Impact of the Internet on Marketing Strategy Formulation

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Abstract

The Internet has become an indispensable tool for today's businesses. Every business organization is using it in some way or another these days. Marketing managers who fail to use the Internet in in formulating their companies' marketing strategy will be at a disadvantage. This paper discusses how the Internet is impacting the conduct of a firm's marketing strategy. The discussion includes the impact of the Internet on product and brand strategy, pricing strategy, distribution, and promotion strategy.

Keywords: Internet; Marketing strategy; Recommendation systems; Death of distance; Disintermediation

Introduction

The Internet is revolutionizing the way business is conducted and its use is becoming increasingly critical to the success of business firms. The Internet is becoming such a pervasive tool that every company will be using it in some way or another in a few years. It is a powerful tool that a business can use to obtain a competitive advantage. It offers many opportunities for businesses to grow in sales and reduce costs. According to the American City Business Journal, small businesses that use the Internet have grown 46 percent faster than those that do not (Howard, 2002). Some of the major changes brought about by the Internet can be seen in the way we purchase products and services, obtain information, and conduct our banking. Customers can quickly find product and price information and obtain advice from a wide variety of sellers. Online visitors can check product availability, place an order, check the status of an order, and pay electronically. The use of the Internet empowers customers because they can go on the Web and quickly find out where to get the lowest prices for a particular product or service. Consumers benefit from the Internet because it reduces search costs for products and product-related information. E-tailing increases competition by pitting local against national and international competitors (Quelch and Klein, 1996).

Business organizations will not survive the Internet era unless they change the ways in which they conduct their business. However, there has been a tremendous amount of hype about e-commerce. The truth is that despite the changes brought about by the Internet, e-commerce is based on the same fundamental principles that have governed businesses for thousands of years (Howard, 2002).[4] Yet a lot of businesspeople view it as something completely new that requires a new way of doing business. Success in the Internet age is about learning the new rules of business while not giving up on the basic business principles. Many Internet-based companies fail because they were built on business models that had no chance of ever making a profit (Howard, 2002). While the Internet has become an indispensable tool in marketing, many marketing managers do not understand how to integrate the Internet in their marketing strategy.

Developments in Web based technologies make it necessary to rethink how firms should conduct their business and market their products as this new technology affects all aspects of marketing (Hoffman, 2000). Marketing success depends on the extent of market orientation of the business. Companies that fail to take the customer point of view in designing their Web strategy have only a slim chance of succeeding. Unfortunately, many firms use the Internet without considering how it fits within their marketing strategy. In this paper we provide a number of Internet-based marketing strategies in the various areas of the marketing mix. This paper fills an important gap in our understanding of how to integrate the Internet in marketing strategy formulation. We argue that the Internet should be viewed as part of the firm's long-term marketing strategy and it should be integrated with all other means of formulating and implementing strategies in a way that it conforms to the principles of a sound business strategy (Capon and Hulbert, 2001). Marketing strategist can use the ideas presented in this paper to formulate more effective Internet-based marketing mix strategies. The next section considers the role of the Internet in developing product, brand, pricing, distribution, and promotion strategies.

1. Impact on Product and Brand Strategy

Internet-based technologies have significantly reduced the marginal cost of producing and distributing digital goods such as software, news stories, music, photographs, stock quotes, horoscopes, sports scores, and health tips. Some firms such as America Online are selling large aggregations of such digital goods for a low flat monthly fee. Such aggregation of so many products would be extremely expensive using traditional distribution media. Such bundling offers economies of aggregation that favours large distributors of such bundles and makes it difficult for smaller companies that sell unbundled products to compete effectively (Bakos and Brynjolfsson, 2000). The Internet has helped create digital goods such as music, software, videos, and pictures. It also enables customization of digital and non-digital products. For example, online customers can purchase personal computers on the Internet in a variety of combinations by choosing the appropriate features or music retailers can create CDs containing songs ordered by customers.

A more recent Internet development is recommendation systems that are a form of mass customization (Ansari, Essegaier, and Kohli, 2000). Search engines such as Google and Yahoo use such recommendation systems to recommend relevant products or services on the basis of keywords supplied by users. Electronic book sellers such as Chapters.ca and Amazon.ca, when a customer is searching for a specific book, recommend other books that the customer could also purchase on the basis of past purchases of other customers. It is important that online companies adopt physical and technological processes to keep personal information safe and secure. Many Internet companies take measures to reassure customers that any information customers provide will not be misused and that they will maintain their privacy in order to convince customers that the site is secure. Online businesses state their privacy policy in their websites where they explain what information they do and do not gather when someone visits their site.

