INTRODUCTION

In less than a decade of rapid diffusion of the Internet and related technologies into the commercial world, with much attendant hyperbole, there have been many changes in business processes, business structure and financial valuations of these businesses. However, little has changed in terms of how we should judge an industry’s underlying attractiveness (Porter 2001; Rayport 1999). Porter’s Five-Forces Industry Analysis (1980; 2001) is still relevant in that it sets out five forces – Rivalry among existing competitors; Bargaining power of suppliers; Threat of substitute products (goods) or services; Bargaining power of customers (channel intermediaries and end users); and Barriers to entry – as the determinants of profitability regardless of whether a business is online or a more traditional industry, or somewhere in between. While Porter (2001) indicates a dislike for the term online business models, it is neither the intention of this paper to present an argument for or against such views, nor to present a critique of such models.

Turning to marketing strategy, there is as yet little empirical research into specific aspects of online marketing employing the Net and Web beyond click-through analysis and Web audience analysis (Brunner II and Kumar 2000; Ho 1997; Hofacker and Murphy 1998; Sutherland 1999/2000), investigations of website elements and performance (Adam and Deans 2000, Arnott and Bridgewater 2002; Berthon et al. 2000), examination of relationships in online marketing logistics networks (Adam et al. 2001; Steinfeld et al. 1997) to cite a sample of such published research.

It is in the context of providing a model for future investigation of the relationships between elements of marketing strategy where businesses employ the Web and business outcomes that this paper is offered. The approach taken rests on the view that due to interactivity in real time, online marketing fits more closely with direct response marketing than with the mass marketing paradigm of old (Kotler et al. 2001) or ‘general marketing’ as Tapp refers to the paradigm (2000: 10). This notion is developed further in the next section, which presents the conceptual framework underlying the model that is offered for future research purposes and for further refinement.

CONCEPTUALIZATIONS

There are a number of conceptualizations that require discussion in the development of a model connecting direct and online marketing with marketing and financial outcomes. This paper examines three: the spectrum of Web use in business; strategic
alignment in one-to-one marketing; and direct and online database use.

The spectrum of Web use in business

One aspect that has the potential to distort discussion of business use of the Web is the fact that businesses may not be readily classified in terms of their use of this technology. In truth, they may be classified as falling on a spectrum between being ‘almost pure offline’ and ‘almost pure online’ businesses. An examination of the examples presented in Figure 1, for clarification purposes, is warranted at this point.

The online auction business eBay.com is a purely online enterprise. eBay facilitates the transaction of information between potential buyers and sellers entirely on the Web, even though the items people buy and sell are mostly from the physical world, and the final exchange of goods and services is effected by the buyers and sellers themselves. Borders Stores are one example of a business that lies at the ‘almost pure offline’ end of the spectrum, for in terms of book sales, the company relies on its physical outlets for the major portion of its revenue and profits. While an online business such as Amazon.com has no physical presence at the customer interface, its marketing logistics network involves movement of physical goods through warehouses much as any traditional retailer does. It has many of the costs of a traditional retailer, and many costs the traditional retailer does not have, such as higher marketing communication costs. The NSWTAB is but one example of an enterprise that could theoretically exist entirely in the online environment. This company is in the personal services – wagering (turf accounting is a more familiar term to UK punters) industry, and enables its customers to place bets on horse races and the outcome of other events such as football matches. Such activities involve ‘bits’ rather than ‘atoms’ (Negroponte 1995). However, the customer base dictates that the primary interface at this juncture is a High Street store.

Strategic alignment in one-to-one marketing

Marketing organizations using the Web appear do so in the knowledge that the medium permits interactive communication, as well as allowing its use in business processes such as order taking and processing, and importantly for customer relationship management (CRM) (Adam et al. 2001). The Web’s multi-functionality means that use of the Web is closely aligned to direct response marketing. However, usage of the Net by Australasian businesses is different to businesses in countries such as the UK, even though there are only minor cultural differences between the three countries (Adam et al. 2002). It is somewhat easier to understand that there are likely to be differences in Web use where cultures differ. This is particularly so when one considers the role of trust in collective societies such as South East Asia, in that there are more obvious barriers to rapid adoption of the Net in marketing strategy (Corbitt and Thanasankit 2001).

