Debate Paper

A strategic orientation for e-commerce investments: A customer equity approach

Received: 22nd August, 2002

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Abstract In spite of major setbacks for most pure e-commerce initiatives, the business landscape continues to change as a result of the impact of the Internet. Consumers' expectations and behaviours are shifting and smart firms are finding ways to respond to their new requirements to create significant competitive advantages. Run-of-the-mill companies whose 'strategies' are founded upon maintaining competitive parity will find the new environment increasingly treacherous. Each firm's long-term prosperity depends on its ability to meet profitably the new consumer requirements. Three inter-related questions are addressed in the paper: first, why have prior Internet marketing efforts been so unsuccessful? Secondly, what is the new reality and what are its implications? Thirdly, how can firms pursue a customer equity approach to reduce threats and seize on the emerging opportunities to meet their long-term financial goals?

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INTRODUCTION

In the mid-1990s the business world experienced a revolution: the digital economy. The Internet was going to change the world. The new economy was symbolised by Jeff Bezos, Amazon's chief executive, who was named the Time Magazine Man of the Year in 1999. Consumers were expected to shift their buying habits to the Net in mass. E-tailers appeared to be on the verge of harnessing technology that would enable them to offer such irresistibly low prices that bricks and mortar corporations which failed to respond quickly would either lose competitive ground or disappear entirely. These developments prompted many firms to spend lavishly on technology products and consulting services to introduce various e-commerce initiatives.

Most of these investments by 'old-economy' firms have not produced acceptable returns. In the last two years, the new economy has dwindled. Many online businesses ceased operations. Revenues for online advertising continue to decline. The Internet stock market bubble has deflated. The euphoria is gone. Traditional old economy firms have become much more cautious. The Internet failures and the global recession led to a dramatic reduction in investments in e-commerce initiatives.

While a re-examination of corporate e-commerce strategy is essential and greater caution is understandable, this paper will suggest that the dramatic retrenchment in e-commerce investments today may well prove to be too short term. The primary thesis of this paper is that in spite of the setbacks, the business landscape is changing rapidly as a result of the Net. Consumers' expectations and behaviours are shifting. Smart firms are finding ways to respond to the new requirements and are creating significant competitive advantages. Firms cannot afford to ignore the threats. Each firm's long-term prosperity depends on its ability to meet the new consumer requirements profitably. How can firms accomplish this goal? To address this issue, the paper looks at three important and interrelated questions: first, why have prior Internet marketing efforts been so unsuccessful? Secondly, what is the new reality and what are its implications? Thirdly, how can firms use the Net to develop an approach to reduce the threats and seize on the emerging opportunities to meet their long-term financial goals? The paper is organised according to these three questions.

LEARNING FROM THE PAST

Given the rapid rise of the Net and the widespread acclaim and financial market valuation accorded to its pioneers, it is not surprising that firms rushed to embrace the new technology and implemented a multitude of Internet initiatives. Many of these initiatives, however, have not been profitable. The key attempts and failings are summarised in this section.

Web presence, at any price!

The rush to develop a Web presence caught many firms by surprise. The orders were given and information technology (IT) and marketing departments moved forward. Yet, many of these early initiatives lacked any semblance of strategy or even a clear set of short-term objectives. These efforts often resulted in the development of unappealing sites that provided almost no consumer value. Even when firms overcame the brochure-ware phase, many sites still lacked true interactivity, were very slow to access, were filled with unnecessary visuals and were designed from a firm rather than a consumer perspective. After spending significant amounts on developing the sites, firms realised the need for further investments to attract customers to visit. And often when firms succeeded in getting consumers to visit, not much else took place. Consumers were dissatisfied with the experience and firms did not see any significant increase in revenues. Web presence at any price without a clear vision did not produce satisfactory outcomes.

The e-commerce approach: Online sales

The greatest revolution affecting marketing was expected to be e-commerce. The proclaimed advantages of online shopping, including convenience, lower prices, unlimited access, greater choice and helpful information, were going to change shopping behaviour. Online sales were expected to grow exponentially. Early results looked promising, but then reality set in. Growth was not as dramatic as forecast.

