Doing Business on the Internet

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ompanies of all sizes in a variety of business and consumer markets are rushing to become a part of the new electronic commerce on the Internet. Well known consumer and business product companies like AT&T and General Electric host Internet sites with information about their companies, and their products and services. The MCI Internet service entertains users with tours of the fictitious Gramercy Press while it promotes MCI products and the MCI Marketplace, a new Internet electronic retail mall. CDnow!, an on-line music store, helps customers find recordings to purchase, allowing searches by artist, album title, record label, or even song titles. At Mammoth Records, customers can download audio samples of selected recordings. Grant's Flower, a small florist in Ann Arbor, Michigan, rents a virtual storefront on the Internet and reports now receiving as many orders through the Internet as through the popular F.T.D. Mercury system. The Global Network Navigator (GNN) service, one of the first commercial sites on the Internet, combines Internet directories, electronic publishing, advertising, and direct sales into a comprehensive and high traffic on-line destination.

GNN hosts a number of companies all seeking to reach the growing Internet market.

Beyond traditional marketing and promotion, many companies are learning to tap into the activity on the Internet to learn more about their customers, to conduct market research, or try out new product or marketing ideas. A major domestic automaker made extensive use of on-line resources to learn more about how consumers view the process of purchasing a car. A number of consumer product manufacturers use the Internet as a way to generate sales leads, which are then passed back to their retailers and distributors. Many companies followed selected Internet newsgroup discussions to stay better informed about their markets, to learn more about their own company's image, and to track their competitors.

The pace of change on the Internet is remarkable. Mosaic, the application that enabled the world wide web to become the dominant force on the Internet today, is itself only two years old. A year ago, the level of commercial enterprise on the Internet was a fraction of what it is today, and, two years ago, it was practically non-existent. Now, commercial activity is leading the growth of the Internet.

Companies need to move quickly into this new arena and take advantage of the opportunities offered by the Internet. Like the 800 line and fax machine, participation in the new on-line medium is quickly becoming a basic part of marketing and promotion strategies. While it is not yet the mainstream channel for advertising and sales that some people claim it to be, the Internet does offer many real and immediate benefits for companies willing to experiment.

One of the most important benefits is the experience participating companies are gaining in this new and largely uncharted medium. There is no question that electronic commerce will play a major role in the future, but the business and marketing models to take advantage of the new environment are only now being developed. Those companies that are a part of the experiment to build those new models will be able to turn that experience to their competitive advantage as this electronic marketplace develops.

The Internet

The Internet, by all accounts, is growing at a phenomenal rate. Estimates of the magnitude of this growth vary considerably depending upon the measurement chosen and the assumptions made about those indicators. There are over two million computers on more than 30,000 computer networks connected to the Internet. Estimates of the number of users range as high as 20 million. Other sources suggest that the actual number of potential consumers is quite a bit lower than that. One point on which nearly everyone agrees is that the annual rate of growth in the number of users is *at least* double digit, and that the volume of information moving across the Internet has been increasing by several hundred percent each year.

Common reactions to the Internet have been to deny or exaggerate its importance. Much of what has been written about the Internet overstates one or the other—or both. On the one hand, there is a tendency to underestimate the potential impact of the new models of interaction and community that are emerging from the on-line environment, and to view it as a mere curiosity, a tangent to the mainstream. It is more than that. On the other hand, there is a tendency to overstate the importance of the medium as though it will make other forms of interaction and communication somehow obsolete. It will not. The challenge for companies interested in taking advantage of the Internet is to recognize both the opportunities and the limitations of this new environment.

To understand the opportunities as well as the challenges of the Internet, it is important to have a sense of what the Internet represents. Unfortunately, the Internet is more of a concept than a physical entity, and it is extremely difficult to describe to anyone who has not experienced it. Ed Krol in his popular book, *The Whole Internet*, likens trying to understand the Internet to grabbing a handful of Jell-O—not a bad description.

