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Web-based marketing
The coming revolution in marketing thought and strategy

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Abstract

The web is growing at a dramatic pace and is significantly impacting customer and business market behaviors. As a result, most firms have started developing marketing strategies for the web. In this paper, we propose that the web is fundamentally changing, and will continue to change, marketing thought and practice. The paper suggests that the web-based markets of tomorrow may have little resemblance to the markets of today. We discuss the emergence of reverse marketing, customer-centric marketing, effective-efficiency, adaptation, expectation management, marketing process focus and fixed cost marketing in the context of marketing theory and practice. In addition, we discuss customer behaviors such as cocreation, universal availability, use of infomediaries, temporal shifts, open pricing and a move toward bricks to clicks.

Keywords: Web based marketing; B2B; B2C; CRM; Reverse marketing; Cocreation

1. Introduction

In the agricultural era and, recently, even in developing countries, consumers and businesses bought products close to their physical location and had them adapted toward their needs. In this structure, most marketing transactions were initiated by the customer and were adapted to her/his specific needs (e.g., tailors and clothing). Production was typically initiated after receiving the customer order, and specialization was at a local level. This mode shifted with the advent of mass manufacturing and mass transportation (especially after World War II). The costs of mass-manufactured goods were dramatically lower than small-lot adaptable local products, leading to market dominance by mass-produced goods. Marketing also became more organization initiated as products were first manufactured and then marketed.

The Internet creates a fundamental shift in business and consumer behaviors similar to that of the Industrial Revolution. The advent of the Internet is analogous to the advent of the printing press or the railroads, which changed monetary, communication and exchange platforms. Similar evolutions took place with the introduction of automobiles and telephones that reduced the need for channel immediacy. Finally, the advent of satellite televisions changed markets as consumers developed global preferences, for example, the rise of the global teenager. The Internet adapts to the needs of customers, reduces transaction costs and allows customers to move from time- and location-based behaviors toward nontemporal and nonlocational behaviors. Internet marketing is similar to agricultural-age marketing, with direct recurring relationships between consumer and producer.

Web-based marketing entails using the Internet to provide information, to communicate and to conduct transactions. The Internet is a ubiquitous information platform, allowing internal and external customers to reduce costs for both firms and customers. This paper discusses the web-based changes in marketing thought and practice. Building on the work done with our colleagues (e.g., Sheth et al., 2000), we begin the paper with the implications of the Internet on the theory and practice of marketing—first from the marketers' perspective and then from the customers' perspective. The next sections focus on the boundary conditions and the implications of these findings on marketing practice.

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2. How the web changes organizational level practices

The Internet is an intelligent ubiquitous information platform. Firms utilize the Internet to provide information, provide connectivity and community, allow transactions and share cost reductions. The impact of web-based marketing can be examined through a comparison of traditional marketing and emerging marketing. We examine the impact of the Internet on the following aspects of traditional marketer practices—traditional marketing versus reverse marketing, mass market versus customer-centric marketing, efficiency versus effective-efficiency, adaptation versus standardizing versus personalization, customer satisfaction versus expectation management, marketing function versus marketing processes and variable versus fixed costs. In subsequent sections, we discuss the present marketing practices and the impact of the Internet on these practices. Implications are presented in Appendix A.

2.1. Traditional marketing versus reverse marketing

Traditional marketing has focused on the products and services that firms provide. The goal of marketing is to create a demand for the product that matches organizational requirements, and, therefore, marketing management has traditionally been viewed as demand management (Kotler, 1973). The focus had been on the product, and the role of the marketing function was to stabilize demand through promotional sales, couponing and price adjustments to meet the product sales goals of the organizations.

The Internet changes the focus of marketing from a ‘‘supplier perspective’’ to a ‘‘customer perspective,’’ that is, reverse marketing. Instead of marketers manufacturing and then seeking orders, manufacturing will only start when the customer orders. The analog is McDonald’s and its transformation. McDonalds’s traditional model was to produce burgers and keep them under heat lamps, serving them when the customer ordered. Recently, due to competition, customer preferences and transformation in technologies, McDonald’s has started assembling food only after it has been ordered.