The majority of consumers were not so enamoured with either the new technology or a slightly lower price that they would be willing to compromise significantly on the remaining aspects of the purchase process. Costs in all areas of the operation were higher than anticipated and profitability almost non-existent. The transformation in consumer behaviour was slower than expected so the overall financial picture looked quite bleak. While there are many explanations for this outcome, the following are some of the key components.

Consumer demand

The desire to buy online is not universal. Some consumers like to buy some products online, sometimes. Buying groceries online is not as enticing or as convenient, especially for first timers. Experiential products that consumers like to touch, try on or smell are more difficult to sell online. Yet, there are myriad categories for which the Net offers undisputed advantages. Digitised products, from information to music, are perfect examples. Travel services enjoyed tremendous growth. Consumers embraced the ease, convenience, choices and better prices they experienced shopping on Expedia, Orbitz, Travelocity and other travel sites. Online brokerage services have grown rapidly and have changed the landscape in the investment field. eBay has been extremely successful in creating the world's largest exchange and auction site. Clearly the key lesson from these observations is that consumers are looking for real value. If the online experience truly excels at delivering desired value, consumers will give it a try. Beyond the fundamental value proposition, the experience throughout the shopping cycle needs to be satisfactory. Consumers rightfully demand ease of searching and shopping, reliable delivery, customer service and simple return policies. Many online retailers failed to deliver on these basic dimensions and were not able to create a repeat customer

Cost of marketing

While the underlying demand for online shopping may exist, finding an economical way to launch those services was not easy. The cost of attracting new customers to the sites has proven to be astronomical. This task was especially daunting for born-on-the-Net retailers. Without name recognition and physical stores, they had to resort to heavy communication expenditures. Amazon, for example, spent on average about 12 per cent of sales on marketing activities in 1999. Cost-cutting efforts and an emphasis on seeking profitability have reduced this figure to about 4 per cent in 2002. Many online retailers have ignored the full cost of attracting customers.

Logistics and fulfilment

The need to develop efficient and reliable distribution and logistics systems was a key prerequisite for online retailing success. Many manufacturers that had never dealt directly with consumers failed to meet those requirements. Shipments were delayed, shipping costs were excessive, and inventory-carrying costs were too high. Slow and unreliable fulfilment is the kiss of death for online retailers. Again, those who mastered these areas were better able to meet consumer requirements and have done well. Direct sellers with experience in these areas (eg L.L. Bean and Dell) have tremendous advantages over their competitors.

Price competition

To attract new customers, many online retailers relied heavily on offering low prices. In fact, in the early days, free giveaways or below-cost pricing were the norm, not the exception. These pricing tactics, however, created a downward spiral whereby retailers were constantly pressured to reduce prices to meet or beat their competitors. Firms' mounting losses could be sustained only as long as the financial markets were willing to subsidise this game. When the stock market collapsed, many of these firms went out of business. The ability to charge a reasonable price that ensures the retailer's survival is essential for long-term viability of e-commerce activities.

Integrated channels

Consumers are looking for a seamless integrated shopping experience. Interactions with the firm online, by phone or at the store should produce the same experience. Many retailers, however, chose to treat each channel separately. It took Barnes & Noble years to allow customers to return books bought online to B&N stores. Consumers shopping online often find that phone sales representatives cannot access the same databases to answer their questions. The lack of cross-channel integration complicates the consumer shopping process and makes it less attractive. Full integration, however, is costly and requires real commitment by management to this new integrated world.

Lack of differentiation

To stand out and avoid the necessity to compete on price, online retailers needed to focus on differentiating their service on attributes that are important to their customers. Few have succeeded in these efforts. As long as customers mainly select on price, most of these retailers are going to face grave financial difficulties. Only recently did Amazon grasp this concept and attempt to re-focus its brand to symbolise trust, reliability, selection and fair value. Offline retailers with a clear differentiated market position may find this task easier to accomplish.

Marketing communication objectives

While online sales were not as profitable as many firms had hoped, the communication goal seemed more attainable. Firms realised that they could derive communication benefits even if actual sales were not taking place online.