A concept fundamental to understanding the Internet is that it is related more to what can be accomplished using it than to what it is. Put another way, it is more about people and interactions than about technology. In this regard, the common analogy of the superhighway is misleading in many respects. A better analogy might be the global telephone system. Like the telephone system, there is no single physical entity called the Internet. Rather, it is a collection of linkages between hundreds of separate computer networks that agree to cooperate, agree on a standard protocol to transmit and receive data, and agree on a common set of tools. The Internet enables rapid connection between any of thousands of computers throughout the world, and supports a variety of defined activities that can take place between those computers. A user can request information be retrieved from or sent to a computer in France and simply assume a linkage can and will be made. The fact that the connection may flow through a number of different networks along the way is of no importance. The value flows from the connection. Even at that, there is no particular value provided to the user until some use is made of that connection. In the case of the telephone, the use might be to talk to a friend or business colleague or to send a fax. On the Internet, it is likely to be the retrieval of a file, a world wide web page, or the transmission of an electronic message.

The Internet offers tremendous opportunities for both provider companies and users based on the capability to instantly connect to other computers throughout the network and the set of common application tools. But, it is the resulting interactions that create the value, not the connection or technical capability. An e-mail address, like a telephone number, provides the means through which a user may be contacted or make contact with others. It does not guarantee that the interaction will be valuable nor that any interaction will even take place. Product information accessible through the Internet, like an 800 information line, guarantees neither use nor perception of value when it is used. The interactions that create this value for the user can take many forms-entertainment, communication, information retrieval, access to product specifications, or a sales transaction.

Companies who are successful with their Internet services will use the tools of the Internet in ways that provide value to the users as well as serve the commercial interests of the company. They will also create visibility for their service to ensure that users are aware of their presence and know how to find their Internet site.

A Unique Environment

The Internet has its own culture and is unlike other media now used for marketing, promotion, and sales. It is an environment built around interactions and relationships. It is bidirectional and open. It is decentralized, free wheeling, somewhat chaotic, and generally uncontrollable. There is a kind of universal democracy to the Internet-an environment where individuals, small organizations, and Fortune 100 companies have comparable capabilities to offer services or express opinion. This may present a challenge to companies who are accustomed to more controlled, one-way public communication through traditional advertising and marketing programs, and less public direct interactions with individual customers. Companies who try to approach the Internet in this same fashion are likely to be unsuccessful at best. However, companies that are able to adapt stand to learn more about their markets, forge closer linkages with their customers, and present their company and products in a depth not possible in television spots or direct mail flyers. Increasingly, the interaction is being used to generate qualified sales leads and complete actual sales transactions.

Internet users expect to benefit from their interactions on-line. It is these benefits that will bring users to the company's electronic doorstep and keep users returning. The benefit may be as simple as the capability to retrieve product images or detailed specifications, up-to-date listings on reported problems and how to solve them, or a direct link with the company's parts and service center. It could be an on-line magazine with industry news or even a virtual trip to the Louvre. MCI injects fun by offering tours of their Gramercy Press made popular through its television advertising campaigns. Along the way, though, it reminds users of its products and services. A popular site on the Internet can generate thousands of accesses per day, adding visibility and brand recognition for its sponsor.

The Internet is an active medium where users must take the initiative, and they continue to do so only to the extent that they receive a benefit for their efforts. It requires creativity and innovative thinking to develop an Internet site that will attract users, while still providing tangible benefits to the sponsoring company. In this regard, the challenge is not dissimilar to that faced by any retailer hoping to attract customers to its store. A key aspect of the Internet culture is participation. Internet is characterized by strong opinions and a willingness to express them. Companies need to join in this interchange as active participants, taking what is useful and discarding what is not. Companies that try to control what people may express about them or their products not only fight a losing battle, but risk losing potential on-line supporters along the way. It is important to remember that these discussions will take place whether or not your company is on-line. People may be commenting on your products as you read this. The only question is whether you will be aware of and have an opportunity to participate in those discussions.

The Web Standard

The introduction of the world wide web has been one of the driving forces in the rapid expansion of the Internet. Mosaic, the most popular program used to access web servers, was released in 1992. By the end of 1994, the web had become the *de facto* standard for publishing on the Internet.

The web offers a multimedia publishing environment that presents information and navigation in a friendly, attractive, and easy-to-use manner. It enables users to move easily from one resource to another by mouse clicks on highlighted text or buttons. For the publisher, it provides a much higher level of presentation control of formatting and graphic integration than previously had been available. It also provides several means through which information can be collected from users including flexible forms and automated electronic mail capabilities. New features and capabilities are being added on a regular basis.