E-businesses also guarantee that if the customer information is abused, they will be responsible for any financial losses that may occur. Usually, the personal information provided to the e-tailer when an order is placed or an account is opened is secured using Secure Socket Layers (SSL) encryption technology. The SSL technology prevents such information from being intercepted and read as it is transmitted over the Internet to the company's servers. This information is decrypted only when it reaches the company's servers and is then stored on restricted access computers located at restricted access sites. Online companies create strong e-brands and highly satisfied customers by providing them with a positive experience and with the use of traditional advertising and promotional efforts. Many of the things that lead to higher customer satisfaction and loyalty in traditional businesses also work in e-businesses. Delivering excellent service and value is equally important for customer satisfaction, customer loyalty, and retention in offline and online businesses. Companies hoping to attract and most importantly retain visitors to their website need to improve their service levels and offer online customers superior value and satisfaction.

Branding is becoming important in Internet-based businesses because online consumers prefer to buy from well-known and reputable e-companies. Companies such as Amazon.com and Schwab are widely known, recognized, and trusted by online consumers. Many consumers avoid purchasing online because of trust and privacy issues (Ipsos Reid, 2002). Gaining people's trust is a major challenge for Internet companies as many online visitors are reluctant to provide credit card information because they do not trust the visiting site. Traditional retailers with established names usually have an advantage over certain Internet-only companies because they have been known for years and enjoy a higher degree of trust by consumers. The reputation and image of the website may have an impact on the offline business.

2. Impact on Pricing Strategy

Among the marketing areas that have been affected the most by the Internet is pricing. The Internet influences a firm's pricing strategy in multiple ways, including providing consumers with more information, increasing competition, increasing the number of suppliers, the establishment of various auction houses, and pricing research.

1. **Increased information.** One major effect of the Internet is the explosion of information that has resulted in more competition among firms and lower prices (Zettelmeyer, 2000). Many Internet-only companies offer substantially lower prices than other retail or even mail order firms. For example, customers of Autobytel.com, an Internet referral service on automobile dealer pricing, pay less for a particular car than customers who don't use this referral service (Morton, Zettelmeyer and Risso, 2001). Online book and CD prices are 9 to 15 percent lower than prices in conventional retail stores (Clay, Krishan, and Wolff, 2001).

2. **Interactive Shopping Agents.** The Internet makes the search for the lowest price for products easy, quick, and at a low cost, especially with the various interactive shopping agents which provide one-click access to price and availability information about a relatively large number of online suppliers (Iyer and Pazgal, 2003). Interactive shopping agents or shopbots are designed to make online shopping easier by checking availability and company prices of the same item in different online stores.
3. **Growth of Online Suppliers.** The growth of Internet users and the entry of large numbers of electronic retailers, which have provided online shoppers with a wide variety of choices - further enhancing their bargaining power - are putting downward pressure on prices include. The number of suppliers has increased even further by the elimination of the distance barrier, as people can now purchase from online vendors located anywhere in the world, and the elimination of many traditional intermediaries has led to lower prices.
4. **Auction houses.** The various Internet auction houses such as eBay.com also affect the prices of products sold on the Internet. Online auctions serve as powerful methods of real-time pricing. These auctioneers enable buyers and sellers to buy or sell products through an online bidding process that usually results in products sold at lower prices. The Internet is making it possible to auction many more products than has ever been possible previously. One of the biggest problems with auctions was bringing enough bidders together in the same place at the same time. The Internet has solved this problem, as bidders no longer have to be physically present, decreasing the cost of participation in auctions, and increasing the number of bidders. The larger number of participants often results in somewhat higher auction prices making auctions more profitable to sellers in comparison with non-Web auctions (Hanson, 2000).
5. **Pricing research.** Another impact of the Internet on pricing practices is that it offers marketers excellent new pricing research and testing capabilities. In contrast to traditional retailing where pricing research is costly in terms of time and money, the Internet allows marketers to research and test pricing decisions in real-time and with low costs. By making it easier to track consumer responses to prices, e-tailers can set prices with far greater precision - and make appropriate price adjustments when necessary (Baker, Marn, and Zawada, 2001). Online pricing research makes available information from multiple sources such as customer buying history stored in databases or in cookies created in customers' computers or clickstream information. Such pricing information can help managers segment their markets in new ways and uncover profitable customer groups. For example, Zilliant, an electronics company reduced the price of its four products by 7%. Revenues from three of the four products increased by 5% to 29% but the volume increase wasn't enough to offset the revenues lost due to the price reduction. However, sales of the fourth product more than doubled because it had uncovered a new segment of latent demand made up of high school and university students. This finding led the company to create a special website for these segments and offer special prices not available to other segments (Baker, Marn, and Zawada, 2001).