Lead generation

With more accurate targeting, interactivity and real time feedback, the Net was expected to help firms identify new leads quickly and economically. Online advertising, in particular, was going to help firms attract potentially interested consumers at a fraction of the traditional advertising costs. Yet, most firms experimenting with online advertising did not realise the expected benefits. Clickthrough rates have been extremely low. The costs per each lead generated were high. It was very difficult to demonstrate that the Net was attracting new customers at an affordable cost.

Branding

When banner adverts were not producing the desired direct response, the long-term benefits of promoting the brand were advocated as the right goal. According to this view, consumers should not be expected to respond immediately to an online advert. As long as awareness, recognition and some positive feelings were created, online adverts have value. While this perspective has merit in some situations, its effectiveness and efficiency are much more difficult to evaluate. Firms were expecting the Net communication activities to generate more immediate results. The long-term branding value, however, was very uncertain. With unsatisfactory short-term results and declining advertising budgets, advertising agencies often found that traditional media options were much easier and safer to recommend to their clients.

Customer service

Many firms believed that the Net provided an opportunity to deliver good and inexpensive customer service. If customers could be enticed to communicate online rather than in person or over the phone, significant cost savings would be achieved. The reality, however, was quite different. Firms that reduced the number of live customer service representatives often faced a backlash of irate consumers. Many consumers did not find the online experience satisfactory. Automated or standardised responses often did not address customers' real problems. Slow response to e-mail questions also contributed to the dissatisfaction. For many firms the bottom line has often been minimal or no savings at all, as well as an increase in customer dissatisfaction.

While many of the attempted ventures have not produced the desired results, the marketing landscape has not reverted back to its pre-Internet state of affairs. On the contrary, consumers' requirements and demands have continued to increase. What are the distinguishing characteristics of the 'new reality' with which marketers must contend? How can firms adapt to the new reality and respond more astutely to ensure long-term success? These issues are discussed next.

THE NEW REALITY: THREE STARK TRUTHS AND A SAVING GRACE

Four distinguishing characteristics of the current environment, herein labelled 'the new reality', highlight the need for and feasibility of a customer-equity approach to firms' e-commerce investments. Collectively, these changes to the marketing landscape are profound and mandate that action be taken rather than postponed.

The most evident and important characteristic of the new reality is the ability of consumers to acquire more accurate information cheaply and quickly. The upshot is that the opportunity for most firms that engage in traditional marketing to derive substantial profit from a sufficient mass of ill-informed customers who are willing to accept unsubstantiated claims, pay uncompetitive prices and receive substandard quality has been foreclosed forever. Consumers will not only be more informed about prices but also about the veracity of marketers' communications, post-purchase service, treatment of employees and even corporate governance practices. While well-known marketers can still be seen defending and engaging in questionable tactics (eg Omnicom's advocacy of guerilla marketing),[1] such practices are much less likely to go unnoticed and unpunished by consumers. The old school of marketing thought, by which firms strive to keep consumers in the dark and profit from the resulting asymmetry of information, simply will not stand in the new reality.

The second inescapable truth about the new reality stems from the increased ability of even small firms to reach, and be accessed by, consumers across the globe. The implication is that the supply of many goods and services has expanded along with the Net while neither the wealth nor the disposable income of consumers has increased concomitantly. Most competitors now face a buyers' market that is unprecedented and could hardly have been imagined just a few years ago. Once it is recognised that the Net is here to stay and that the aforementioned supply–demand imbalances are enduring rather than temporary, the inappropriateness of marketers' typical kneejerk responses of heavy promotion, price discounting and other hard-sell tactics becomes painfully apparent. Instead, development of a strategy for differentiating a firm's position and offerings to attract and retain a segment of customers for whom it can deliver value is the only option available.

The third distinguishing feature of the new reality is the rise of the 'centaur'[2] — a breed of consumer for whom the Net is a means rather than an end. While the cyberphile may have been the dominant user of the Net in its infancy that is no longer the case. The centaur is drawn to the Net neither by price alone nor by technology in isolation; rather it is the ability to conduct consumer behaviour how and when they wish that provided the attraction. The centaur can only be characterised by a holistic approach to consuming, which necessitates a holistic approach to marketing. The same person who may use the Net on one occasion to compare term insurance policies of A+ rated providers to save $50 per year might be loyal to a premium-priced provider of information who facilitates an online community of consumers with whom to share information about personal investing or medical treatment. When contemplating how to best serve this group, which expects consistent, thoughtful, well-integrated communications, the answer for the marketer is to forge a close interactive relationship with the consumer to excel over the competition. It is worth noting that a highly centralised system staffed by capable personnel will not be sufficient. The centaur demands the same high-quality experience when she or he interacts with the marketer offline in the store.

