman ***et al*** (2000) argue that the e-business revolution is a myth. Following Castells (1996), they define revolutionary change in terms of pervasiveness and impact on processes. They argue that the Internet is not pervasive because it has not yet transformed the lives of consumers, with much of the change occurring upstream in the business-to-business arena. They suggest that we are not seeing a revolutionary e-business change but the result of an evolutionary integration of IT into work practices. However, it is easier to recognise a revolution with hindsight, eg during the industrial revolution changes may have seemed evolutionary and erratic.

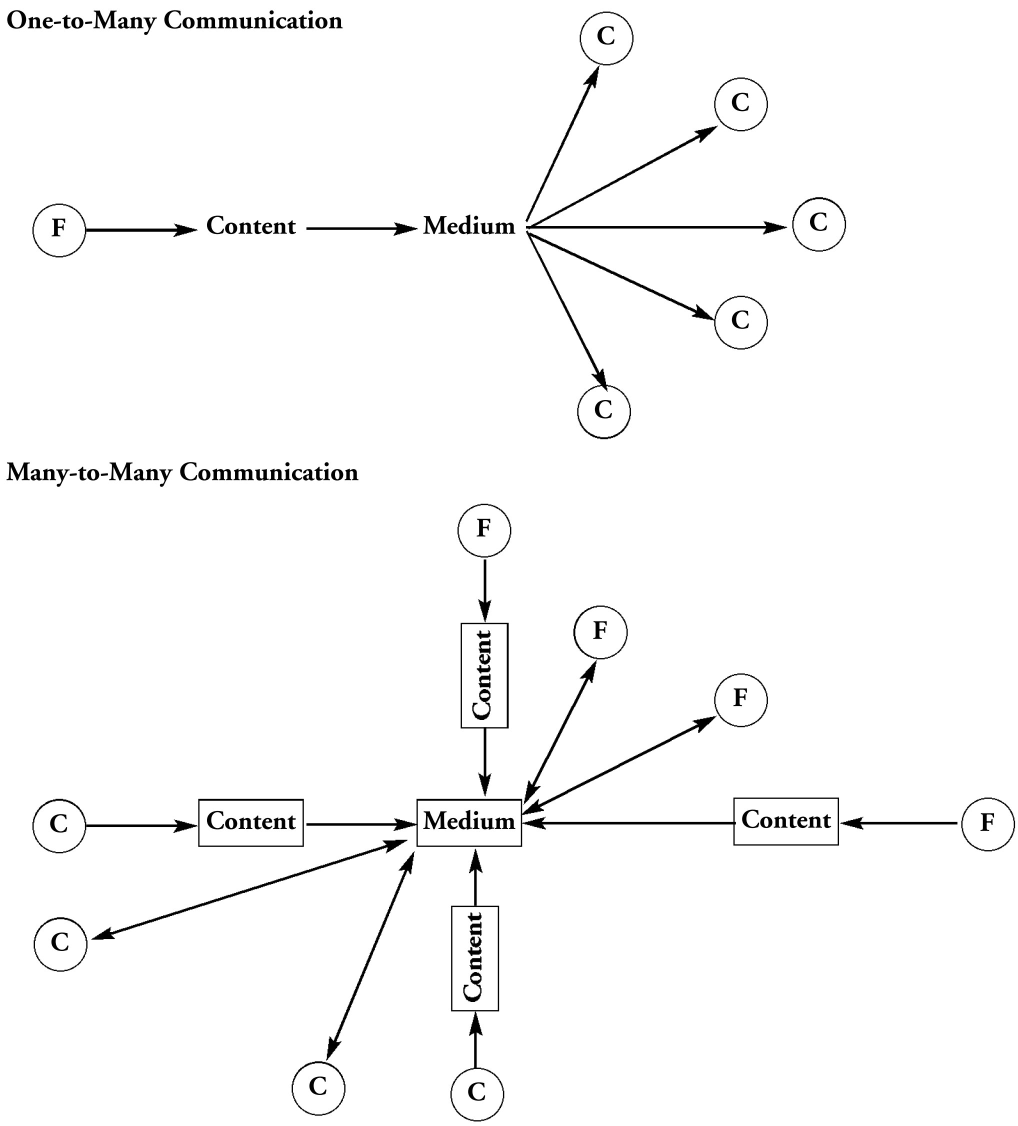
Whether or not this is revolution or evolution, it is essential that we understand the nature and extent of these changes. There appear to be at least three different sources of marketing change. First, the Internet is altering our culture, and this in turn, is likely to change the way we react to marketing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