One of the attractions of the web is that the basic mechanics of setting up a web for the provider are almost as easy to navigate as for the user. Web pages can be constructed quickly and easily using standard desktop publishing tools. Software to run a web server is freely available and can be run on a standard desktop computer linked to the Internet. Combined with the decline in costs associated with establishing links to the Internet, the web brings Internet publishing to organizations of all sizes.

The emergence of the web as a standard has spawned a new commercial industry to develop more capable web servers and client or user software. A number of companies are developing enhanced versions of Mosaic based on licensing arrangements with NCSA, the developers of Mosaic at the University of Illinois. These investments will also serve to solidify further the web as the standard Internet tool. Several different commercial versions of the Mosaic software are becoming available. These will feature easy installation, documentation, and user support—all of which have been lacking in the public domain versions of these tools. This move to market ready, supported software will enable the web to reach beyond its current base of users.

The number of people with connections to the Internet is likely to continue to grow rapidly as the ease of use, availability, and affordability increase. All of the major operating systems for personal computers will soon include a built-in capability to link to the Internet. IBM OS/2 and Apple System 7.5 now include these tools, and Microsoft is adding it to the Windows 95 product scheduled for release later this year. At the same time, the number of Internet provider companies has increased substantially, promising alternative providers for most users and competitive pricing. In the near future, new computers are likely to include applications to enable a user to establish an Internet account just as they currently provide access to Prodigy and America Online. It is conceivable that these computers could even include a company icon that would instantly link a user to an Internet-based store or catalog service.

Circulation

A key consideration for companies contemplating Internet-based promotion and commerce is the market they are likely to reach. The opportunities afforded by the new Internet tools are of little value unless a marketing program reaches sufficient numbers of a company's prospective customers. Marketers selecting magazines for advertising or lists for direct mail programs rely upon extensive demographic and market segment data to identify a vehicle to reach target segments. While these figures are starting to be compiled for particular services on the Internet, they are not nearly as complete as in more traditional media. Most of the information on Internet users is broad brush and based more on anecdotal evidence or extrapolation than sound market research. The often-cited commercial draw of millions of Internet users is a little like trying to sell magazine advertising by citing the number of people who read print periodicals. It is a baseline requirement that there is sufficient universe of users to be attractive.

Once established, though, the question quickly changes to the characteristics of that audience, and the identifiable segments within the universe.

What is known is that there are as many as 20 million users of one or more Internet capabilities, and that this base of users is growing quickly. Unfortunately, for most prospective advertisers or marketers, much of this base is not likely to see a promotion and visit an Internet store. Many of these users are included by virtue of their employer's connection with the Internet, whether or not they personally use services on the Internet. University faculty, staff, and students are another large block, but many of these users are not active. They also may not be particularly attractive markets for a given company.

There are also different classes of Internet users defined by how they reach the Internet, and what Internet services they use. The most heavily used Internet service is electronic mail. Much of this comes through the use of an employer's internal mail system with another major portion coming through links to commercial on-line services such as America Online and CompuServe. Still another significant segment of users has access to Internet mail exchange through one of hundreds of local bulletin boards. These users are theoretically accessible by e-mail, but many do not have the direct Internet connections to allow them to use the more attractive Internet tools such as the world wide web.

Having raised the flag of caution, it is important to point out that what remains after the headlines and exaggerated claims for the Internet is a significant and highly-attractive market. This market is also growing rapidly as more options for full Internet access become available, and more service providers move to the Internet. The major on-line services are beginning to provide greater Internet access to their subscribers. At the same time, many companies are moving increasingly toward targeted marketing approaches with different strategies and programs for different market segments. Internet marketing fits well into this framework and provides an effective means through which to reach particular segments.

The apparent success of both large and less substantial initiatives on the Internet suggest both a growing and interested market of users.

• Northwest Airlines initiated a world wide web server in the fall of 1994. Within a few months, they compiled a list of 15,000 visitors to their service area, and over 800 took the time to complete an online travel survey.

- Joe Boxer simply includes an e-mail address on the labels on its clothing and reportedly receives 25 to 75 e-mail messages a day.
- The Electronic Newsstand, which provides access to articles from nearly 200 periodicals, reportedly has 50,000 inquiries per day.
- Global Network Navigator reported 1.7 million accesses during November 1994. GNN has a *registered* readership of over 80,000.

