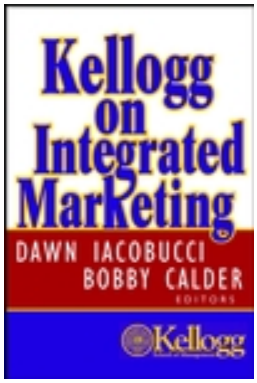


# Chapter 12:
# Integrated Marketing and the Web

By Eric G. Berggren, Bobby J. Calder & Richard I. Kolsky

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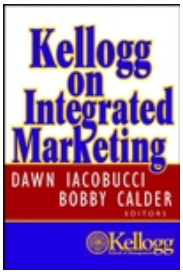


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# Chapter 12: Integrated Marketing and the Web

**By Eric G. Berggren, Bobby J. Calder & Richard I. Kolsky**

The real Internet revolution is about to start. It is time to integrate the Web into your marketing efforts. Too many Web operations are predicated on the logic of the Internet bubble of the 1990's. In this article, we argue that it is time to learn from the past.

Most existing Internet operations were conceived in "Internet Space," a black hole of fertile imaginations and deep passions. Many have failed, and even the most successful face significant obstacles. Nevertheless, traditional firms, and even new dot-com firms, can create Web strategies that avoid the mistakes of the past and truly realize the potential of the Web. The path to this potential is to integrate marketing and the Web. But this integration requires that we begin to think about marketing from a different perspective—one less bound to the old media of television, print, and conventional distribution channels. To facilitate this, we introduce a concept that we call *customer space*. It is in the extended realm of customer space that the marketing potential of the Web will be realized.

## The Old "New" Mindset

The exuberance of the late 90s, fueled by venture capital, is fading. The Information Highway is littered with road kill like Pets.com, eToys, Priceline's Warehouse Club, and DrKoop.com. The voices of the gurus preaching the rise of the "new economy" grow ever more muted. Their mantra, "they just don't get it," aimed at those who did not follow, seems self-serving at best. The fact is the utopia of the new economy was just that--a utopian bubble.

There is a revolution afoot, however. It will change the way companies think about the Internet and the way they will use it as part of an integrated marketing strategy. Our goal is to lay out this new marketing thinking about the Internet. To do so, it is instructive to consider how inadequate the old "new" mind-set about the Internet was.

For the most part, the original Internet revolutionaries got sucked into the mindset of Internet Space. At the time nothing seemed cooler in Internet speak, the language of the revolution, than the notion of Internet Space. As in, "What space are you (they) in?" The Internet was imagined to be a vast stretch of territory and parts of this territory were there to be colonized by whoever could get their first.

Internet Space might be virtual, but each site's location in that space was very real, and could be defined by three "coordinates," all relating to the functionality of the Web site:

- *Content:* The process typically began by selecting an impassioned interest of the founders. This domain could be general or quite specific, from every subject (e.g., news, search engines) to weddings to weddings for left-handed couples marrying in June.

- *Product/service:* Then, the founders decided what to offer all the traffic they were destined to attract--shall we be an information source, a store, an exchange, or some combination?
- *Experience:* Then came the fun part...how to jazz up the site experience, with an attractive look and feel, easy-to-use interfaces, interactivity, and personalization. Will we create a virtual community? Will we remember your preferences and feed you recommendations?

The intention was to claim a space, a large space if possible, but in any case, one that was at least your own. Internet strategies were focused on finding a space that could be yours before it was gone.

Once you had claimed a space, it defined the functionality of your Web site, subject only to the level of technology that was available and could be funded. For example, once Amazon staked out books, became a store, and enhanced the experience by providing tailored recommendations and encouraging participants to interact through reviews, all that remained was to work out the technical details and refinements, such as one-click. The focus of the old "new" mindset was space, space, and space…the not terribly insightful corollary to location, location, location in the physical world.