Fortunately, the fourth distinguishing characteristic of the new reality turns out to be a saving grace. The good news is that the interactivity enabled by the Net provides the enlightened marketer with the very capabilities that are necessary to identify and serve the right group of customers in both a more efficient and superior fashion than ever before. Only by abandoning the 'us versus them' guerilla-marketing mindset and fostering a cooperative, interactive relationship with customers can marketers hope to deliver superior value to the segment of customers who are open to this possibility.[3] Examination of the nature and purposes of the e-commerce investments needed to pursue this customercentric, customer-equity approach is the subject of the next section of the paper.

THE CUSTOMER EQUITY APPROACH

As noted above, the marketing environment has changed dramatically. Consumers are better informed, more demanding and are increasingly looking for value. The centaurs are quickly becoming a major force in the marketplace. They are searching, evaluating and buying products online and offline. Integrated delivery systems across all channels are often necessary to satisfy them. They expect availability, consistency and reliability of information and products across channels. Positive experiences throughout the buying process are essential. Traditional hard-sell marketing tactics are not likely to cut it anymore. Competitors that understand this new breed of consumers will become increasingly powerful and dominant. Ignoring these customers is clearly an unwise strategy.

While realising that the world is changing, the problem faced by firms is that the response required is quite expensive. Given the questionable value of many e-commerce initiatives to date, future investments are rightfully approached with caution. How should firms respond to this serious challenge? The authors believe a strategic approach is required.

Firms need to conduct a comprehensive SWOT analysis to examine what sustainable competitive position they need to occupy in the future. The pressure to develop a meaningful competitive advantage is only going to mount. Run-of-the-mill companies that have nothing unique to offer will find the new environment increasingly treacherous. For most firms, the strategic direction will entail the identification of a select group of potentially profitable customers and the attempt to develop a long-term relationship with them.[4] The merits of managing with a focus on the lifetime value of customers and a long-term relationship orientation are well documented in the literature.[5] The primary objectives of each company's Net initiatives must be to contribute to the attainment of these goals. The questions for management to ask and address revolve around harnessing the power of the Net to be able to deliver value profitably to a select group of desirable customers.

To translate this general idea into a more practical direction, the authors propose to evaluate the necessary actions within the customer equity management framework. Blattberg *et al*. suggested that customers should be viewed as a financial asset.[6] Like any other asset, organisations ought to measure, manage and maximise the value of their customer equity asset. This approach recognises the importance of attracting the right customers for the long term, as well as assessing the cost of attaining this goal. The authors believe that the customer equity management framework can be successfully used to help management assess their future investments in e-commerce initiatives.

Conceptually, the customer equity management framework consists of three phases: customer acquisition, retention and relationship expansion. The firm manages a customer life cycle, helping to ensure that the strategy is customercentric. Different marketing activities are used throughout the cycle to develop and enhance a profitable relationship. The firm attempts to quantify the output of its actions and continuously improve the effectiveness and efficiency of its actions. This framework is very suitable to help management assess the role and impact of its Internet activities. How this could work is examined next.

Acquisition

The costs of acquiring new customers are often very high. Consumers are becoming more sophisticated, more demanding and more informed. They face an increasing array of options in almost all product categories. Promotional activities are squeezing margins and reducing the incremental profitability of these new customers. In this difficult environment, firms need to examine carefully the targets they want to attract. They need to ensure that those customers have the potential to become loyal and are likely to remain profitable for the long haul. The more firms understand the profile of their better customers, their ongoing requirements and the future opportunities to deepen the relationship, the more feasible is this task. Without focusing on the nature of the acquired customers, it will be very difficult to ascertain their lifetime value. Firms that take advantage of new technological capabilities, both through the Net and otherwise, can develop detailed databases of existing customers. They can investigate profiles, requirements and behaviour. Most importantly, they can evaluate the effectiveness of prior marketing actions in generating the desired responses. Having better estimates of the likely impact of various acquisition actions is an important advantage of the digital economy. The digital economy affects all aspects of the marketing mix, as they relate to acquisition activities.