The Internet increasingly makes the marketing function responsible for ‘‘supply management.’’ The customer becomes the starting point for marketing activities for multiple reasons. The increasing diversity in needs, wants and resources of businesses and households will make customer behavior inherently less predictable and forecasting less accurate (Sheth et al., 2000). In such an environment, companies that succeed will be those that can rapidly adjust their supply to meet demand. Customers will drive the exchange process. Consequently, rather than trying to influence people in terms of what to buy, when to buy and how much to buy, marketing will be more concerned with better responding to customer demand. For example, the Cisco Systems web site enables customers to order hardware and software solutions unique to their existing and planned infrastructure.

2.2. Mass market versus customer-centric marketing

As stated earlier, marketing has developed from a mass-market perspective toward a customer-centric perspective (Sheth et al., 2000). Recent developments in technology and the web have allowed firms and marketers to cater to the needs of individual customers. An example is the ‘‘Dell model’’ in which each PC is manufactured for the specific customer. Similarly, Cisco allows customers and salespeople to customize networks. In an advanced area of the web, marketers are tracking past behaviors of customers in order to customize offerings. This data is obtained from the sites that customers visit, the pages and information that customers obtain and their stated preferences and past purchase behaviors. The customized communication and offerings can be provided to customers through their own home page areas or through emails. Therefore, firms do not need to spend mass advertising resources on retaining customers. In addition, once customers start receiving offerings based on their preferences, the switching costs are high and loyalty is maintained.

Customer-centric marketing is expected to lead to better customer selection. When marketers have better data on their customers, they will seek to differentiate their offerings. The ‘‘80/20’’ rule is well known, but it focuses primarily on the distribution of revenues rather than costs. Typically, the distribution of revenues is highly nonlinear, while costs are distributed in a more linear relationship with customer size. In other words, as you go from the largest to the smallest customer, the revenue curve slopes down exponentially, while the cost curve slopes down gradually. In a study of the customers of two banks, Storbacka (1995) found that the profitable customers subsidized the unprofitable customers; overall, only 58% and 36% of the customers were profitable. He further found that profitability would be substantially higher if the unprofitable customers are dropped.

With data from web-based markets, marketers will divide their customers into four segments based on whether they are financially viable (Is this customer profitable?) and strategically viable (Is this customer of strategic importance?). Marketers will seek *relationships* with financially and strategically viable customers. These customers provide profitability to firm operations and are strategically necessary for the firm. Typically, national account management programs are established for these customers in business markets and loyalty programs are established in consumer markets.

Marketers will seek to conduct *transactions* with customers who are financially viable, but the firm does not see benefits to having relationships with these customers. These are ‘‘transactional customer’’ and are typically small customers who help cover fixed costs. The Internet can be an ideal platform for serving the needs of these customers.

Marketers would like to *develop* customers who are strategically important but are not financially viable by either increasing revenue sources or by enhancing offerings for these customers. Marketers will *outsource* customers who are neither financially viable nor are or of strategic importance to the firm. Outsourcing refers to allowing other competing firms to provide offerings to those customers.

2.3. Efficiency versus effective-efficiency

Webster (1980) interviewed the CEOs of 30 major corporations to determine their views of the marketing function. CEOs were concerned about the diminishing productivity of marketing expenditures, had a poor understanding of the financial implications of marketing actions and observed a lack of innovation and entrepreneurial thinking. This scrutiny is also being reflected by other marketing academics. In an extensive review, Brown (1995) cites several marketing scholars expressing disquiet about the marketing function.

These concerns have led marketers to pay attention to productivity or efficiency issues. This paper proposes that the implementation of marketing efficiency metrics will be accelerated through web-based platforms and that effectiveness will also become a more important criterion. Marketers' actions will be guided by analysis that seeks to maximize the "effective-efficiency" of marketing actions (Sheth and Sisodia, 1995). Efficiency entails cost–benefit analysis and seeks to maximize the output to input ratio of the marketing function for individual customers. Effectiveness entails the enhancement of customer loyalty and "share of wallet."

The web and web-based platforms allow marketers to track costs of each of their activities and processes. For example, access to better data allows firms to judge the cost and return differentials of acquisition versus retention. Marketers can therefore make fact-based decisions. In addition, the Internet allows firms to determine competitors' costs, leading to effective benchmarking and effective-efficiency.

Web-based platforms also increase the effective-efficiency of marketing programs. For example, the web allows firms to build platforms that are versatile and scalable. Therefore, firms reduce transactional costs, allowing larger number of transactions with increasing returns to scale. Similarly, the Internet allows firms to create multiple channels and cross-sell platforms.