The Characteristics of the Internet

The changes produced by the Internet arise from its basic characteristics. Hoffman and Novak (1996) claim that, on the Internet, interactions change from a one-to-many process to a many-to-many process, as shown in Figure 1. In a many-to-many process, consumers can interact with the medium, and with one another, in a new way. In traditional marketing communications, the consumer is passively exposed to product information. In interactive marketing, the consumer actively participates in the communication process. The information received by the consumer depends on how s/he interacts with the medium, changing communication from a push to a pull medium (Bezjian-Avery, Calder, and Iacobucci, 1998), and transferring control of the marketing relationship to the consumer.

The many-to-many nature of the Internet increases the power of consumers in three ways

Figure 1: One-to Many and Many-to-Many Communication



- first, the medium is interactive
- second, communication depends on consumer choice
- third, the medium facilitates exchange between consumers, creating opportunity for collective consumer action.

The digital nature of the Internet (Timmers, 1999) is the second critical attribute. Harnessing computer processing power enables synchronous interaction, reduces costs, enables customisation and personalisation of Internet marketing. It also facilitates the use of multimedia and rich information, and induces an information-processing mode of consumer behaviour. Furthermore, the digitisation of the Internet transforms many-to-many communication into one-to-one communication. Peppers and Rogers (1993) argue that digital marketing completely changes marketing from a predominantly one-way broadcast model to a totally interactive model of personalised one-to-one relationships. Deighton (1997) singles out two features of Internet communication, addressability and responsiveness, and argues that when addressability and responsiveness co-exist, a medium has the potential for conversation and intimacy.

The ubiquity of the Internet in terms of both its geographical reach (Hamill, 1997) and availability 24/7 are also important. The former increases the rate of marketing diffusion and encourages international standardisation; the latter improves availability and consumer service.

Robbins (2001) summarises the benefits of Internet marketing for the consumer as the eight 'Is':

- inexpensive
- interactive
- involving
- information-rich
- instantaneous
- intimate
- individual
- intelligent

and describes these as a new 'E Marketing Mix'. These all derive from the three fundamental characteristics of the Internet described above: many-to-many interactivity, digitisation and ubiquity.

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

Facilitators

The Internet clearly has a role in both marketing strategy and in the traditional areas of operational marketing: promotion, distribution, product and price. Strategically, it assists segmentation and targeting, and is an instrument for market research, (secondary research, online surveys, online focus groups, email panels, etc). As a market research tool, the Internet not only implements traditional methods, but also provides a free, fast direct channel of information from the consumer (Aaker and Joachimsthaler, 2000).

The Internet was initially seen as a new advertising medium, with web sites as virtual perpetual posters and banner advertisements as the gateways to these web-sites. As a medium, Internet advertising has been disappointing and has declined in the first two quarters of 2002; Jupiter estimate that Digital marketing revenue will surpass Internet advertising revenue in 2005. (Pastore, 2001). Click-through rates have fallen to less than 0.3 per cent and many Internet businesses have transferred their advertising to traditional media. However, there is considerable evidence that advertising banners work better as virtual 'posters' than as gateways, with the branding and image enhancement effect being up to ten times the click-through rate (Briggs and Hollis, 1997).

The potential of the Internet in many other areas of promotion is also recognised (McGaughey and Mason, 1998). The Internet is a low cost, direct marketing tool; email marketing is one of the most effective online marketing tools with a response rate of up to 15 per cent, (Niall, 2000). It can be used for PR, sponsorship, and for building brand image (for example, Pepsi's association with music sites to enhance its young image). Aaker and Joachimsthaler (2000) give the example of Iomega who increased demand for their Zip drives by fuelling positive word-of-mouth in online chat and discussion boards.

The potential of the Internet as an intermediary was quickly realised, with several authors predicting disintermediation of traditional retailers (Malone, Yates and Benjamin, 1987; Benjamin and Wigand, 1995). Others predicted that electronic commerce would lead to the emergence of new types of electronic intermediaries (Sarkar, Butler and Steinfeld, 1995; Bailey and Bukos, 1997). These are emerging and include virtual malls, electronic 'brokers', rating services and automated ordering services. For the manufacturer and brand manager, disintermediation and new intermediaries are an opportunity rather than a threat. The Internet is also a low-cost and efficient distribution medium for information-intensive products such as news, software, music and video.