Product

To attract the right customers and develop a long-term relationship, firms need to develop and deliver the right value proposition for those customers. Firms that will be able to offer more value throughout the process are more likely to succeed. The Net creates new opportunities to better meet the needs of customers. The unparalleled market-making capabilities of the Net dramatically increase the likelihood of matching the right offering with the right buyer. Rather than resorting to hard-sell tactics and trickery to push the product to the 'wrong' customer, firms ought to identify those who will really appreciate (ie perceive value in) their offering. New capabilities of customising offers (eg reverse product design) create a better mechanism than ever to truly meet the needs of the customer. These capabilities are available to giant producers such as Dell computers, as well as to smaller firms such as Timbuk2 which manufactures custom-made bags. Consumers visit their sites and build their own customised product. An increasing number of firms could customise some aspect of the product or service experience. Additionally, there are opportunities for firms to expand their product lines to include complementary items that were not profitable enough in the offline world (eg due to low gross profit per cubic foot of space per unit of time). Other new products can now be offered online, which would have created channel conflict if offered offline.

Distribution

The Net provides greater opportunities than ever for firms to expand their distribution. For some, selling directly to consumers is a viable option. They can now reach a much more global market. This is especially appealing for smaller firms that offer unique products. For others, selling through a multitude of online and offline outlets is the better choice. Products can be sold by online retailers or other intermediaries who do not take possession of the goods (agents, auction sites and alike). Various affiliation arrangements help expand distribution even further. Firms can display their own brands on affiliate sites and obtain a much greater exposure. Others have opted to manage a product category for other brands, in effect expanding their distribution. Alliance Entertainment Corporation was a major music wholesaler. In the last few years Alliance has used the Net to supply music, movies and games to major e-commerce sites such as Circuit City. This arrangement helps Alliance expand its market scope while enabling Circuit City to offer a wide variety of items in a category it does not want to manage. Similar arrangements are now taking place in many product categories.

Communication

While many online advertising campaigns have not been successful, great opportunities clearly exist. Marketing professionals are just starting to learn how to use the new medium effectively. Making the right appeal to the right customer at the right time has to confer value. Most of the traditional advertising campaigns have been so wasteful that it is axiomatic that the Net can help improve the effectiveness of the process. New thinking is required to unlock the possibilities that the Net provides. While relevant and timely online messages can entice a non-searcher to a site, other methods might be more successful. The balance of power is shifting. Let consumers be in control. Make sure that those who look for a particular product can actually find the company offering it. Integrated offline and online approaches are critical. Each venue could be used to encourage a visit to the other channel. Unified and complementary information needs to be communicated by on and offline advertising, salespeople and the website. The experience across channels needs to be consistent. The power of a user-friendly website is enormous. Customers are looking for relevant, updated, easy to find, reliable information. Sites that excel on these dimensions are going to help firms acquire the right customers. Such sites can make the job of sales people easier. They can then concentrate on more complex issues that require their expertise.

Many other new communication options are becoming available in the new economy. Several firms have been successful in encouraging customers to do the work for them. Viral marketing strategies helped Hotmail become a huge success with minimal investment in marketing efforts. Creative ways to encourage customers to recommend a product, a service or a site to their friends can be devised. Similarly, some firms are discovering the power of communities. Firms can support such organic communities or help design new ones in areas that are mutually beneficial to them and their customers. In all these efforts firms need to remember, however, that they cannot control the content of person-to-person communication. Old-fashioned, hard-sell tactics and deception can backfire and hurt the firm. Above board, cooperative behaviours that create trust through all marketing activities are essential to establish and maintain the desired, value-laden relationships with consumers.