Despite some evidence that prices in electronic commerce are lower than in brick-and-mortar stores, there is skepticism as to whether the Internet leads to lower prices across the board. Although price is an important factor in consumer decision-making, it is not always the main criterion when people are making buying decisions. Other factors such as product quality, shipping and handling fees, ease of ordering, customer support, and timely delivery may be equally or even more important than price to online customers. Also, as the number of electronic companies grows, search costs increase. One weakness of shopbots is that they do not provide online consumers with non-price information such as shipping and handling fees, customer support, delivery, and other types of information required to make a buying decision.

Collecting such information requires time and increases search costs. As a result, many online consumers try to reduce search costs with decision shortcuts such as purchasing from a recognized and trusted electronic retailer, even if that company charges higher prices than the competition (Suri, Long, and Monroe, 2001). This explains why well-known electronic retailers charge higher prices than lesser-known competitors without experiencing a decline in sales. For example, even with the proliferation of shopbots, Amazon.com's market share increased from 64 to 72 percent and Barnes & Noble's from 12 to 15 percent between 1997 and 1999 even though they raised prices by 8 and 7 percent respectively while discount rival Book-A-Million lowered prices by 30 percent during this period (McKinsey Marketing Practice, 2003). The preference by consumers to purchase goods from well-known and reputable online stores often forces firms to spend considerable amounts of money on marketing and promoting their site.

This, in turn, necessitates charging high prices to cover these expenditures and earn a profit. Also companies that sell their products through both online and offline channels do not lower their prices for fear of alienating traditional distribution channel members.

1. Studies suggest that online consumers are not as price sensitive as it was once thought and do not actively search for the best price available. A study of online shoppers found that 89% of book buyers, 84% of those buying toys, 81% of music buyers, and 76% of those buying electronic products do not actively search competing sites but purchase from the first site they visit (Baker, Marn, and Zawada, 2001). Also, in a study of North American consumers, fewer than 10% of online customers were aggressively looking for bargain prices; the rest of them returned to the same site when making a purchase rather than searching for the best price (Baker, Marn, and Zawada, 2001).

3. Impact on Distribution Strategy

Electronic channels are any channels that involve the use of the Internet as a means of reaching end users (Coughlan, Anderson, Stern, and El-Ansary, 2001). The Internet is changing distribution like no other environmental force since the industrial revolution because it breaks many of the assumptions on which channels are based, transforming or even obliterating channels themselves in many cases, while giving rise to new forms of channels of distribution (Pitt, Berthon, and Berthon, 1999). The Internet is in many respects both a retail store and a delivery medium. The customer first locates a product such as computer software or airline ticket and then makes a purchase online. Once credit card information is entered, the customer proceeds to download the software. For non-digital products, the seller must arrange with a shipping company to have them delivered to the customer's address. Online distribution has a number of characteristics which differentiate it from offline distribution.

- **Greater convenience.** Convenience of online shopping, by allowing consumers to shop at home, is one of the biggest advantages of electronic shopping (Coughlan, Anderson, Stern, and El-Ansary, 2001). The Internet makes shopping more convenient as consumers can search and compare products and prices and place an order without visiting stores. People who prefer shopping online value the convenience of shopping anytime of the day and that it takes less time to complete the purchase than when shopping offline. In a study of business to business companies, it was found that most purchasing managers buy online because it lowers transaction and search costs and because it automates purchasing information for tracking inventory (Baker, Marn, and Zawada, 2001).

- **More time consuming**. One disadvantage of e-commerce is the time it takes for delivery of the merchandise after the order is placed. This is not a problem for downloadable digital goods such as stock trading, music, online banking, movies, videos, and software. But non-digital goods such as books and DVDs must be shipped after the customer places an order and it can take a substantial amount of time for delivery of the merchandise. Consumer demands for faster delivery is putting pressure on e-tailers to increase the speed of product delivery and has enhanced the importance of quick delivery companies such as UPS, Federal Express, and others. To alleviate this problem, some electronic retailers offer various shipping choices ranging from overnight express or Canada Post Xpresspost to slower shipping methods such as U.S. ground mail and Canada Post's Expedited Parcel service.

