

Using E-Commerce to Leverage Your Products Upstream

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Abstract-- An online customer relationship contributes to the lifetime value of customers by reducing acquisition costs, increasing sales, extending the customer life cycle, and strengthening customer retention. E-commerce must work for the company, identifying the high value customers, offering tailored products for specific market segments, and implementing proactive cross-selling. For the customer e-commerce can simplify tasks, reduce time, and optimize the customer experience. This paper reports a study conducted to inform the e-commerce strategy of a brand leader that was losing market share. Implications for putting the customer at the center of the web-based interactions for customer relationship management are discussed. Opportunities for buyer-driven value networks and alliances of providers formed around complementary products and services that respond to consumer intentions are also explored, as an approach to create value through intention-based customer relationships.

Index terms – intentions, e-commerce, customer relationship management, cross-channel, online, research

I. INTRODUCTION

The Internet is a communication channel. It is also a transaction channel. In some categories, such as software and information, it is also a distribution channel. The Internet serves all functions of conventional channels.

By definition, communication channels enable the flow of various types of information between buyers and sellers. Transaction channels implement ordering and payment activities between buyers and sellers. Distribution channels facilitate the physical exchange of products and services between buyers and sellers (Peterson, Balasubramanian, and Bronnenberg, 1997). In the context of consumer marketing these channels frequently overlap. In some categories, a single entity operating in one channel may be responsible for multiple functions (Peterson, Balasubramanian, and Bronnenberg, 2000). The full multifunctionality of the Internet can be best demonstrated in online sales of software or multimedia. A software program can be advertised, paid for, and distributed to a

consumer through the Web. A multimedia performance can be communicated, ordered and delivered via the Internet. In this case, the Web serves all the functions of channels – communication, transaction, and distribution. For other product categories, the Internet provides communication and/or transaction functions and relies on another channel for distribution. Books, for instance, can be found and bought online; a companion channel is required to deliver a traditional bound version.

The Internet was not designed to be a market channel nor for any specific set of consumer services. Had it been designed to serve consumers and the marketplace, it would likely have been a more centrally organized, allowing management control over information, transaction and distribution. The heritage of its “open” specification (all specifications required to utilize it are publicly available) is, in fact, the antithesis of that. Internet users can download and share music performances traditionally available only through retail or direct purchase.

But as the channel functions of the Internet are evolving, it already represents a market discontinuity. It is surrounded by a “shift in “market forces and their interrelationships that cannot be predicted by a continuation of historical trends and that, if it occurs, can dramatically affect the performance of a firm or an industry “ (Mahajan and Wind, p.187).

Exactly how the Internet will affect the market in the long run cannot yet be known, but already there is general consensus that it will have an impact and that the impact will be persistent. This consensus is built on four assumptions about the Internet as a channel. First, the Internet will eventually be used by a large and broad cross-section of users. This may not include everyone, but it will include most. Second, overall consumer spending will not increase because the Internet is used for marketing. There is no intuitive reason why the Internet will, in and of itself, cause consumers to spend more. However, the use of the Internet in marketing to consumers may result in a “redistribution of revenues among channels or among firms within a channel” (Hagel and Eisenmann). Third, transmission modes and access devices – ones we know today, ones that will be developed, and the ultimate combination of those – are unlikely to affect the market impact of the Internet. Devices for transmission and access are likely to be both complementary and substitutable. The market impact of the Internet can be implemented on many

combinations of technologies. And last, any congestion-related disfunction of the Internet will be temporary and will be overcome by market forces and technical advances, for example usage-based or priority pricing, and quality of service assurances – both made possible with the new Ipv6 protocols that have been adopted..

With these assumptions as a foundation, we can move on to evaluate the capacity of the Internet for e-commerce and how it can perform channel intermediary functions for products and services. Channel intermediary functions include creating and distributing information to consumers (communication), sales and control over the sales environment (transaction), and logistic operations, assorting, accumulating and sorting (distribution.) These functions frequently overlap, and channel members (for example a web site) may be responsible for more than one function – for communication and transaction, and possibly for distribution. Exchange is at the heart of all of these functions. And exchange implies two-way interaction.