Price

Pricing has always been an important marketing tool. Promotional pricing is often used to eliminate excess inventory and encourage new customers to try a product in the hope that they will come back and purchase at a regular price. Yield management has been applied in many industries to maximise profitability of perishable goods (eg airlines). Technology and communication capabilities via the Net make it possible for firms to be more precise in their targeting. Rather than focus mainly on price reduction to move products, firms can now be more attentive to the question of which buyers to attract. By making special offers to more desirable targeted consumers, firms can use the Net to accomplish this goal. Prospective customers whose profiles indicate that they would be more likely to contribute secondary revenues (eg golfers who might spend on this activity at a resort hotel) or otherwise be of greater lifetime value to the firm can be reached efficiently and exclusively. Likewise, hotels that are concerned with the nature of the customer that is attracted by lower prices can limit the offer to a more select group of customers. These customers may belong to a given organisation, share specific interests or fit a demographic profile. Special pricing can also be directed at non-customers who are currently buying from competitors. Better databases, profiling information and the ability to communicate inexpensively with a select group of customers make this approach more feasible in the new marketing environment.

Retention

When firms have been successful in acquiring good customers they need to make sure they retain them for the long haul. Not all customers should be retained; some turn out to be disruptive or too costly to serve. Firms need to develop the quantitative tools to evaluate the return on investment (ROI) of retention-related activities, ideally, at the individual customer level. New technologies and the ability to interact with customers on an ongoing basis provide firms with a much better opportunity to move in that direction. Rather than simply engage in activities that are very expensive and often unproductive, firms must move toward basing their decisions on hard data. Some of these opportunities are examined below.

Customer service and recovery

Meeting or exceeding customer expectations is one of the critical determinants of retention. For many firms, service-oriented issues tend to top the list of problems. Investing in customer service and recovery activities to handle these issues is an important component of retention strategy. The Net can facilitate this process by allowing the firm to improve its customer service activities at an acceptable cost. Too many firms focused primarily on the cost reduction aspects of the Net rather than realising the opportunity to improve service. Integrated customer service online and offline, which works seamlessly, is required. One of the key benefits of the Net is the ability to solicit feedback from the silent majority on a regular basis. Few firms are actively pursuing this avenue. Multiple opportunities need to be created online to seek feedback. Firms ought to engage proactively in dialogue with their customers, especially the ones they would like to retain. Given the reality of constrained resources, customer service departments often face the dilemma of peak demands that create long delays. Shifting customers to online systems could help alleviate some of the pressure. This can be done successfully if the response time to customers online is shortened and the quality and relevancy improved. Additionally, better identification mechanisms can help the firm to develop triage systems based on the value of the customer and the severity of the problem.

Value assessment

While customers may not experience major problems with a product or a service, when the time to re-buy arrives they are likely to re-examine its value proposition. Firms need to ensure that customers continue to value the products, services and experiences delivered by the firm. The value proposition should encompass all aspects of the purchase cycle. Ease of purchase issues, availability, convenience, updated services, fair pricing, reliable delivery and many other aspects need to be re-examined. Timely feedback is essential to accomplish this task. The Net is an excellent economical vehicle to enable firms to remain close to their customers. By using innovative approaches, firms can improve their understanding of customer perceptions and evolving expectations. Monitoring of, and participation in, online community activities and discussions can help firms better assess their external environment. The Net also makes it easier to find out what the competition is doing as well as to identify general trends that may affect the ways that consumers will perceive and value a particular offering.

Monitor consumer activity

Without access to customer specific activity data, it is very difficult for firms to assess in a timely fashion the success of their retention activities. In many businesses the repurchase cycle is long and firms relying on sales data would not know for a long time if customers were actually retained. In other categories customers are still on the books but their product usage is low. Often they divide their purchases among several suppliers. To better understand what is going on, firms need to develop activity data for each customer. In product categories for which purchase frequency is high, sales data might be sufficiently revealing. The absence of a purchase in a consumer's regular cycle can indicate a potential problem. If investigated quickly, firms may be able to resolve the problem inexpensively and reverse the trend. Customer inquiries that do not lead to action may be indicative of concerns about the firm's value proposition. In low purchase frequency categories, measures other than sales are needed. Frequent interactions, regular visits to the websites and ongoing dialogue are some examples of indicators that might be more revealing. The low cost and ease of implementation of these measures make the Net an excellent vehicle to accomplish these tasks.