- **Different cost structure.** The Internet is a channel of distribution with a different cost structure (Lal and Sarvary, 1999). The Internet does not necessarily imply lower distribution costs for customers because of costs associated with returned merchandise, difficulty in returning products, concerns about slow product delivery, and high shipping and handling fees. A report by Retail Forward discovered that 56% of Internet buyers decided to make a purchase because they were offered free shipping. In addition, 70% of Internet shoppers stated that they would shop online more if they didn't have to pay shipping and handling charges (Internet Retailer, 2002). Recently Amazon.ca and Chapetrs.ca reduced the minimum purchase required for free shipping to $39. Buy.com and J&R offer free shipping on selected items.

- **Electronic data interchange**. The Internet offers firms the ability to use Electronic Data Interchange (EDI) systems, which are used to integrate the computers of different companies. EDI consists of various electronic technologies that enable companies to share data on shipments, orders, and sales (Coughlan, Anderson, Stern, and El-Ansary, 2001). It commonly involves a computer platform that is proprietary to the buyer making it necessary for suppliers serving many retailers to use a different computer for connecting with each customer.

EDI is used by many business-to-business firms and most major retailers. EDI technology allows firms to improve sales forecasting and reduce the amount of inventory they carry along with the costs associated with high inventory levels such as pilfering, obsolescence, and tying up scarce capital. Also, there is a much better information flow about sales of specific items to the supplier, who, this way, knows what to replenish and when. For example, when a customer buys a certain type of toothpaste at retail, the item sold is recorded when the store clerk scans the item's tag at the checkout counter. This information is transmitted back to the supplier who, this way, knows exactly how much is sold and how much needs to be restocked at a particular store. There is a trigger point, a minimum stock level arrived at by a mutual agreement between the suppliers and the buyer, which when reached automatically calls for restocking. A well-known example of EDI is Procter & Gamble's agreement with Wal-Mart, which has been widely credited as a major contributor to Wal-Mart's highly effective inventory management.

- **Death of distance.** A major consequence of the Internet is death of distance. Location for a traditional retail store matters a great deal. It needs to be in a high traffic location with appropriate surroundings. However, location is not a key marketing decision for Internet based firms since the Internet has made location irrelevant. Death of distance implies that geographic location is no longer a crucial factor in business as the Internet has made place irrelevant. The Internet minimizes the impact of distance only for goods that can be digitized such as pictures, words, videos, and software (Pitt, Berthon, and Berthon, 1999). This also has contributed to the process of disintermediation – reduction in the number of intermediaries in a channel of distribution.
- **Time compression.** Traditional distribution takes place within certain times during the day, or on certain days of the week. The Internet, on the other hand, is independent of time as sites are always open for business. Internet transactions take place on a real time basis as customers can shop and place orders any time and sellers can also serve customers anytime. Time compression means that the Internet has made time less relevant for business transactions as online stores can be open 24 hours a day. This has triggered a process of homogenization of time across countries and continents and causing time zones to disappear (Pitt, Berthon, and Berthon, 1999).

Many E-businesses use more than one type of distribution. Using multiple channels enables Internet companies to exploit alternative ways of obtaining greater market coverage. Companies that combine a physical presence with an effective online strategy – known as "clicks and mortars" strategy - often have an advantage over companies that employ either strategy but not both. Many people prefer to obtain information about a company's products online and then make an actual purchase in the store. Or they first visit the store to personally inspect the merchandise and then place an order online to benefit from lower Internet prices. Some retailers have computer facilities in their stores so customers can order books online. Many online retailers also offer customers the flexibility to return unwanted merchandise purchased online to the store adding an extra layer of convenience and flexibility to the purchasing process.

There are many people who either have no access to the Internet or are not willing to use it for making purchases. Also many people prefer the personal contact and service that can be only provided in a store environment. The best strategy is often combining both offline and online approaches because, as it was noted earlier, it provides customers with the option of buying either offline, online, or both. However, there is potential for conflict when a firm sells the same product through both traditional stores and the Internet. This type of distribution arrangements tends to alienate intermediaries as their prices are usually higher than Internet prices. For example, Hewlett Packard faced this problem for years and it made it difficult to compete against Dell Computer which was selling its products direct. This fear of distributor backlash often forces companies to charge the same prices in both channels.