It is suggested that marketing organizations in the UK have more readily adopted the Net in their competitive marketing strategy and that they have been more willing to provide a reason for consumers to shop via this medium (Adam et al. 2002). Australasian marketing organizations have been less willing to interact on an online one-to-one basis than those in the UK, to this point in time. This is the case for large, medium and small businesses. For example, it has been reported that less than one-third of businesses in Australia and New Zealand use the medium to interact with specific customers, and less than 20% were using the Net to ‘counter competitor initiatives’ (Adam and Deans 2000).

Regardless of this seeming anomaly, there are sound reasons for strategic use of direct and online marketing, particularly where customers have varying requirements of the companies they deal with, and customers represent different value to the companies (Peppers and Rogers 1999). In an endeavour to identify the degree to which the direct response techniques in general, and the Web in particular, might be used in competitive marketing strategy, it is suggested that two questions should be asked (Peppers

Source: After Adam and Clark (2001: 120)

Figure 1. Spectrum of Business Users of the Web
and Rogers 1999). Depending on how differentiated the customers' needs are, and how differentiated the customer valuations are to the business, the individual business can establish its position in terms of the most appropriate strategy to adopt, be it mass marketing (quadrant I) through to one-to-one marketing (quadrant IV). Based on the answers to these two questions, businesses may find themselves in one of four quadrants in a one-to-one differentiation strategy matrix, as illustrated in Figure 2.

It is not intended to exhaustively elaborate on those businesses that may be classified as falling into each quadrant; however, those falling into quadrant IV are companies such as Dell Computers and Merrill Lynch stockbrokers. Businesses such as fast-moving consumer goods (FMCG) that service multiple market segments fall into quadrant III.

Each of these marketing organizations has customers whose requirements are widely dispersed. Moreover, some customers are worth much more than others, as is the case with those who trade in stocks and shares; who range from doctors and pilots in the ‘millionaire club’, through to speculative day traders.

There is the need to answer two further questions relating to the capability of the business. The first of these questions is concerned with establishing the degree to which it is possible to identify and interact with individual customers. The second question is concerned with how capable the business is in tailoring its behaviour to the needs of small customer groups or individual customers (Peppers et al. 1999). Figure 3 graphically illustrates the situation where a marketing organization might seek to

\[ \text{Source: After Kotler et al. (2001 : 699)} \]

\[ \text{Figure 2. Customer Differentiation Matrix} \]

\[ \text{Source: Adam (2001), after Peppers and Rogers (1999: 72) and Peppers et al. (1999: 168).} \]

\[ \text{Figure 3. Online One–to–one Strategic Map} \]
re-align its marketing strategy in the face of competitive positioning and customers expectations. This figure illustrates the situation where the customers are highly differentiated in their value to the business (A1), have highly differentiated needs (B1), require interaction (C1), and where the company is not in a position to meet these customers’ requirements, occupying position (A5, B5, C5, D5). An example might be where a class of customers such as airline pilots represents higher value to a stockbroking firm than other market segments. These customers may also have a greater need for information and often wish to interact with their chosen broker over great distances and over a number of time zones using the Internet. None of the competitors represent the ideal company from the viewpoint of this customer group, but competitors A (A5, B1, C5, D1) and B (A1, B5, C1, D5) are better positioned than the company in question, albeit for different reasons.

The company is in the situation where it is advisable for it to re-align its marketing strategy. To do so, the company must be able to take advantage of the situation, and be capable of tailoring or customizing its offer and capable of interacting on a one-to-one basis with customers. This represents a situation where the firm may wish to re-align by adopting an online one-to-one marketing strategy that incorporates use of the Web in interactive marketing communication, as an online marketing channel or to supplement traditional marketing channels, and to enhance relationships (Adam 2001).