The ability of buyers and sellers to interact more efficiently is likely to be an important contribution of the Internet. The Internet provides capabilities to inexpensively store vast amounts of information at different virtual locations, make searching for information less expensive and more productive. It facilitates organizing and disseminating information that is available. It provides perceptual experiences that are far superior to a printed catalog in a way that can be exploited in the intermediary functions of distribution, transaction and communication. As these exploitations address consumers' information and brand acquisition strategies, the Internet will facilitate not greater spending but instead added value. This added value can be used to leverage products and brands to higher levels of meaning – and in that sense equity – in the consumer's hierarchy of values.

II. THE INTERNET IN CUSTOMER RELATIONSHIP MANAGEMENT

A relationship with a customer implies exchange. Something is given, something is received. Consumers get information and act on it through channels. The decision sequences of consumers involve whether to focus on a product or service category or on a brand at a particular stage of the information acquisition process.

The online customer relationship contributes to the lifetime value of customers by reducing acquisition costs, increasing sales, extending the customer life cycle, and strengthening customer retention. For this to happen, the web site must work for the company – identifying the high value customers, offering tailored products for specific market segments, and implementing proactive cross-selling. It must also work for the customer – to simplify tasks, reduce time, and optimize the customer experience. Web sites permit organizations to harvest valuable information about customers, but the challenge becomes how to leverage the

data to guide strategy and monitor options, and integrate the web-base data with other existing, more traditional sources of customer response data.

Early web sites offered information as a way to engage visitors – turn them into repeat visitors and therefore into loyal customers. Aesthetically pleasing visuals were added to attract and please viewers. Registration opportunities then turned viewers into members, permitting organizations to personally address the viewers and allowing the customers to feel they were recognized by the organization. And more recently, personalized interactive experiences offer tools, interest and engagement to make it more likely the customer will like the brand, buy the product and repeat the purchase. It's not surprising, then, that more than a few companies have been puzzled that putting up a "Web site didn't results in greater brand recognition, increased sales or stronger resistance to brand switching. A web site, even a good web site, does not assure growth in market share or increased profits.

III. WHERE'S THE VALUE-ADDED?

It was precisely this situation that prompted a company with the leading brand, the biggest market share and the best web site in the category to decide to refresh their web site and to conduct some market research before doing so. The initial goal of the market research was to understand what changes should be made to their web site.

The objectives of this particular web site – specific to the products of one particular division of the company – were to assist in product selection, solidify brand commitment, and guide customers to retail locations for purchase of those products. At the time of this study, value-added resellers, retail outlets and direct mail were the primary information channels for this line of products. These products were only available through retail and value added distributors. The web site invited registration in exchange for printed information in the mail, offered interactive tools to facilitate project planning, and provided a full catalog listing of all the products available – including their size, style, color, and technical specifications.

For this reason, we recommended that the evaluation of the web site go beyond how well visitors liked the site. We designed a study that would address the web site in relation to other channels used by the company and by the consumer. To understand how the web site could contribute to managing the customer relationship, it was essential to understand the entire context of the customer relationship and how the channels overlapped. So the study design addressed three critical issues in the customer relationship – the functionality and aesthetics of the web site, the role of the web site in the purchase process and the interface between the web site and the retail site.

The study confirmed that the company's brand was the preferred brand and was the brand that remodelers intended to buy after visiting the web site. Why then, with a well-functioning web site, had the company been experiencing declines in its market share? The study revealed that three quarters of the registered web site visitors had used the web site order form at the web site to request printed product information about products. However, only one third of those who requested product information recalled having received it. Like many companies, the group responsible for fulfillment was a different group in a different office, at a physical distance from the team responsible for the web site development and maintenance. The findings alerted the company to the need for communication and data management between these two groups.