Relationship expansion

Firms engage in relationship expansion (ie add-on selling) in order to increase customer equity through higher profits per customer. The additional sales not only affect immediate profitability, but also enhance the long-term relationship with the customer. Greater commitment to purchasing multiple products from the firm is an important indicator of increased loyalty. This loyalty may result from positive feelings about the firm as well as from higher switching costs. Blattberg *et al.* argue that most 'old economy' firms develop add-on selling programmes as an afterthought.[7] When the customer base begins to mature, these firms are often looking for additional sources of revenue. The installed base of existing customers is a natural target for add-on selling. Several new economy firms (Amazon, eBay) have been much more aggressive in attempting to sell additional products to their customers. The data-driven capabilities of the digital economy create great opportunities to develop cost-effective add-on selling programmes for relationship expansion.

Products and customers

Many add-on selling programmes are not very successful. Employees are often pressured to push mandated products to uninterested customers. Banks have often fallen into this trap. This pure selling orientation rarely produces the desired results. Clearly, in order to succeed in this venture, firms need to identify the appropriate products or services to offer to select groups of its customers. Most programmes fail because firms did not adequately research their customers' needs. The Net fosters the development of capabilities that allow firms to engage better in research activities. Direct customer feedback is an excellent source for new ideas. The ability to experiment and quickly gauge the market response to an offer is an important benefit of the Net. Firms ought to take advantage of these capabilities and experiment with various add-on selling programmes. Firms will be better able to identify the right products and target them to the right customers. These efforts are also likely to become much more profitable. The learning that comes from this process will create a unique competitive advantage.

Integrated activities

Add-on selling should not be viewed as an online activity only. Firms need to integrate online and offline activities to implement these programmes successfully. E-mails could encourage customers to inquire about an offer online, by phone or at a physical point of distribution. When customers do inquire, sales people ought to be able to follow through as needed. Too often, firms fail on these implementation issues. Integration across all channels and customer touchpoints is critical. All channels should be used as listening posts to enable the firm to respond quickly.

Partnerships

Firms ought to take advantage of the unique partnerships and affiliations offered by the Net to enhance add-on selling activities. Amazon realised that its large base of satisfied customers provides many opportunities to sell other related products and services. This led the firm to expand dramatically its offerings across many product categories. This expansion strategy, however, required heavy initial investments as well as high inventory carrying cost. One way to reduce this burden was to expand the product offerings through other providers that will carry the inventory and even take care of the logistics (for example, zShops and used merchandise). Many similar affiliations can be developed to sell more products and enhance the relationship with the desired customer base.

Fair tactics

All actions taken by the firm should contribute to the enhancement of the positive relationship with profitable customers for the long haul. Firms should avoid taking actions that abuse customer trust. The low cost of online communication creates many opportunities to anger the customer. Continuous unsolicited e-mail campaigns are very irritating to many customers. Ongoing 'in your face' online pop-up promotions do not fare better. Firms need to adopt a longer-term perspective and rely more on the principles of permission marketing. Even when invited, firms need to ensure that they do not abuse their power. Meaningful information, offers and programmes need to be provided. Careful attention should be given to the frequency of the intrusion. The more apt and valuable the offer, the less likely it is to evoke a negative response. By better understanding customer requirements and consumption patterns including disposition, firms will be able to make more meaningful offers. Vauxhall in the UK has done an excellent job of managing the customer experience through the consumption and replacement cycle. An integrated CRM database enables the firm to coordinate all customer touchpoint interactions throughout the cycle. This knowledge was then used for successful sales of multiple products by Vauxhall's partners — GMAC, GM Card, CGU Insurance, GGT (a direct marketing firm) and others.