What to do once you had claimed the space and built the site was a secondary issue but one that had to be faced. Thinking typically proceeded as follows:

- *Users will come.* The Web is exploding in growth. This is creating a vast group of users who are looking (surfing) for sites. Some will land on our site and use our space. We are after "eyeballs," and all we need is visibility. This thinking led to a stress on memorable addresses, search engine listings, links with other sites, aggregation, stickiness and all the other stock-in-trade devices that came to be so commonplace: **Space plus visibility.**
- *If they come, we will be rewarded.* Purchasing is increasing on the Web. Although we may not sell enough today to make a profit, someday the volume will be there and so will we. (Or at least the habit or loyalty will be there, and we can raise prices.) Alternatively, if our space does not emphasize product/service, we can still make money by virtue of the fact that people come. Subscriptions, advertising, sponsorship, and resale of data: **Space plus visibility plus revenue.**

But space plus visibility plus revenue did not equal profitability. Of course in the last throes of the revolution, thinking about visibility and revenue reached new heights. Desperate advertising campaigns were added to the quest for visibility. And speculation about sources of revenue led to an expansion in the scope of sites beyond any foundation in the space owned.

Examples of the old "new" mindset at work abound. The Parkinson brothers founded Peapod, the online grocer, because they had read that grocery shopping was second only to doing laundry as the most dreaded chore. The reason that it was dreaded was that the stores were crowded and the shopping took too much time. Armed with the Internet and this customer frustration, they staked a claim to some virgin Internet Space. They focused on selling grocery products with very narrow content (primarily easy unit price & ingredient comparison) and limited interactivity.

While they were able to eliminate the trip to the store and all its aggravation, they weren't able to give people the ability to see and touch the actual product that would arrive. Additionally, customers had to plan ahead in placing orders and make themselves available to receive the deliveries. For the majority of grocery shoppers, one aspect of their experience was improved, but other aspects created even greater frustrations…not exactly a superior solution. Consequently, they have thus far found few "target consumers" who hate the grocery store so much that they are willing to accept these "inconveniences" and be willing to pay enough to cover the cost of the system development and maintenance, as well as the delivery trucks and personnel.

Case after case shows that the problem was not with the Internet but with the mindset of the Internet revolutionaries. Space plus visibility plus revenue equals profitability was just not the right formula. The logic was flawed at each step of the way. It was never enough just to claim an unoccupied space. The visibility of that space was never sufficient for getting more than temporary eyeballs. And revenue cannot be an afterthought; it doesn't automatically flow from someone happening to land on the space. Furthermore, revenue does not automatically translate into profitability.

With the advantage of hindsight we can see that the Internet revolutionaries were looking in all the wrong places and missing the key thing- the customer. It has always been the customer who counts, and it is customer space that matters. It is the life of the customer and the way the Internet fits into and expands the customer's life, what we mean by customer space--that will define the real Internet revolution. As our thinking about the Internet changes to embrace customer space, the real revolution can begin.

## The Internet and Customer Space

So where's the opportunity on the Web? The Internet Guru's thought they knew it: "It's portals…no wait, it's communities…no it's infomediaries…no it's online storefronts…no it's definitely aggregation..." If we've learned anything from the last 5 years, it's that the Internet has not changed the fundamental laws of physics, economics, or marketing. The next revolution will be fought in customer space, where navigating will require a new "new" mindset. Customer space in the world of e-commerce (just as it was before) is defined by three activities:

- *Target the profitable segments:* from easy eyeballs to hard bodies.
- *Maximize your value leverage:* from valuable functionality to profitable total solutions.
- *Position for maximum life relevance:* from awareness to value & relevance.

***Target the Profitable Segments***. The Internet may facilitate one-to-one marketing, but it doesn't replace the need to identify and target specific segments. Most dot.coms developed massive and clever ad campaigns to attract the maximum number of eyeballs to their sites figuring the customer could customize their experience. But the assumption that the "attracted" customers would generate revenue and become profitable is fundamentally flawed.

The easiest customers to attract are ready to move because they:

1. Are fed up with current providers.
2. Are techies who want to try out the latest and greatest site.
3. Are perpetual shoppers looking for the best price.

Typically, disgruntled customers are "easy eyeballs" (because they are always looking), but "hard bodies" to retain because the total solutions they seek are difficult to deliver. And, one only need look at current B2C close rates to realize that attracting the dissatisfied bricks and mortar shopper is a lot easier than satisfying them. Far too many sites have paid dearly to attract these eyeballs, only to have these potential customers look elsewhere to buy.