Where a marketing organization finds that its customers have highly differentiated needs and that they offer a broad spread in their returns to the organization (e.g., share of wallet in the financial services sector), it might well consider adopting a direct and online one-to-one migration strategy, particularly if competitors are already some way further towards adoption of this strategy than the firm in question. It is suggested that full use of the Net and Web involves strategic knowledge of individual customers and that businesses that use a legal peer-to-peer online marketing strategy as well as marketing organizations using Groove Networks, are indicative of businesses suited to employing a direct and online one-to-one marketing strategy.

It is not suggested that all marketing organizations falling on the spectrum presented in Figure 1 will necessarily benefit from using the Web as a direct response tool, and many that are not using the Web might well benefit greatly from its adoption – provided they integrate customer interface Web technology with a relational database, back office business processes, and enterprise processes generally. In other words, it is not enough to simply mount a ‘vanity’ website (Walsh 2001) that remains locked in a one-way mass-marketing communication paradigm, and that completely overlooks the fact that customers today are learning customers more so than ever before, and that use of the Web coupled with database technology means that businesses have become learning organizations. It is to this notion of relational database use in direct and online marketing that the paper next turns.

Direct and online database use

It is instructive to examine a definition of this aspect of Web use in marketing:

Direct and online database marketing entails development and maintenance of electronic databases to interact with past, present and/or potential customers and others in the marketing channel, on a one-to-one basis, often in real time, and where the databases are used to maintain value-laden relationships and to generate a measurable response and/or transactions through the integrated use of electronic network tools and technologies (Kotler et al, 2003).

The definition provided is important to the development of a model connecting Web use and commercial outcomes, for it highlights the fact that it is not just current customers, but also past and potential customers whose value to the business can be monitored. Also of importance is the point that a measurable response is generated via electronic networks such as the Net and technologies such as the Web. It is to be highlighted that transactions, the very core of the term e-commerce, but only part of e-business, are only one type of measurable response. It is this latter aspect which must be interpreted to mean that commercial outcomes are not merely financial outcomes. That is, there are intervening variables such as level of customer loyalty, and attitudes towards the brands of the company, among others, that must also be monitored.

An important feature of relational database use is the connections that can be made between individual records and other variables within one or a number of databases. Moreover, data mining can unearth relationships between variables via a number of techniques ranging from commonly used statistical techniques to graphical visualizations and neural networks. Most important of all is the fact that having identified relationships between variables at an aggregate level, it is possible to communicate on a one-to-one basis with each customer, particularly where their requirements and value to the business are quite different. Such connections permit the Net and Web to be used effectively and efficiently, however, further research is required in this regard. The model presented in the next section is put forward as an aid in this quest.

MODELING WEB USAGE AND OUTCOMES

Findings from the first iteration of a research study reported by Adam and Deans (2000) led to the development of the model presented in Figure 4. The results of factor analysis of the responses to eleven key questions from the Australian dataset are presented in Table 1.

It is notable that a small proportion of respondent firms claimed strategic use of the Web. Over 80% of respondents claimed a marketing communication use of the Web, mainly using the Web as they would mass media
Table 1. Australian Business Use of the Web and Orientation

<table>
<thead>
<tr>
<th>Nominated business use of website</th>
<th>Frequency</th>
<th>%</th>
<th>Orientation(^a) Factors (Factor Loadings)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Counter competitive initiatives (strategy)</td>
<td>37</td>
<td>15</td>
<td>Marketing strategy (.881)</td>
</tr>
<tr>
<td>Communicate product &amp; service information</td>
<td>205</td>
<td>83</td>
<td>Marketing communication (.837)</td>
</tr>
<tr>
<td>Publicize organization name and intent</td>
<td>204</td>
<td>82</td>
<td>Marketing communication (.837)</td>
</tr>
<tr>
<td>Generate online transactions (orders)</td>
<td>79</td>
<td>32</td>
<td>Fulfilment processes (.716)</td>
</tr>
<tr>
<td>Cut costs (e.g., advertising or direct marketing costs)</td>
<td>70</td>
<td>28</td>
<td>Fulfilment processes (.763)</td>
</tr>
<tr>
<td>Facilitate relationship development and maintenance with customers</td>
<td>99</td>
<td>40</td>
<td>CRM (.740)</td>
</tr>
<tr>
<td>Provide information (such as SKU's) to customers</td>
<td>79</td>
<td>32</td>
<td>CRM (.504)</td>
</tr>
<tr>
<td>Enable interaction with specific customers</td>
<td>78</td>
<td>32</td>
<td>CRM (.589)</td>
</tr>
<tr>
<td>Provide customer service (e.g., complaints handling)</td>
<td>65</td>
<td>26</td>
<td>CRM (.730)</td>
</tr>
<tr>
<td>Learn about customers’ requirements</td>
<td>45</td>
<td>18</td>
<td>CRM (.604)</td>
</tr>
<tr>
<td>Support sales enquiries NOT made online</td>
<td>91</td>
<td>37</td>
<td>CRM (.392)</td>
</tr>
</tbody>
</table>