2.4. Adaptation versus standardizing versus personalization

Product quality and market offerings have become increasingly standardized in many industries (cf. Lambert and Sharma, 1990). Examples of similar product offerings are the long distance services and ATMs, where the provider of services is transparent to the user. In other words, we have greater commoditization of products and services due to standardization. Given the greater degree of product quality standardization, it has become increasingly difficult for companies to differentiate their offerings from those of their competitors. For example, customers' perceptions of brand parity (similar brands in a category) are 52% for cigarettes to 76% of credit cards (Aaker, 1991). In response, customers see little risk in switching from suppliers, as in Roper's 1989 findings that 56% of consumers knew what brand they wanted to buy when they went into a store—a percentage that fell to 53% in 1990 and to 46% in 1991 (Jones, 1993).

In the web-based marketing era, the trend is expected to change in terms of more personalization. With increased flexible design and manufacturing technology, and given the personalization potential of the web, increased personalization will emerge. The web makes personalization of products easier and more transparent to the user.

2.5. Customer satisfaction versus expectation management

Customer satisfaction levels are declining at the same time that marketing expenditures are rising. For example, the overall American Customer Satisfaction Index has consistently declined from 74.5 to 71.1 from 1994 to 1997, and the index dropped in five out of six for-profit industry sectors (ACSI, 1998). Not surprisingly, Reichheld (1996) estimates that US corporations lose half of their customers in 5 years.

The pursuit of customer satisfaction can be costly if rising levels of performance lead to increased expectations and a lower level of satisfaction with the same standard of performance over time. Therefore, customer satisfaction may be a case of going backward while standing still. The primary causes may be that many customer satisfaction strategies are easily copied (e.g., frequent user programs) and efforts aimed at raising customer satisfaction lead to higher customer expectations. Fulfilling higher customer expectations may lead to higher expenditures. In addition, some customer satisfaction activities and productivity may be inherently incompatible (Anderson et al., 1997).

The strategy is to change customer expectations rather than attempt to affect customer satisfaction. The Internet is able to provide customers with more realistic expectations. The interactive and audio-visual nature of the Internet can be used to demonstrate the actual performance of a firm. We already see clubs and restaurants that broadcast scenes from their locations through webcams. Some firms like GE provide actual performance data on their web site. Therefore, we anticipate that firms will increase expenditures on expectation management in the future.

2.6. Marketing function versus marketing processes

In most corporations, the marketing department is still a functional silo, isolated from other business functions, and is itself too rigidly organized along subfunctional lines (Webster, 1992). For example, the sales function operates largely autonomously of marketing in many companies. Brand managers are typically not associated with the distribution function. The move toward "integrated marketing communications" is a relatively recent one.

The reason for different marketing functional silos was that the goal of each function was seen as separate, for example, sales function was prepurchase and service function was postpurchase. In addition, sharing of information was very difficult. The emergence of the Internet as a ubiquitous information platform will accelerate the movement toward the focus on processes rather than functions. For example, Cisco regards customer acquisition, delivery and customer retention programs as a single process.

The primary reason for the need for marketing integration is the potential synergy inherent in marketing activities. Synergy is destroyed when, for example, brand managers attempt to develop a premium image and salespeople discount the brand to reduce inventories. Companies need to adopt a more integrated view of the function, which translates into new organizational designs. Some initial changes are already taking place. For instance, marketing organizations are moving from centralized platforms to distributed platforms (as sales and service). Marketing is also integrating with nonmarketing function, as has been suggested by previous researchers (Webster, 1992).

2.7. Variable versus fixed costs

Traditional economics and, therefore, traditional marketing practices, were based on the existence of variable costs in all marketing transactions. The reason is that the total cost of doing business has included sizable fixed and variable components. This gave rise to the economics of scale and scope, and firms sought to spread their fixed costs over a larger volume. Average costs declined slowly with volume, and prevailing market prices tended to closely track production costs.

The web-based marketing era will be the age of extensive investment in technology that will aid in the reduction of transactional costs. As examples, databases and voice response technologies have high fixed costs, but reduce transactional costs. The costs of these infrastructures are largely invariant with respect to volume. The implication is that new technologies will dramatically reduce the costs of acquiring a new customer or servicing an existing customer.