Active Internet users appear to be similar to better-known characteristics of users of the major online services (see Table 1). These on-line users are predominantly men between the ages of 35 and 50 who are employed in technical or professional fields. They have average household incomes well above the general population and have high levels of consumption of other media including magazines and newspapers. These users make catalog and other direct purchases at levels higher than their counterparts who are not on-line.

The first edition of *Interactive Consumers*, published in November 1994 by Find/SVP, estimates that there are three million to four million Internet households in the United States with some multiple users within these households. These are households who classify themselves as Internet users. The article cites the apparent high overlap between this group and the users of commercial on-line services. One of the findings of focus groups conducted by Find/SVP with active Internet users was a "willingness to accept on-line advertising, provided advertisements are not intrusive and contain more useful product information than conventional advertising."

Table 1 Internet Household Characteristics

	Internet	All
Average Income	\$66,700	\$42,400
While Collar Worker	59%	34%
Self-Employed	31%	14%
College Graduate	81%	33%
Own Cellular Phone	31%	15%
3+ Direct Mail Purchases per Year	63%	37%
Purchase On-line	24%	2%

Source: 1994 American Information User Survey, FIND/SVP

The Global Network Navigator service asks readers to become free, registered subscribers and reports a base of subscribers which is affluent and well educated. Over one-fourth have incomes above \$100,000, two-thirds above \$50,000, and 86% have at least a college degree. Reportedly, nearly three-quarters indicate that they make purchase decisions based on information obtained on-line.

Marketing and Sales

The most common use of the Internet by companies is for promotion and advertising. They are attracted by a rich multimedia environment of color graphics, pictures, video, and sound offered on the world wide web platform. Hundreds of companies now provide some type of company and product information through the Internet. Some firms may host a service directly, while others contract to locate in one of a number of electronic malls which are rapidly populating the Internet landscape.

Successful marketing can be broken into distinct steps-creating awareness and brand identity, stimulating interest and demand, generating sales leads, qualifying and providing more detailed product information, and passing qualified leads to a sales department or retailers for follow-up. Distinct programs are often designed for each of these stages. A national advertising campaign may direct prospects to a toll-free 800 number for further information. Operators staffing that information line answer some questions about the product and record the contact. Printed literature may be mailed to the prospect that provides additional product information and directs the prospect to a retailer or order center to purchase. It may also list contact points for more detailed technical information or applications notes.

The Internet environment provides a flexible marketing device that can handle both the casual inquiry and the serious buyer at multiple stages in the process—all in real time. The opening screen (or home page in web terminology) is the general marketing brochure providing an overview of the company and its products. Rather than calling or sending in a card to find out more, the user simply chooses an option and is instantly presented with the information they desire. The service can offer increasingly detailed information and respond immediately to the user's expression of interest. On-line forms can collect information from the user to request a followup sales call or to be added to a mailing list. Information collected on-line can feed directly into the company's marketing database. Interactive searching can enable the user to locate the nearest retailer. Users control how much information they see and the depth to which they want to examine the services or products described.

Presentation style and content selection varies considerably according to markets and products, just as it would in other media. The *WIRED* magazine service is visually aggressive and colorful, reflecting its positioning in the marketplace and its readers. GE Plastics also makes use of a visually attractive presentation, but the set of 1,500 pages of technical material available through its server is clearly not aimed at the general public.

Companies that choose to host a service directly still must advertise the availability and location of the service to draw users to it. Cross media promotion, such as including references to an Internet location and an e-mail address in print advertising, can be effective. Companies also advertise their services through listings in Internet directories or by ministorefronts on one or more Internet malls. The connection between these listings and the host service can be seamless as well. On the Internet, it makes very little difference where a piece of information physically resides. Therefore, a click on the company name in a GNN business directory can retrieve the home page of a company's service literally anywhere in the world. From that point on, there is no difference between the user that comes directly to a service or comes through a directory or virtual storefront. It is analogous to listing the same 800 number in advertisements in different publications except that the response to the expression of interest is immediate.

Internet tools provide many benefits for marketing promotion and advertising when compared with traditional methods.

Cost Effective. Advertising and marketing through the Internet is very cost effective. Most of the investment goes into creative design and development rather than publishing and distribution. The costs associated with actual user access are very low and are directly proportional to the volumes of users who actually use the service.