The techies create similar problems. They always want the latest new technology, and maintaining that leadership position can be prohibitively expensive and virtually impossible. In fact, they are inherently disloyal because they live to discover the new, new thing, and inherently unprofitable because they believe that everything on the Internet should be free.

Last, the Net's perpetual price shoppers and intensive researchers are currently populating the sites falling into the black hole of Internet Space. Whether on-line or in-store, these are typically the least profitable and least attractive customers. They buy primarily on price leading to lower margins on initial purchases, and then frequently switch vendors/brands for better deals leading to lower retention. They also are sponges (even leeches) for information and other services leading to higher costs. The Internet hasn't changed their behavior, but rather it gave them a more cost- and time-efficient way to practice their profit-destroying behavior. It's no wonder that Priceline has struggled to create a profitable business model to serve these customers (see sidebar #1 at end of this reprint).

When considering any potential target segment, ask yourself: if the Internet didn't exist, would you still want these customers? You can make money off these transactors, like Wal-Mart, but you have to have the absolute lowest costs like Wal-Mart.

What is wonderful about the Web is the potential to get a lot more for a lot less. Therefore, it's time to move from easy eyeballs to hard bodies. If not the price shoppers, techies, and whiners, then who is the B2C target? The answer: segments with significant potential for *value leverage*. You will have the greatest leverage with segments for whom the perceived benefits of the total customer experience exceeds your costs by the largest amount. Contrast Schwab with E*Trade. The price shoppers who use E*Trade are the "easy eyeballs," but represent low customer value leverage because they perceive little value from anything but executing the trade, and therefore are not willing to pay much for service. E*Trade can make money on them, but E*Trade will have to have the lowest costs.

For the vast majority of investors, however, executing a cheap trade is not terribly meaningful or relevant to achieving their overarching objectives…managing their wealth or ensuring their lifestyle. Schwab has gone after these "hard bodies" in online investing. Schwab's customers get a good but not the best price; however, they get access to analyst reports, integrated statements, decision-making tools, wealth management expertise and infrastructure (like One Source for mutual funds, AdvisorSource for investment/estate

planning, branches for face-to-face service, etc.) that E*Trade can't match. Interestingly, E*Trade has bought an Internet bank and is adding other products and services in an effort to occupy more Internet Space! However, they're still focusing on the "price shopper" with services that are transactional in nature, only this time without a clear cost advantage—a potentially deadly combination.

Schwab's customer value leverage with their target customers is significantly higher. While Schwab benefits from the cost advantage of 80% of their transactions being electronic, they find that 70% of their customers still want to open up their account face-to-face in a branch. Because Schwab's target customers are more attractive, and its solution more complete, Schwab's market value per customer (at the end of 2000) was almost 8 times that of E*Trade's (see figures 12.1 and 12.2 below for comparisons on these companies' figures).

Figure 12.1: Schwab and E*Trade: Numbers of Accounts

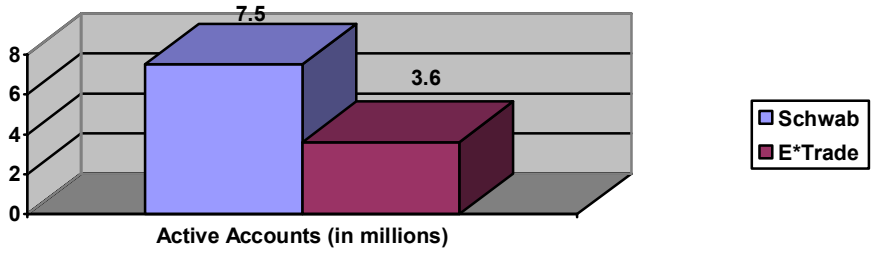
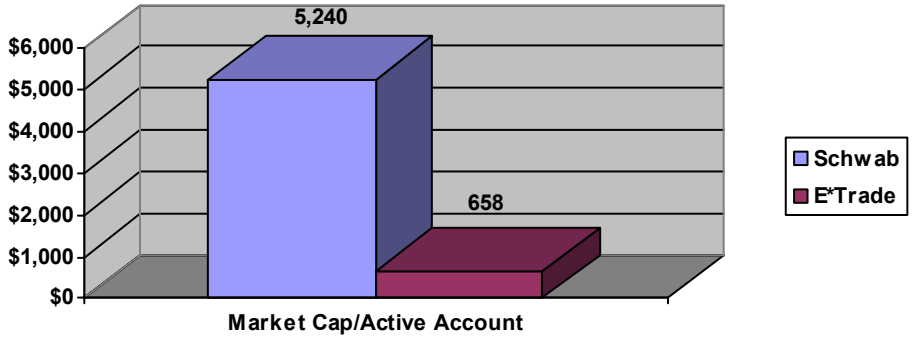