The study also revealed that the remodeling projects being undertaken by web site visitors and by people who had previously registered at the web site almost always involved more than just the particular products of the division sponsoring the research project. In fact, the complete list of supplies for the projects generally undertaken by this market segment typically included products of at least two other divisions of this one company. Each of the divisions maintained their web sites separately. None of the company's web sites provided integrated access to the information included on the other web sites of the company. Non allowed the visitor to get an integrated perspective on all of the company's product that might together be part of a customer's remodeling project.

We also looked at reports of the retail experience following visits to the web site. Significant discrepancies existed between the remodelers' online experiences, the expectations this created for the retail experience and their actual retail experiences. The web site experience of complete, well-organized information was followed by a retail experience characterized by the absence of supporting information, uninformed and unhelpful sales personnel, and limited inventory for this brand.

The web site was functioning well. Potential customers were leaving the computer interface with a commitment to the brand and a commitment to purchase products. In the context of purchasing supplies for the remodeling project, customers' commitment to the brand and the product was put in direct confrontation with their commitment to meeting their project timeline and to convenience. T

The decline of market share that the company had been experiencing was understandable in this context. The web site heightened expectations that were not met in actual experiences. Managing the relationship with this company's customers required intervention on several fronts. First, the interface between experiences in the online channel and the print and retail channels required intervention. The various interfaces with the company – manufacturer's information, retail environment, and web site – required coordination in order to establish realistic expectations for the customers and meet those expectations

repeatedly. Second, the un-integrated relationships among the various product divisions under the same brand to customers who knew and like the brand produced a discontinuous experience and provided unnecessary opportunities or brand switching. The strong brand, which could have been leveraged into a total solution, was fragmented into product-oriented pieces. The relationship with the customer was piecemeal and unpredictable. The purchase process was difficult, lacked personalization, and left customers to fend for themselves.

This research has several important implications. Firstly, the web can be effectively used to manage and build customer relationships – specific relationships, with specific customers. The retail, print and Internet channels offer different opportunities for interaction. Across these opportunities and across the different market segments, customers are looking for particular types of relationships. Their willingness to grant permission to the other party in that relationship – to interact, to know their needs, to help provide a solution – is influenced by the nature of that relationship and the way it is managed.

Through previous research we know that attitudes and behaviors of consumers and their expectations about their relationships with companies, vary across product categories. (Russell, 1998) We know that the purchase decision cycle for products that are purchased spontaneously (for example, entertainment, CDs, videos, CDRoms, books) is different from product for which the purchase tends to be deliberated, considered, studied (automobiles, computer hardware, large appliances.) (Li, Cheng, Russell, 2000) Across product categories and across the purchase decision process, consumers need different amounts of and types of information to support their purchase decisions, their product usage, and their brand loyalty.

Secondly, to allow marketers to manage customer relationships, the web must be integrated with other channels. The Internet is one of several channels through which the customer can be engaged in an exchange relationship – for communication, transaction or distribution. That relationship is the fundamental basis on which further e-commerce interactions will take place – for brand or product awareness, selection, purchase and satisfaction. Information that is available online about home remodeling products may serve to stimulate trips to the store for purchase. Products displayed in the retail environment may be ordered online for at-home delivery. Products sold in the retail environment may come with printed material that encourages purchasers to go online to register their purchase for warranty or customer service purposes. (Russell, 2000)

Putting the customer at the center of the Internet-based interaction is key in customer relationship management. Overnight, the Internet has empowered a new generation of consumers who expect a consumer-centric business model built on relationships.

