

Chapter 1

Online Marketing Strategies in the Information Economy: A Comparative Analysis

Bharat Rao
Polytechnic University, USA

Louis Minakakis
Chase Manhattan Bank, USA

On-line marketers are fast pushing the boundaries of the field through a combination of creative content, the use of in-depth market knowledge, and the deployment of interactive and analytical technological tools. Targeted on-line marketing has emerged as a viable form of reaching customers on the Internet. In addition to providing a cheap and effective way of reaching qualified and interested end customers, it offers several other advantages in the way marketers can establish long-term customer relationships, leading ultimately to retention and loyalty. In this paper, we offer an introduction to the phenomenon and describe typical business models for targeted marketing online. We do this through a comparative case analysis of Netcentives, Inc., a leading integrator of interactive media technology; Agency.com, a leading interactive media agency and NetPerceptions, Inc., a provider of collaborative filtering software. We then outline some of the challenges and opportunities in this new medium going forward, including issues related to consumer privacy and the changing nature of intellectual property.

BACKGROUND

Direct marketers spent approximately \$163 billion in the U.S. in 1998. Recent figures show the U.S. retail sales are growing at about three percent annually, while

catalog and direct-mail sales are growing at about seven percent. This confirms the trend that more households purchasing in response to these catalogs and direct mailings, mostly based on mailing lists obtained by the marketers. Although catalog marketing remain one of the most popular forms of off-line direct marketing, direct marketers do not mail catalogs to every household in the country, due to resource constraints. Instead, they purchase mailing lists that break down customer groups by income segments, household size, purchase history, or hobbies and interests. By using these lists, direct marketers can target their prospective consumer and limit the amount of extra catalogs being mailed.

In the early days of direct marketing, efforts at reaching prospective customers could be best described as using a “shotgun approach.” By packing an envelope full of advertisements and coupons and mailing them out to a large amount of households, it was discovered that customers would actually respond by buying some of the promoted products. Gradually, such efforts gave way to more targeted campaigns. 1-800 numbers grew in popularity as marketers fled to the television seeking immediate response. Today, with the creation of large-scale databases that systematically collect information on households and individuals, direct marketing is fast approaching the Promised Land of one-to-one promotions and incentives, and incorporating new types of interactivity¹. By using mail, telephones, computers and television, knowledge on prospective customers is being converted to revenue dollars. Knowledge of this sort is tremendously useful and is used in turn to create powerful online brands². Thus, online marketing radically changes the way in which information about customers is collected, analyzed and put to use.

The competitive dynamics of the direct marketing industry are changing fast with the advent of the Internet. At the present time, nearly 30% of the 97 million U.S. households are online. Electronic commerce generated \$32 billion in online purchases in 1998. Correspondingly, expenditures on online ad spending (including media and direct marketing) have been growing steadily and are expected to rise to \$9 billion in 2002 from \$3.3 billion in 1999. This represents a small chunk of spending if one considers the total amount spent by direct marketers in 1998 (\$163bn). It comes as no surprise that online advertising has emerged as one of the hottest growth areas for direct marketers. As a recent Forrester Research study put it,

Direct marketers are flocking to the Internet, drawn by the promise of cheaper marketing, deeper customer relationships, and access to a world-wide audience. With the ability to connect instantly to the customer, the Internet promises to become the ultimate one-to-one marketing vehicle...³

Several interesting business models have emerged in order to tap into some of the advantages offered by the Internet. In the following sections, we profile three business models that tap into some of these possibilities.

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