Figure 12.2: Schwab and E*Trade: Values




***Maximize your Value Leverage***. Forget Internet Space and start with the right question: What is the customer trying to accomplish and can you improve that experience profitably by using the added dimension of the Web?

Amazon has created a total solution for the book buying experience. What benefits are the dual-income, time-poor, overeducated consumers of today looking for when purchasing books? Quite simply: variety, availability (in a reasonable time-frame), and objective advice without wasting a lot of their precious time. Amazon has taken each of these "benefits" to new heights on-line. With a significantly more comprehensive inventory, simple search capabilities, editorial and customer reviews, even recommendations based on your tastes, and their patented one-click ordering system,

buying a book has never been easier. When we have asked Amazon consumers why they use Amazon it's rarely price; instead, they talk about the convenience of not having to go to the store only to find that the book is unavailable. In fact, Amazon has finally reached the conclusion that there's is a better solution that customers are willing to pay for, and has raised prices by 10% on best sellers. By pricing for the value that they create, Amazon is finally turning the online book business profitable.

eBay has also done a masterful job of delivering a total solution that dramatically improves virtually every aspect of the target customer's experience while dramatically reducing the cost of the traditional distribution system (see sidebar #2 at the end of this reprint). In the coming revolution, a total solution will be necessary, but insufficient by itself, to own and prosper in your customer space.

***Strive for Maximum Life Relevance***. No well-intentioned business concepts have been more abused on-line than branding and one-to-one relationships. First of all, in their drive for visibility most e-tailers have confused name recognition for a brand. A brand is not a name or logo or clever slogan. A brand is an idea in the mind of a customer—it's what your company or your particular solution means to them. A great brand is an idea that is meaningful, relevant and valuable to the customer's life. For example, in the 90s, the "big idea" of the Microsoft brand was the perception among consumers that its software was ubiquitous. This ubiquity was essential to the lives of consumers who were paranoid about being able to integrate information across applications on their desktop and share that information with other computer users. Consequently, Microsoft was able to take over the spreadsheet, word processing, and presentation software markets with technically inferior product offerings. Unfortunately, the brand meanings for many of the e-tailers lacked sufficient "life relevance" to be a powerful motivator for consumers to buy without significant price breaks…resulting in unsustainable profit models.

Second, once armed with brand awareness and a couple of price-based transactions with a customer, many e-tailers expected to easily cross-sell additional items to existing customers. In reality, when you start off with a freebie or price-based transaction, a long-term relationship is unlikely to develop, in part because the "brand meaning" is transactional and in part because the consumers are self-selected transactors.

The key to extending the product and service scope of any relationship is to solve more important problems for them. In other words, you have to earn the right to have a relationship with your customers. This must be done with both a series of total solutions and a supporting "brand meaning". Schwab started out as a simple discount broker…the equivalent of today's E*Trade. They could have focused on executing low cost transactions; instead, they continued to create more comprehensive solutions to its target customers' wealth management issues (from creating OneSource to buying US Trust). The Schwab brand has laddered up from being a *cheap trade* to being *trusted source for helping me invest and manage my money smarter*, which is more meaningful and relevant to their targets' lives and gives Schwab the ability to cost effectively cross sell. For example, when they launched annuities (a product traditionally sold by untrusted insurance agents), Schwab generated $1 billion in sales with virtually no advertising cost.