IV. INTENTIONS BASED INTERACTION

Consumers' use of the Internet may come at any stage in their purchase decision. Consumer decision processes vary across product categories and with the extent to which the purchase is considered or spontaneous. For a considered purchase – an automobile, a home, a new technology device – consumers are likely to employ a phased decision process, first filtering available alternatives and then undertaking detailed comparison of the reduced consideration set. This typical decision strategy requires quantity and quality of information. Quantity of information is important because it helps consumers establish the consideration set – of alternative products and brands. Quality of information, accurate and current information, is important as a basis for comparative judgement. Given, for example, a decision about wine, information about the availability and current price is most useful if it is current and accurate. In other words, the utility of a communication channel can be evaluated on its attributes of quantity and quality of information (Li, Cheng, Russell). Bettman (1979) has suggested that a phased decision strategy, with an elimination phase and a choice phase, is likely to be used when the number of alternatives is large.

The impact of the Internet on E-commerce depends on the characteristics of the product or service being marketed. An "experience good" needs to be personally inspected or tried. Service goods depend on personal experience for distribution. Features of a commodity good can be evaluated from externally provided information, easily accomplished using the Internet.

The meaning of money (Doyle, Youn, Faber and Russell, 2000), the cost of the product and frequency of its purchase are important characteristics that influence the impact of E-commerce. The channel functions of communication, transaction and distribution will be implemented differently for frequently purchased consumable products (milk, cigarettes, books, etc.) than infrequently purchased goods (appliances, car insurance, stereo systems, etc.) When purchase fulfillment requires physical delivery the more frequent the purchase and the smaller the cost (e.g., milk), the less likely there is to be a good "fit" between a product or service and Internet-based marketing.

The value proposition of goods and services – whether they are tangible and physical or intangible and service-related – is also an important characteristic in terms of E-commerce. To the extent that the value proposition is intangible, (personalized news service or up-to-date stock quotes) the greater the frequency of purchase or use of a good, the greater the advantage of the Internet as a transaction and distribution medium. For goods and services for which the value propositions are more tangible and purchased less frequently (gifts, musical instruments, for example) the Internet's value as a transaction or distribution medium is influenced by the extent to which the seller can create a

sustainable competitive advantage – product or service differentiation through E-commerce.

Products that are not capable of significant differentiation (music CDs, books in print, off-the-shelf software) are subject to extreme price competition. For products that are capable of differentiation, however, such as specialized software or products that require an exceptionally good fit between the buyer requirement and the product characteristic, higher margins may be possible through E-commerce than in conventional retailing.

With the proliferation of choices in nearly every aspect of consumers' lives and with less free time than ever to deal with these choices, consumers are looking for simplified ways to manage their basic needs and achieve key objectives. Consumers are looking for ways to cut through the information clutter that surrounds the objectives that are important to them. They are looking for ways to make more knowledgeable decisions about these objectives – establishing a home, starting a family, sending a child to college, retirement, a new more rewarding career – more easily.

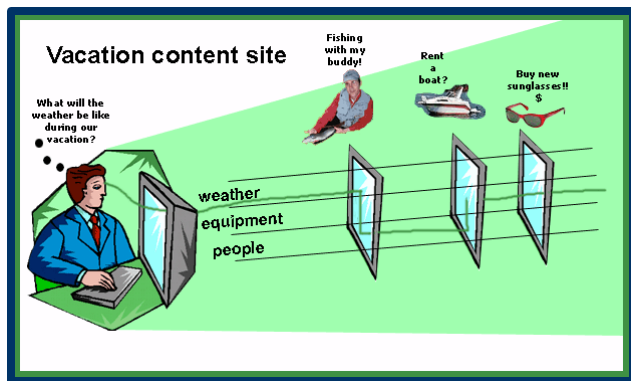
Consumers' objectives – their intentions and how they want to implement them – are at the heart of the meaning derived from buying and using products and brands. A successful career, for example, requires consumers to draw upon many service and product providers across various industries, and to make complex decisions and manage this process over several years. Extensive planning and coordination across many areas – housing, financial security, transportation, health care, personal development, entertainment – is necessary in order to satisfy intentions related to retirement objectives.

