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The revival of Net marketing

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Internet advertising is back, with a better understanding of the dynamics at play, and innovation that makes things easier for consumers.

AFTER the bubble burst in the early 2000s, many analysts had written off the Internet. But in recent months, e-commerce has staged a smart comeback in many countries across the world, especially the US. According to the Department of Commerce, online retail sales in the US last year rose by 26 per cent to $55 billion. These figures exclude online travel services, clearly the most successful and fastest-growing sector of e-commerce, financial services, ticket-sales agencies, online dating and a host of other activities such as gambling. They also leave out transactions in grey markets, such as the purchase of cheaper prescription drugs from Canada by Americans. If all these segments are considered, e-commerce is really booming.

In our country too, Internet usage is growing. According to IDC, India is expected to record the highest compounded annual growth rate (CAGR) of 83.7 per cent among Asia-Pacific countries in e-commerce revenues between 2003 and 2008, exceeding the CAGR of 81 per cent expected in China.

The Internet is bringing about a fundamental transformation in consumer behaviour. The process of unbundling the information and the physical product has started to gain momentum. So even for firms not selling online, a Web site is increasingly becoming the gateway to their products and services. So Web sites have to be carefully designed. If customers do not like a Web site, they may switch to another supplier.

The resurgence of e-commerce has been accompanied by a shakeout. Many companies have folded up. While there are still thousands of Web sites, only a few are doing well. Indeed, the bulk of the online shopping is heavily concentrated in a few sites such as eBay and Amazon. In January 2004, an estimated 83.5 million Americans, or just over half of the country's Internet users, visited these two sites, making them the most frequently visited retail outlets in the country. These successful companies have understood that the key word is not electronic but commerce. Dazzling technology is of little use without a clear value proposition for the customers. The successful dotcoms have also demonstrated that good strategies can successfully erect entry barriers even in e-commerce.

Meanwhile, the limitations of pure Internet plays are being increasingly recognised. With growing maturity, companies are realising the importance of synergising the offline and online worlds. In the US, many of the big retailers with Web sites, such as Circuit City and Sears, offer the option of picking up the goods in their shops. At the same time, many shops are turning into showrooms. Apple and Sony stores in the US, for example, are designed to display products, in the full expectation that many people will buy online. The US market seems to be moving towards multi-channel selling involving a combination of traditional shops, a printed catalogue, a home-shopping channel on TV, a phone-in order service and an e-commerce-enabled Web site. With time, we can also expect India to move in the same direction.

One of the biggest advantages of the Internet is a sharp reduction in transaction costs. This usually translates directly into lower prices for the consumer. Despite the lower prices, some people do shop offline. This is because of cultural factors, convenience and possibility of fraud. Indeed, fraud poses the biggest threat to online trade. But as security improves and people become comfortable with the idea of revealing their credit card number, e-commerce will grow.

Though pricing has become transparent and prices are coming down because of the Internet, e-commerce should not be equated with price competition. There is tremendous scope to differentiate. The point was brought out by Michael Porter in his article "Strategy and the Internet" in the *Harvard Business Review*, March 2001. The "value proposition" offered by a merchant can mean different things. People might trust one trader more than another and so be prepared to pay a little more. Which is why eBay is ahead in online auctions. Alternatively, the site may be better at understanding buying or browsing habits and at making meaningful recommendations to customers. Amazon is a good example.

Internet marketers are continuing to introduce various innovations to create more value for customers. For example, Amazon has introduced a "Search Inside the Book" feature. Customers can search the entire texts of more than 120,000 books. The results can be displayed as a preview of a page of the book. It is the online equivalent of browsing books in real bookshops. Similarly, eBay has various features that have made its online auctions safer and more value-adding for customers.

While adding value through innovation is important, efficiency continues to be a critical success factor. Tight control on costs requires strong processes and systems. Amazon reduces defects and problems in its order fulfilment process as early as possible. One of Amazon's main quality measurements is contacts per unit ordered. Every time an employee has to intervene in the automatic process to take corrective action, costs go up. Amazon attempts to keep this measurement as low as possible to reduce costs and also improve customer satisfaction.

Travel makes up the biggest chunk of business-to-consumer e-commerce, accounting for about one-third of online consumer spending. In early 2004, in America, some 20 per cent of travel was bought online. Travel is expected to become the first big industry with more than half of its sales coming online. In 2003, an estimated 35 million Americans bought travel online, a 17 per cent increase over 2002. To exploit fully the potential of online marketing, travel agents are offering integrated packages including flights, hotels, car hire, local tours and even tickets to the theatre or sporting events.

In our country, Internet marketing will gain momentum as connectivity improves and the credit card culture spreads. On both counts, we seem to have reached the take-off stage. As in the US, in India too, there has been a major shakeout among the dotcoms. Now, the winners are emerging. Indiatimes was profitable for most of 2003. Rediff registered its first maiden operating profits of $55,000 for the quarter ended December 2003. There is a common thread running through the successful portals — multiple revenue streams that bring an element of stability to the business model, increased advertisements, large volumes of B2C transactions and increased subscriptions. As a result, the revenue steams have become more predictable and stable.

Online advertising in India grew 50 per cent year-on-year to reach Rs 125 crore this year, and is expected to grow to Rs 175 crore in 2004. Rediff generates close to Rs 20 crore in online advertisement revenues. Finance companies are the biggest advertisers because they have automated back-ends in place that can take full advantage of the Internet. Innovation has helped portals make online advertising more attractive. Indiatimes, for example, has used bundling of ad promos across different vehicles - print, mobile phone and radio.

The future of e-commerce in India will depend on how successful we are in upgrading infrastructure and connectivity. Also important will be the presence of a legal framework for resolving disputes. These issues will not be resolved overnight. But once that happens, e-commerce in the country will really take off.

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