## What You Can Do Today

Brick & mortar companies with unsuccessful e-commerce efforts can take heart. Despite the rhetoric about the dot-coms coming in and destroying all existing businesses, the "hard (but most profitable) bodies" are still customers of old economy companies, and those firms have the breadth of capabilities to more effectively deliver meaningful and relevant total solutions. In customer space, the dot-coms may be at a disadvantage. For example, Wingspan (BankOne's Internet-only bank) attracted only 100,000 customers after spending over $100 million on advertising and promotion, while BankOne's clicks-and-mortar service signed up over 500,000 accounts with a fraction of that sales cost.

The good news is that customer space is navigable, if you take the following steps to create and dominate the next B2C revolution:

1. Analyze one customer at a time to understand your target market's needs and identify the most meaningful and relevant imperfections in the customers' current experience. Total solutions cannot be derived from superficial, incomplete views of your customer generated in focus groups and phone surveys. Rather, the most useful insights are created the old fashioned way: one customer at a time. Go in-depth with individual customers and analyze their entire experience from need identification to action to the results with their current solution.
2. Develop total solutions that address the most meaningful and relevant imperfections and measure the resulting customer value against the costs of delivering that value. View the solution as it fits into the life of your target market from customer space rather than the Web experience of an alien content expert from Internet space!
3. Segment and prioritize customers based on your customer value leverage (customer value created minus your cost to deliver). Be selective, find the hard, sticky bodies, and avoid the temptation to chase the easy eyeballs.
4. Reposition your brand for your chosen targets. Strive for maximum life relevance and customer value leverage by rigorously defining the winning value proposition and delivery strategy for each target. Integrate every potential brand contact (beyond simple marketing communications) to reinforce this new brand meaning.

Today is the perfect time to build a profitable and defensible business using the Internet. Yesterday's conventional wisdom was whoever was first to stake their claim to Internet space would generate previously unimaginable wealth, but today the belief is that "profitable" and "defensible" businesses are difficult, if not impossible, on the Net. It is difficult offline, so why wouldn't it be difficult online? Impossible…only if your strategic thinking languishes in Internet space.

## Conclusion

The irony is that all businesses operate in customer space, whether they know it or not. The Internet is here to stay. It is a part of the lives of most consumers. As new generations come of age, it will become a bigger dimension in the consumer's life. Internet hysteria distracted otherwise smart managers from addressing the real issue of how the Internet really changes the consumer's life. This is where smart companies will focus in the future.

* * *

**SIDEBAR #1:**

### Priceline exemplifies the paradox of the Internet Space: Even when you win… you still lose

Priceline is the classic example of successfully claiming Internet space and generating huge volume without building a sustainably profitable business. Initially, Priceline had to subsidize consumer purchases. It bought and resold airline tickets to improve the customer's chance (originally less than 10%) of getting the ticket. Later, they got their first major airline (Delta) to participate by offering them warrants to purchase 15 million shares in Priceline (worth $1 billion at one point). In other words, these customers are so unattractive that they had to bribe the provider with $1 billion to participate. Perhaps Henny Youngman should have replaced spokesperson, Captain Kirk: "take my customers…please!" Now that the warrants are worth significantly less, the airlines have looked at what Priceline brings to the party and concluded that they can get rid of their excess inventory on their own. All the major airlines have banded together to form a rival service.

So how did Priceline respond? It tried to colonize another dark planet in Internet Space--expanding their scope of products and services offered. Just because a consumer conducted a transaction with you on-line does not mean you have an intimate one-to-one relationship that will transcend product boundaries. For example, if I was willing to stop overnight in Iceland to save $41 on my European vacation, does that mean that I'd tolerate adding an hour to create a shopping list and then have to settle for off-brands in my grocery shopping, or go out of my way to save $1 the next time I fill up? Where's the disappearing gas and grocery inventory that provided the "cost" opportunity for airline tickets? Is it any wonder that Priceline's forays into gasoline and grocery shopping failed? As Priceline learned, B2C sites should not assume that cross-selling will be easy or economical. Priceline has mastered Internet Space, but is losing in customer space.