The Internet's capability to retrieve and distribute a vast variety of personally relevant bundles of information, its capability to control the sales environment and to execute transactions, and its capability to accumulate, sort and manage distribution all serve to support consumers' ability to satisfy their intentions. Buyer-driven value networks are developing to respond to consumer intentions. A web site can provide an opportunity to identify and acquire everything needed to catch fresh Rocky Mountain Trout by fly fishing. A web site can provide everything that is needed to become a certified network engineer. Alliances of providers, formed around the complementary products and services relevant to customer intentions, are emerging examples of intentions value networks.

Internet-based networks of providers who serve the same customer intention are able to increase their profit per customer by pooling customer intelligence and coordinating their offerings. Their ability to identify, convert, and retain customers is enhanced with such an alliance. For example, research indicates that a mortgage service can expect to convert approximately 40 percent of referrals from a network of real estate brokers into sales – compared with the 25 percent average conversion rate for independent

mortgage brokers. Once the customer uses the network, the partnering providers learn more about the customer's needs and preferences – and can therefore deliver an increasingly customized package of intentions-centric goods. (Friedman and Langinai, 2000).

The web facilitates this type of E-commerce because it allows for the integration of specialized content providers that allow consumers to enter the network through a variety of content domains and capitalize on interest pathway dynamics.



An intentions-based E-commerce network allows interactive and personalized responses to continuously match shifting levels of interest, intent and suggestibility. It identifies the optimal context and time for the presentation of the purchase opportunity. It creates contextual purchasing opportunities by controlling context-based experiences and capitalizing on the customer's suggestibility threshold. It compresses the space between the solicitation and the customer's moment of purchase.

An intentions-based E-commerce web site permits information about each customer's behavior to be collected and assimilated to create intelligence about customer intentions that can be distributed to all partners. This personalized interface, that both empowers the individual buyer and the creates community among groups of buyers, serves to enable interactive, continuous and real-time customer dialogue. It builds value for the consumer by helping the customer achieve intentions. In this context, the meaning of the E-commerce experience becomes aligned with the customer's objective.

The E-commerce firm that provides this interface takes on the critical role of the integrator. It may select and coordinate a network of approved suppliers that provide the products and services, and it may oversee the suppliers' fulfillment. This entity must understand the customer's values, needs, behavior and preferences related to the overall intention and manage the resources of the suppliers toward the customers' objective. Continuous sensing and responding between the integrator and the network partners drives a value dependency between the network of customers and the network of providers.

V. DRIVE PRODUCTS AND BRANDS AND RELATIONSHIPS UPSTREAM TO MEANING

By putting products and services into the context in which they will be used, organizations can take products up the stream of customer value, into a broader consumer buying experience. Leveraging existing products and services into emerging networks is a sound strategic play, especially if products are a differentiable, significant and serve an important component of a broader consumer need. The value of products, services and brands is increased when they are offered at the point of need and come ready to use.

Consumers derive value across the value hierarchy – from the product features, to the consequences/benefits to the customer of using the product, to the meaning derived by the customer from the experience. E-commerce allows a combination of products and services to be offered together in a way that addresses customer intentions and recognizes the meaning the customer receives from the experience. Newbaby.com, for example, has information, products, community, and purchase opportunities to allow prospective new parents to realize their intention of successfully adding a member to their family. The highest value is derived from the meaning of the product, service or brand to the consumer. "I have a trusted source of advice for the important questions." "I am doing the right thing." "I am a good parent."

In summary, E-commerce can help suppliers leverage the highest customer value for their products, services and brands through intention-based customer relationships. The most successful alliances for addressing customer intentions will be those that can first assemble an intentions-based value proposition for a targeted segment of customers, in conjunction with the right alliance partners. For suppliers participating in these alliances, a network-oriented culture and leadership, along with highly-leveraged customer information, are essential to achieving high-impact brand identity and optimal return on E-commerce initiatives..

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