Fundamentally, fixed cost investments are associated with reducing transaction costs. Firms have invested heavily in technology to reduce the costs of customer service in banking, telecommunication and airline industries. For example, a teller transaction costs a bank US$3.50, an ATM transaction costs only US$1.25 and an Internet transaction costs 13 cents. Similarly, software delivery costs decline from US$15.00 to US$0.20, airline tickets costs decline from US$8 to US$1 and term life sales costs decline from US$400 to US$200.

In the web-based era, marketing will be seen as an asset in the same manner as buildings and equipment. Therefore, like space, elements of the infrastructure can be profitably shared with other companies engaged in similar businesses or others targeting the same customers with complementary offerings. Adding additional complementary products and services that would be of interest to the same customer group can then leverage the marketing system.

3. How the web changes customer behaviors

Just as the web will change marketing practices, the web will also change customer behaviors. Some of the more interesting areas of change should be highlighted.

3.1. Cocreation

With an increase in usage of the Internet, customer will take an increasing role in the fulfillment process, leading to "cocreation." Cocreation involves both customers and marketers interacting in aspects of design, production and consumption of the product or service. We see this process in services (e.g., hair styling) but will increasingly see it for physical products. For example, in the coming years, customers buying from General Motors will be able to customize an automobile manufactured to their specifications. The key aspect of cocreation marketing is customer–firm interaction, and the Internet will be the key platform.

3.2. Geographic versus universal availability

Since customers lived in a physical world, the geographical location of resources is critical for consumers. When markets evolved from local to regional or national markets, buyers and sellers were typically not in the same geographic location. This geographical separation led to customers seeking intermediaries in their geographic locations that advanced the interests of consumers in terms of information, communication, transactions, physical movement of goods and customer service. The difficulty and cost of obtaining locational assets close to the customer has led to a small set of large retailers and intermediaries developing and maintaining competitive advantage.

Customers are using the Internet to reduce some of their locational dependence. For business customers, instead of relying on a geographical or locational sales force, the Internet allows customers to more readily engage in direct, order taking and technical support.

Similarly, much of the present advertising access by customers is location specific (such as local newspapers, local radio and local television) and national (most magazines, national radio and television). With the Internet, customers are entering an era of "direct information," as they seek web pages and communicate directly with marketers based on their needs.

3.3. Self access versus infomediary

Customers face an emerging threat on the Internet-information overload. Therefore, customers seek a new kind of intermediary—infomediary. The infomediary began as a web-based intermediary that aggregated and provided information in areas of interest to their customers. This typically included information from sellers packaged in a manner relevant to customers. For customers, infomediaries are the equivalent of a retail store on the web that allows them to get information, compare information and, in recent cases, undertake transactions on the web. Amazon is an example of an Internet infomediary.

3.4. Fixed versus flexible times

Time has been central to customers, as marketers, retailers or buyers have traditionally set the times of transaction or exchange. Customers want more flexibility in their ability to interact with marketers. Typical areas where customers have changed marketing practices have been by banks through ATMs, catalog sales (through 24-h telephone access) and airline ticketing (through 24-h airline reservation lines). Customers will increasingly use the Internet to conduct non-time-based interactions. Surveys show that most customers desire 24-h access to information, communications, transactions and basic customer service.

The Internet has allowed customers to seek more rapid access to information. Customers have found that traditional communication practices such as mass advertising are very slow and are not ideal for their goals in the "knowledge economy."

3.5. Closed versus open pricing

Customers have typically sought the ability to compare prices of competing products and outlets. The Internet has allowed consumers to access pricing data easily. For example, sites such as ⟨MySimon.com⟩ provide pricing information on a wide range of products from a wide range of retailers. We expect a similar trend in business markets. Through auction sites, independent vertical industry sites and industry-owned sites, customers will have more access to pricing information. Customers will, therefore, find similar pricing patterns across competitors and will choose products based on nonpricing attributes.

3.6. Bricks versus clicks and bricks

As the number of firms offering similar web-based services has increased, the majority of customers have tended to go to a limited number of sites. Therefore, customers have become more discriminating. It now costs firms between US$100 and US$500 to attract customers to their web sites. The brick-and-mortar stores have built-in equity that can be leveraged on the web. Customers buying from Gateway, a web-based store, are increasingly coming from Gateway's own stores. Therefore, we expect that customers will use the brick to click purchasing pattern, that is, they will buy on the Internet from firms that have brick stores.