\(^a\)Orientation is derived from Factor Analysis where the variables loaded into 4 factors. (Principal Component Analysis. Rotation method: Varimax with Kaiser Normalization. Rotation converged in 7 iterations.)

communication, and thus supporting Poon and Swatman’s findings (1997a; b; 1999). It is the finding that more respondents use the Web for CRM than online commercial transactions that led to the question: Do marketing organizations move in a linear fashion from using the Net in marketing communication through to transacting online with known customers, and then to maintaining the customer relationships that have developed on a one-to-one basis?

The main research question posed, and which this model suggests, and involving a number of paths, is to what degree businesses from various points on the spectrum presented in Figure 1 have integrated the various marketing techniques shown in cells C1 to C6 (independent variables) into their overall marketing strategy, and with what outcomes? While it is intuitively appealing to believe that, in general, companies move from use of the Net in marketing communication to online fulfilment and CRM, the answer to this question is thus far in the negative (Adam and Deans 2000). Moreover, we know little of the characteristics of the companies that have not incorporated online marketing approaches into their marketing strategy, but we also know little of their quantitative and qualitative performance (dependent variables).

The model presented in Figure 4 incorporates descriptors developed by a number of authors (Andreason 1983; Deshpandé 1982; Hart and Diamantopoulos 1992; Jaworski and Kohli 1993; Menon and Varadarajan 1992; Menon and Wilcox 1994; Rogers 1995) in their quest to determine the relationships between organizational variables, the use of marketing research and organizational performance. The model also seeks to illustrate the conceptual integration of direct and online marketing using traditional interactive media such as the telephone and online methods such as email and websites (almost pure online marketing approach represented by cells C2, C4 and C6) and distinguishes these from the mass marketing paradigm (almost pure offline approach represented by cells C1, C3 and C5).

It is taken as a given that the majority of direct response marketing organizations begin by communicating their offer either using approaches such as direct mail to a known subscriber base (or some other approach from cell C1), or using online marketing approaches in an endeavour to generate a self-perpetuating friend-to-friend (f2f) campaign involving email, or some other online approach from cell C2. Alternatively, they may use a combination of offline and online approaches. It is suggested here that such f2f campaigns are a more powerful online equivalent of word-of-mouth communication; hitherto stronger than any marketers’ efforts to stimulate demand for their products.

It is further suggested that marketing organizations that adopt a marketing communication approach or approaches from those presented in cell C1 in Figure 4 may proceed to fulfil customer requirements using one or more traditional offline methods from those shown in cell C3 and C5 – such as the firm’s own marketing logistics network (MLN) or the services of a third party. Additionally, businesses may seek to maintain customer intimacy and handle conflict resolution using traditional methods such as the telephone and through the company’s own outlets from cell C5.

Many different permutations are possible. For example, an international airline may communicate with frequent flyer subscribers using direct mail to announce special holiday packages (C1). It may direct its customers to the company website as the only means of taking up the special discounted package holidays (C4). On the website, subscribers could be asked to opt-in to receive marketing communication on future package deals, and even to email information on the current package to their friends (f2f) directly from the website (C6). This latter step meets privacy legislation requirements, and enables the company to build consumer trust.
Even if a marketing organization uses sophisticated Web design features, the task of reaching the target market with reasons why the company or brand website should be visited and revisited remains. Such sophistication in website design includes interactivity and vividness (Hoffman and Novak 1996). Interactivity may take many forms and includes enabling visitors to become subscribers by completing HTML forms; enabling subscribers to personalize a homepage; enabling visitors to sign a guestbook; enabling subscribers to join an online community (chat or IRC); enabling subscribers to join online experiential events; enabling visitors to take up samples or preview products; enabling buyers to interact in realtime with customer service/installers via Web camera; enabling buyers/subscribers to ‘opt-in’ for further information on products as is now required by privacy legislation for most organizations. Vividness is an evident feature in terms of animations, streaming video and the emergence of 3-D e-commerce.