Updated and Current. Printed materials become outdated quickly, whereas on-line materials can be continually updated. Product descriptions and features can be modified as needed. New products and services can be added immediately, as can an-

nouncements of new contracts or reprints of articles about the company.

Segmentation. On-line presence offers opportunities to tailor information based on areas of interest or market segments. Once developed, promotional and product information can be presented to users in different ways based on market segmentation, seasonal considerations, or other factors.

Personalization. A spin-off of segmentation, personalization is the ability for consumers to control the presentation based on their needs and interests. This personalization could be based on a stored set of preferences, or could be dynamic based on the interests chosen by the consumer during a particular visit.

Detailed Information. Without printing and mailing costs, it becomes feasible to include extensive technical specifications and usage guidelines for products. Information on alternative products can be linked to this information to help the consumer whose needs don't match the guidelines. For example, detailed information for a sleeping bag might include a temperature range for which it is recommended and whether the construction is suited for backpacking or damp conditions. For those who decide their requirements don't match these recommendations, links could be provided to other more suitable models.

Direct Sales

In the final analysis, the commercial strength of the Internet may be based on the degree to which it can become a direct sales channel, and it is a major area of growth. Virtually unheard of one or two years ago, users can now purchase a wide range of products through Internet storefronts. The number is growing, and most of the new electronic malls offer their store operators a direct sales capability. As a direct marketer, the Internet offers many opportunities and benefits, but also presents a unique set of challenges and potential problems. The Internet is able to provide many of the benefits of catalog purchasing, enabling users to browse through product descriptions and pictures combined with an ability to quickly and easily purchase selected items.

VIRTUAL CASH

One of the stumbling blocks to the development of Internet-based commerce has been the lack of easy and secure ways to pay for goods. The most obvious solution is to use the same type of virtual cash that is used in other remote transactions, namely the credit card. The problem is that, unlike a telephone call or transaction placed over a commercial on-line service, transmittal of information over the Internet is not secure. It is relatively easy for a knowledgeable person to intercept messages and obtain credit card information. The problem is most severe where the probability of intercepting a valuable communication is the highest, i.e., an Internet storefront. Would-be thieves can do the on-line equivalent of tapping a telephone order line and wait for customer order forms from which they can obtain credit card numbers.

There are several major strategies to address the problem of virtual cash.

Store Accounts. The simplest approach is to establish-outside of the Internet-charge accounts at particular stores, and a number of Internet retailers offer this option. A consumer opens an account through a telephone call or by mail, linking it to a credit card or other payment method. The account is then used to make purchases from that merchant via the Internet. The merchant will only deliver merchandise to the address registered with the account, a simple precaution that eliminates most of the risk of unauthorized use. The account is of no value beyond the one merchant. An intercepted account could be used to purchase goods from that merchant, but since any goods purchased would be sent to the real owner of that account, the account number is of limited value. This approach is particularly effective where a linkage between the individual and the merchant already exists. A professional society, for example, could easily establish such an account for each member. The account would enable members to purchase books and other products from the association, register for conferences and meetings, and execute subsequent renewals of their memberships. But it is too restrictive for general commerce where retailers want new customers to be able to purchase easily and quickly without having to open a special account.

Secure Communications. The most likely solution to on-line payments is to simply secure the communications between the customer and the retailer. A number of companies are entering the Internet market with systems to facilitate secure electronic payment using encryption technology. Even if intercepted, the messages are unreadable. This has the advantage of being already familiar to most

 MCI—http://www.mci.com/ One of the best commercial examples HotWIRED—http://www.hotwired.com/ WIRED magazine on the net PathFinder—http://www.timeinc.com/ Time Warner, one model for Internet publishing Cdnow!—http://cdnow.com/ An Internet music store Global Navigator Net (GNN)—http://www.gnn.com/gnn/gnn.html/ One of the industry standards for publishing and advertising CommerceNet—http://www.commerce.net/ A public-private venture in business to business commerce Global Shopping Network—http://www.gsu.com/ Check out FishNet Internet Shopping Network—http://shop.internet.net/ TV home shopping comes to the Internet Just for Fun 	Table 2 Some Interesting Internet Destinations		
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consumers. It allows customers to purchase from online stores just as easily as they now do from catalogs over the telephone. For this approach to work, though, it must be universally similar in function to the universal acceptance of major credit cards. Current strategies require specific matching software at the user and retailer location. The challenge is for the competing applications providers to agree on a standard for this encryption so that Internet tools of different types and from different companies will be able to speak the same language. There are indications that an agreement on such a standard will be reached soon which could allow widespread deployment during 1995.