4. Will the rapid growth of web-based marketing continue?

The growths in web-based marketing efforts are expected to continue because the availability of a ubiquitous information platform will aid marketing efficiencies and effectiveness. The web-based marketers are dependent on their ability to create a community in which Internet users will participate, and web-based communities are expected to develop and grow. However, there are constraining factors that may impact the growth.

4.1. Continued cost and tax advantages

Web-based marketing efforts, specifically in the area of e-tailing, have some cost advantages. The issue of concern is whether these cost advantages are sustainable, specifically in the area of delivery costs. Some of the successful web-based marketing economic models are based on the tax advantage that is available in the US (no sales tax). The resumption of taxation may decrease the growth.

4.2. Privacy, trust and security

The issues of trust and privacy will become increasingly important. EC has very strict rules regarding data sharing and the movement of data across countries. The ability for firms to track an individual's web movements troubles Internet users. In this context, users need to trust that firms will not misuse the data. Another issue of concern is the security of information, specifically transactional, financial and medical information. Unless these issues are addressed, web-based marketing will have little appeal for the majority of customers.

5. Summary

In this paper, we have examined the issue of web-based marketing from a broader perspective than is usually applied. We examined two perspectives—marketing practice and thought, and customer behaviors. While the challenge of understanding the impact of web-based marketing remains a considerable one, we have proposed specific issues that may be relevant for future research. Finally, we examined some of the fundamental obstacles to the achievement of higher levels of web-based marketing.

Appendix A. Exhibit

A.1. Emerging research opportunities

A.1.1. Supply management

• We believe that marketers will migrate toward "supply management" rather than "demand management." The implications of these developments on sales promotion, pricing and advertising are intriguing issues that need to be examined.

• The second issue regards marketing being more involved in the supply function. The issues such as the reporting relationships between marketing and procurement have not been examined. At a more interesting level, what should the relationship between marketing and manufacturing be?

A.1.2. Customer-centric marketing

• We believe that marketers will migrate toward the old era of "knowing" their customers and their preferences. The change will be that this "customer-centric marketing" will be practiced through the web. The implication of these developments on customer behavior, switching costs, first to market and long-term competitive advantages are intriguing issues that need to be examined.

• The second issue regards the use of customer information. Who will own the information? Will the concerns of privacy reduce the potential of customer-centric marketing? Will firms be responsible and not sell personal data? The implications of these issues are not clear, and more academic research is suggested.

• The final issue is that as customers become the center of offerings for customers, the marketing function will have to play a bigger role in the firm. Currently, there is little research in this area from a marketing perspective, and more research is needed. For example, how can marketing be more involved in the production function?

A.1.3. Effective-efficiency

• We believe that marketers will migrate toward effectively efficient marketing processes. The implications of these developments on functions such as advertising in which the relationship between advertising expenditures and returns are difficult to estimate are intriguing issues that need to be examined.

• The second issue regards the migration of marketing processes from efficiency to effectiveness. How will the process evolve? The implications of these issues are not clear and more academic research is suggested.

A.1.4. Personalization

• How will the personalization of products and services affect differentiation and brand-building strategies? The implication of this personalization on the relationship between advertising and product development, customer service and distribution are intriguing issues that need to be examined.

• The second issue regards the effect of personalization on customer loyalty. How will loyalty be influenced in the era of product and service similarity and personalization?

A.1.5. Customer satisfaction

• We believe that marketers will migrate toward expectation management rather than toward customer satisfaction. The implication of these developments on the relationship between expectation management and customer service are intriguing issues that need to be examined.

• The second issue regards the migration of the integration of expectation processes with marketing processes. How will expectation management affect advertising and sales practices?

A.1.6. Marketing functions versus processes

• We believe that marketers will migrate toward marketing processes rather than functions. The implication of these developments on the relationship between advertising and product development, customer service and branding are an intriguing issues that need to be examined.

• The second issue regards the migration of the integration of marketing processes into other processes such as manufacturing. Who will own the process? Will the traditional boundaries break down? The implications of these issues are not clear and more academic research is suggested.

A.1.7. Variables versus fixed costs

• There will be an increase in fixed cost (and, therefore, low variable cost) marketing. The implications of this issue for both practice and research are not well understood and need further examination.

• The increasing returns to scale of the new economy will change the manner in which marketing is practiced. Marketers will tend to give away products if there is an expectation that customers will adopt the next-generation products.

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