The task of getting customers to visit brand websites for the first time remains the prerogative of traditional media advertising such as free-to-air television and women’s magazines. Adoption of a revenue growth model (Hanson 2000) was particularly evident in North American business-to-consumer (B2C) marketing where online businesses spent on average some 75% of revenue on marketing effort – versus some 13% by businesses operating through traditional marketing channels – to draw potential customers to websites. This meant that newly formed online retailers were directing 68% of sales, and some $25 per order in the case of the online bookseller and newly transformed aggregating landlord, Amazon.com, into marketing effort (Grover 1999). As we now know, many newly formed online businesses could not sustain this drain on their cashflow and fell by the wayside.

The matter of ensuring that customers continue the relationship begun when a first purchase occurs, and of ensuring they remain totally satisfied and thus contribute to the long-term financial viability of the vendor, is a matter that has received attention from many researchers (e.g., Grönroos 1994; Jones and Sasser 1995; Reichheld and Scheffter 2000; Selnes 1998). Selnes employed structural equation modelling to test a number of hypotheses concerning how competence and communication affect trust, and how communication, commitment and conflict handling affect satisfaction and in turn how both impact on
relationship continuity and enhancement of the scope of such relationships. There is a need to extend such work into a variety of situations beyond the B2B environment that Selnes studied, particularly into the online marketing environment, and the variables presented in C5 and C6 have been drawn from this antecedent study.

The model presented in Figure 4 is put forward as a guide to future research employing structural equation modelling in an endeavour to understand better how the greater sums now spent on direct and online marketing relative to mass media have led to performance differences.

CONCLUDING REMARKS

The main issue presented by the model shown in Figure 4, and discussed within the present spatial constraints, relates to the identification of the direct link between individual marketing inputs to company strategy, such as television advertising, during a particular accounting period, and a marketing output such as change in market share for the corresponding period. This is a perennial problem in marketing science and practice. For this reason, marketing management has used intervening variables such as attitude change as performance measures. However, the issue relating to carryover effects between accounting periods remains, as does the link between changes in intervening variables and marketing performance.

A major benefit of direct and online one-to-one marketing using such as post and email offers is that there is a measurable input and a measurable output in marketing and financial terms. While there remains the issue of carryover effects, these can be quantified over time. Into the picture, however, has come the use of new network technologies and techniques, which raise new measurement issues. An important example of new media is mobile (cell) phone small text messaging (SMS) and Net-enabled wireless application protocol (iMode and WAP) phones that herald the extension of mobile commerce (m-commerce) beyond their respective birthplaces. Additionally, businesses have adopted i2i techniques, such as the stimulation of email between friends and thereby employ small world network effects (Watts and Strogatz 1998) popularized in the online game six degrees of Kevin Bacon.

Undertaking the monitoring enabled by direct and online database marketing, while meeting privacy legislation and guidelines, remains a challenge. There are other challenges suggested by the model, particularly in regard to CRM and its relationships to marketing and financial performance, which are beyond the scope of this paper.

There is a place for use of the Net and Web in the marketing strategy adopted by most businesses, though not all. Network media and electronic tools are firmly among the arsenal of weapons of the direct and online marketer more so than those businesses appealing to a mass consumer market. However, even in the latter situation, there are elements which may be employed to supplement mass communication (e.g., free-to-air television) and targeted communication (e.g., subscriber-TV).

From a research viewpoint, it is suggested that the model highlights the need to consider interaction effects and other important issues when undertaking studies that seek to relate direct and online marketing strategy to marketing and financial performance.

References