Digital Cash. Another interesting approach being explored is to create digital cash and make direct payments with this digital cash much as a consumer pays with cash for a purchase in a store. Consumers open an account in an electronic bank and make

transfers from that bank into an electronic wallet application on their personal computers where the funds are stored as a series of discrete virtual coins. When the users shop at a merchant who accepts digital cash, they simply transfer an appropriate number of coins to the merchant to pay for the item. They can even receive digital change in return! In contrast to the physical world where a stolen coin has instant and irrevocable value, digital coins have no value other than to make transactions from a particular wallet. There must be a link established between the merchant digital cash software and the user's wallet in order to complete the transaction. One clear advantage to the merchant is the elimination of risk inherent in any credit transaction. Like its physical equivalent, the merchant has the actual payment at the time of the transaction.

Getting Started

E-mail Accessible. The first step for any company is to make itself accessible by electronic mail. An email address is now a required communication link to do business in the global or local economy. This e-mail address must be Internet accessible even if the company is not planning to develop a direct Internet presence. E-mail accounts are easy to establish through a local provider or simply by subscribing to any of the commercial services such as CompuServe or America Online. If a company has any intentions of even exploring its Internet options further, though, the best strategy is to establish a direct Internet account. This will provide a link into the Internet as well as an electronic mailbox.

Explore the Internet. There is really no substitute to a first-hand experience interacting directly on the Internet. Many Internet account providers will include copies of all of the software needed to take advantage of many of the Internet capabilities, including the world wide web. A guide is sometimes helpful to speed the learning process and to point to fruitful areas for exploration. If the company is planning to develop a broader Internet strategy with the help of outside consulting, that may be a good resource to tap for this guidance.

Develop a Plan. Before jumping in, develop a plan for Internet activities. The Internet is a fast-changing environment, and a company's activities on the net will need to change with it. The only way to manage such continuing change is to have a clear idea of the objectives and goals set for the Internet activity. While a goal of experimentation and learning is important, it should be combined with general business and market objectives as well.

Integrate with Other Marketing Activities. The Internet is one strategy to achieve marketing and business goals—but only one. To be effective, there must be integration with other marketing and sales programs. Standing alone, an Internet strategy is less likely to be successful and certainly cannot help reinforce other efforts.

Challenge is Not Technical. One common mistake companies make is to assume that the primary challenges associated with an Internet presence are technical. This is simply not the case. Obviously, it is important that the technology operate properly, just as it is important that the fax machine is connected correctly. The key challenges, though, are to articulate a strategic direction for the Internet activities, and to design programs and content to achieve those objectives. No one would dream of asking their printing company to design and write direct mail campaigns, but many companies assume the computer services department can design an effective Internet marketing program. Marketing and communications people must be key players in the planning and development of a successful Internet service.

Advertise and Promote the Service. Some companies become disappointed when there is very little traffic on their service, but, upon examination, have not really promoted the service to their prospects, customers, or Internet users. Like the 800 information line, users must be alerted to its presence in order to use it. Services can be listed in Internet business directories, a number of heavily accessed "What's New on the Internet" pages, or through carefully targeted postings around the net. Another effective strategy is to include a link to the service in one of the electronic business marketplace services. It is important to include the company's e-mail and Internet service address in printed materials and advertising.

Summary

The capabilities and unique culture of the Internet offer companies a new medium through which to promote and market their products and services, and to reach out to establish a more direct relationship with their customers. In this emerging resource, companies who participate now are very visible and stand out as innovators. These companies will also help shape the successful models for Internet commerce and benefit from their experience as the Internet marketplace expands. The challenge to realizing these opportunities is a willingness to experiment and adapt to a new culture of interaction and exchange. It can be a confusing environment in both culture and technology, and most companies will benefit from outside support as they move to develop commercial services on the Internet. Working together, an effective Internet presence can be established, bringing immediate benefits to the company and its customers.