4. Impact on Promotion Strategy

The Internet has become an important component of a firm's promotion strategy as it provides a new way to reach people and deliver the company's message. What is the role of the Internet in a firm's promotion strategy? Marketers who use the Internet as part of an integrated marketing communications mix must assess its role as an advertising medium and its position in a firm's marketing communication mix (Berthon, Pitt, and Watson, 1996). Firms must ensure that their online messages and employee emails convey an image that is consistent with all other communication efforts.

A website can be seen as a mix between direct selling (as it can engage the visitor in a dialogue) and advertising because it can generate awareness, provide information, and demonstrate the product. Also, a website may be viewed as complementary to the personal selling effort by business-to-business suppliers and advertisers of consumer products. In addition, the Internet may be viewed as a cross between an electronic trade show and a community flea market (Berthon, Pitt, and Watson, 1996). As an electronic trade show it can be considered a huge exhibition hall where potential customers can enter any time of the day or night and visit prospective sellers. It resembles a community flea market because it is open, informal, and interactive characteristics that are often associated with flea markets. An important aspect of marketing is to establish an ongoing communications program with desirable customers. Some companies carry out this communication task by building websites that focus on keeping customers informed and providing ways for customers to communicate their opinions, thoughts, and questions to customer service and sales. The websites of such companies provide links to other sites for additional information and technical help as part of their service offering. Some of these websites obtain the visitor's name and use it to greet the visitor with new information related to the visitor's interests every time he or she returns to the site.

Many companies use their websites as a source of product information to potential customers who then call a toll-free number to place an order or visit the store. Large ticket items such as automobiles, furniture, or appliances are commonly purchased in actual stores but many customers gather product-related data from the company's website before visiting the store. For example, a car dealership's website such as Autobytel can help generate sales leads. These customers visit the dealership armed with information and "having kicked tires on the Internet (Karakaya and White, 2000). In addition to its role as a product information source, companies create websites to create a favourable image in the eyes of visitors. They provide quick access to information about the company. Such websites commonly emphasize a firm's mission, stock market success, or industry leadership. The main objective of such sites is to impress investors, stock market analysts, shareholders, and customers. They serve mostly as public relations and positioning tools. Corporate identity sites play the same role as corporate annual reports - they promote the company's philosophy and history.

Electronic retailers are discovering that with the number of websites proliferating, it takes an enormous amount of spending to convince online customers to visit their website let alone to get them to make a purchase and subsequently retain them (Hoffman and Novak, 2000). Many retailers spend between $100 and $500 or even higher amounts in some cases to acquire a new customer. Internet companies also use banner advertising that promotes a firm's website and provides links to the company's website. Many companies promote their site by registering it with several search engines and directories such as Google and Yahoo!. A necessary requirement for e-business success is to establish two-way communication with online customers. Effective two-way communication involves communicating with customers and allowing them to easily contact the company. Company initiated communication involves e-mailing customers with information about items they may be interested in purchasing. Many such efforts are rejected by people as a nuisance if they realize that they are automatically created through some database technology but lacks personal touch. On the other hand, information that is valuable to customers such as upcoming events or new products, special offers, and personalized information could be of more interest to people and probably will not be rejected.

Making it easy for customers to communicate with the company is an important aspect of the communication effort. Providing an email address is often what is needed for customers to get in touch with the company. Other companies provide toll-free telephone numbers to call when they have questions or face problems. Some sites include a toll-free phone number for people who prefer to shop by phone. Others provide online chat rooms where customers can exchange information with company employees. Some online companies customize their sites around customer preferences. For example, customers provide their preferences and companies use them to communicate interesting information or design banner advertisements that take into account the product preferences of targeted customers.

Conclusions and Implications

The Internet is revolutionizing the way companies conduct their business and it is becoming an increasingly critical tool for marketing success. The Internet enables companies to obtain several competitive advantages over the competition. Some of the changes brought about by the Internet can be seen in the way we purchase goods and services, find information about products and services, and do our banking. The Internet has significantly reduced the cost of producing and distributing digital goods such as software, news, music, stock quotes, and pictures.

Marketing managers must assess the role of the Internet in their marketing strategy. The Internet has changed the way marketing strategy is formulated and executed in a number of ways. All aspects of marketing including marketing research, consumer behaviour, segmentation, relationship marketing, product management, pricing, distribution, and promotion are affected by the Internet. Today many companies are integrating the Internet with traditional marketing methods into a holistic view of consumers and business. This process implies a fusion of offline and online approaches into a new business model and value proposition. The exact nature of the new entity will depend on the particular business. Every organization must strike the right balance between its offline and online business to meet the needs of its customers.

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