CONCLUDING THOUGHTS

The marketing environment has changed forever. The balance of information power is shifting and, in most respects, consumers are getting the upper hand. Markets are becoming more competitive. Simply chasing the deal-prone segment and other consumers who place little value on relationships with their providers will be less profitable than ever. Old-fashioned hard-selling and promotional tactics are not going to cut it for most firms. A firm's market strategy will dictate the identification of, and dedication to, a segment of consumers for whom the firm can deliver superior value. Advances in technology, including the Net, provide the tools to establish a meaningful, value-laden, profitable relationship with the right consumers. Realisation that the centaur, rather than the cyberphile, is the dominant consumer user of the Net must shape the way that firms think about all marketing efforts including their e-commerce initiatives. Each firm's investment in e-commerce initiatives can be guided by these goals and assessed from a customer-equity perspective. Customer acquisition, retention and relationship expansion activities can all be conducted more efficiently and effectively through the Net. Nearly every business threat also produces an opportunity. The dramatic changes caused by the new economy present real threats and opportunities. Firms that make the appropriate investments in e-commerce initiatives will take advantage of these changes and are likely to prosper. Those firms who remain paralysed by the shock from the Internet bubble and burst are very unlikely to thrive or even survive the new reality.

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7 *Ibid*.

A response from Professor Merlin Stone

This paper summarises very well all the reasons why the stock markets (and analysts, and companies, and consultants…) got it so wrong, but it does not offer the reader the confidence that the experience will not be repeated. Surely what we learnt from the difficult period through which we have just passed is that when there is a period of unfreezing (unhappily coinciding with an asset inflation boom and bust coming at the end of a very long period of steady economic growth), we cannot expect a simple refreezing into a new paradigm to take place quickly. I mean by a new paradigm one in which the rules for success are relatively clear, and the warnings of failure well recognised.

Most comprehensive technology-based business process innovations take many years, even decades, to settle down. During the period of settling down, the technology often continues to evolve, as do its applications, so that even though companies and customers learn to use the technology, they need to keep re-learning as each technological improvement arrives. Sometimes the result destabilises, either because those slow to adapt are caught out, or because those too quick to act discover a fundamental problem, eg the technology does not work as it is supposed to, it is too expensive, unfriendly or just uses a suspect value model.

All this is well known and properly documented in the annals of the diffusion of innovation. The problem with the cycle we have just witnessed is that we forgot these lessons (as seems to happen every time). Now is the time to review why the human race repeats these errors of learning as well as its successes of progress. This paper goes some way to explaining what the errors were and how they are being redressed, but not how to avoid them again. Interestingly enough, at the project level, another set of learning parallels this, for each wave is made out of myriads of corporate process innovation programmes, with their suppliers, and as these waves 'break', so probably the failure to success ratio of projects rises. It would be nice to see a more holistic approach taken to this analysis, so that our chances of avoiding the awful breaking of the wave are increased.

MERLIN STONE
Editorial Board

A reply from the authors

We would like to thank Professor Merlin Stone for his thoughtful comment. We agree with his description of the traditional cycle of technology-based business process innovations. It takes time for businesses to understand the significance of any new technology and to find its appropriate place, if any, in their own operations. We believe, however, that our paper goes far beyond a discussion of the reasons for e-commerce failure to date.

We argue that most firms have been technology driven, not business driven, in their approach to e-commerce to date. Instead, we recommend a rapid reorientation toward e-commerce initiatives based upon the need to reassess and enhance a firm's business model. The driving force ought to be how to use the new technology to create a long term competitive advantage. Our paper recommends a specific strategic approach that can be used to accomplish this mission. Firms are increasingly facing a radically altered 'new reality'. Consumers are more informed, more powerful and more demanding. Competition is broader in scope and run-of-the-mill me-too strategies are not producing satisfactory results. The real issue is what to do about your fundamental business problem, again not about technology or e-commerce *per se*. We argue that for many firms the solution will depend on their ability to acquire the right customers at a reasonable cost, invest in retention and attempt to expand profitable relationships by various add-on sales techniques. We also argue that, in the new landscape of informed consumers, the old-fashioned hard-sell approach is going to backfire. As discussed in detail in the paper, the new technology can help firms to implement the recommended customer equity approach more effectively and more efficiently. By experimenting, firms will learn which aspects are more beneficial to their particular situation. Some have already done that. They are winning the game. Standing still while assessing the return on investment from delivering an integrated customer experience and waiting for a new marketing paradigm to emerge, are the (in)actions that our paper advises against.