**SIDEBAR #2:**

### Despite their Success in Internet Space, eBay Will Ultimately Need to Dominate their Customer Space

Most Internet strategy starts with the wrong question: "how can the Net's functionality improve the customer's experience?" This question can lead to a successful business if that functionality can deliver significantly enhanced customer value with minimal cost. Take eBay and their auction functionality. For hard-to-find items, eBay dramatically lowers search costs and increases effectiveness by eliminating the need to spend your entire weekend browsing garage sales or reading thousands of "for sale" classifieds or visiting every hardware store in the state to find a missing part. For expensive second hand durable goods, such as camera equipment, eBay can match buyers and sellers who can then share 50-75% reseller margins. They also ensure recourse for items purchased from strangers. Lastly, they have made shopping on the Net entertaining by introducing the thrill of bidding into the buying process.

eBay was skillful enough to hit a home run with a well-orchestrated combination of Net functionalities, but their bigger challenge is, "What next?" In Internet Space, eBay has a dominant share of consumer auctions, and thus, they are unlikely to grow by stealing share. They can:

- Sit tight and grow with the Internet user population, but that's not an exciting story to tell the Street
- Develop a new Net functionality, but which one?
- Reach out to new types of customers, but which ones?
- Expand the types of products/services that they offer, but which ones?

How should they allocate their resources across these opportunities? Others have already stumbled at this point in their conquest of Internet Space because they didn't understand customer space.

What does eBay look like in customer space? First, what segments should they target? Today, eBay has become a destination site for consumers looking for a specific item or interested in browsing for something that might pique their interest. In fact, the classification system in eBay is tough to navigate. Customers buy more at the site, because they had fun the last time and know that eBay is the most likely place to find what they're looking for…if not the easiest place to find it.

Second, can't eBay go further in helping to improve their customers' lives, and therefore, become more meaningful and relevant? For example, they already implicitly target "nostalgia-holics" or those people who try to recreate the past. What if they were to truly create a life-transforming experience rather than simply a series of fun transactions? For example, in light of all of the vintage coke bottles sold on eBay, is there a group of customers looking to create the 1950's feel for a family room in their home complete with leather chairs, vintage movie posters and an authentic jukebox?

*Sidebar #2: continued*

### Despite their Success in Internet Space, eBay Will Ultimately Need to Dominate their Customer Space

Last, what is the total solution that would extend that customer relationship? For example, could eBay:

- Help (or partner with other organizations) to create more interest in the era or topic?
- Give consumers new ideas for nostalgic items that might be unique and/or appreciate in value over time?
- Allow consumers to find and purchase those items faster (the site's main benefit today)?
- Teach them how to use and care for their new items (and sell the special supplies)?
- Show them the best place to repair those items if they break (borrowing a page from Sears' success in the 1950s)?
- Enable those customers to cost effectively sell those items (perhaps at a profit) when their tastes change? Could they become the GE Capital of nostalgia leasing?

In other words, eBay should be looking for creative ways to build on its strength, yet be open to building fundamentally new capabilities to solve the broader customer problem. Is this segment one of the most attractive for eBay? We don't know because we have not analyzed the economics of the business model for this example. Nevertheless, this solution is undoubtedly more complete and meaningful to this target customer than eBay's current internally-driven classification of products.

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**Richard Kolsky** founded Kolsky & Co. in 1991, a consulting firm dedicated to helping companies take marketing to the bottom line. Richard has spent the past 19 years helping clients convert many of today's fads --- such as strategy innovation, core competencies, making mergers work, target marketing, reengineering distribution, relationship selling, and "rightsizing" --- from simple buzzwords to bottom line reality in markets as diverse as infant formula, life insurance, and earth-moving equipment. In addition to his consulting engagements, Richard is a faculty member for a number of company-specific and Northwestern University executive education programs. He has published numerous articles and been keynote speaker for conferences on a range of subjects including "Break the Rules to Compete for the Future," "Making Mergers Work," "Distribution: From Landmine to Competitive Advantage," and "Tossing Out the Pink Slips." Prior to Kolsky & Co., Richard worked in the White House, was a consulting partner for the MAC Group and Peat Marwick, and taught economics at Yale.