The Internet has made new types of product possible, such as CD Now's customised CDs, and Mattel's personalised Barbie dolls, changing the role of the consumer from passive recipient to product designer. Slywotzky (2000) introduces the concept of the 'choiceboard' whereby consumers design their own products (eg Dell's on-line computer configuration) and predicts that by 2010 choiceboards will be involved in 30 per cent of US commerce. The Internet has a role in new product development; McKenna (1995) describes how Phillips uses online discussions to brainstorm new product ideas and suggests that dialogue with customers during the development process can increase the speed of acceptance.

The Internet enables new pricing mechanisms such as dynamic pricing (eg airline seat pricing) which increases both utilisation and profit, and simplifies the auction process as demonstrated by Ebay.com.

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

Threats

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

Coltman ***et al*** (2000) distinguish between two sources of brand strength: attribute advantage and emotional association. They argue that the Internet supports highly rational shopping, encouraging dispassionate comparisons of prices and features, which may undermine brand values based on facts. This is consistent with empirical research by Degeratu, Rangaswamy and Wu (1999), who suggest that brand names will be more important in categories differentiated by brand image, but less important for functional products. However, Chen (2001) points out that there is no evidence of reduced strength of brands, and that branding has been a key factor in the success of Internet companies such as Amazon. On the Internet, branding may be partially substituted by the creation of technical switching cost (people are loyal to Microsoft Internet

Explorer not because of the brand strength, but to avoid the inconvenience of switching browser). The role of branding is also reduced by outsourcing quality assurance to trust services and by the use of 'sticky' features such as users' diaries to encourage repeat usage .

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

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

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

Loss of control of marketing information is another danger. Currently, manufacturers can control marketing information using segmentation to target appropriate marketing information to a specific consumer. Growing penetration of the Internet allows more consumers to find out what they want to know about brands, rather than what marketers want them to know (Mitchell, 1997, cited in McEnally and de Chernatony, 1999). De Chernatony (2001: 189) writes, "Customers learn about brands through electronic conversations with other customers and brand owners need to listen and respond to these conversations".

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

A further threat is to the integrity of the marketing interface. It is difficult to prevent unofficial consumer opinion sites such as Globalexchange.com on Nike, Mcspotlight.com (anti-McDonalds site) or Untied.com (United Airlines). Similarly, it is hard to stop other sites from linking their site to your site, and therefore creating the impression that they are endorsed. For instance, a site about unhealthy junk food can insert links to Mars confectionery sites.

New Marketing Tools

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

A wealth of new marketing techniques have appeared. These include:

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

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

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

With the development of mobile and PDA Internet, segmentation and targeting can include time and place, so that communication and promotion are tailored, for example, to those within a one-mile radius of a restaurant at lunch time.

Hanson (2000) claims that the Internet is creating new marketing interfaces. He predicts the emergence of marketing and consumer digital agents to create three new interfaces: marketing agent to consumer, consumer agent to marketer, marketing agent to consumer agent..

Avatar sales assistants, with different personalities tailored to different consumer types, are being developed. Intelligent agents have been developed to answer marketing queries using Internet chat or through the exchange of SMS short text messages. There will also be product-to-marketing interfaces as household appliances, cars and vending machines are linked to the Internet.

Conclusion

The many-to-many nature of the Internet allows consumers to play a more proactive role: soliciting information, sharing information in communities, specifying products, proposing prices, and permitting marketing. In traditional marketing, 'consumer behaviour' often refers simply to response patterns to marketing actions; in the new arena consumer behaviour is potentially more complex, instigating and controlling the relationship. This moves power towards the consumer, radically altering the nature of marketing management.

The Internet is revolutionising marketing, radically changing the relationships between consumer, intermediary and manufacturer. Digital marketing enables one-to-one communication which allows companies to address consumers individually and interactively, developing relationships and tailoring marketing. Marketers need to move away from the paradigm of broadcast mass marketing and adopt interactive marketing techniques. They no longer need to find the USP (unique selling proposition) that will appeal to most consumers, but are free to communicate different benefits and combinations of benefits optimised for specific consumers. This is the real threat to brands; brands are created by broadcast mass marketing with the repeated transmission of constant brand values in coherent consistent messages.

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