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Internet integration in business marketing tactics

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Abstract

Companies have got to learn to eat change for breakfast.
Tom Peters

. . .it behooves us to adapt oneself to the times if one wants to enjoy continued good fortune.
Niccolo Machiavelli

Business Marketing Management (BMM) over the Internet has been receiving a "lot of ink" in current periodicals and to a lesser degree in academic literature. Practice changes so rapidly that principles emerging from last month's successes may need revision before they are derived and printed. There is yet a general theory of business-to-business Internet integration. Nonetheless, there is a need to build such knowledge on "the fly," and to attempt to see patterns even if they have a short life span. The present work takes a look at the state of business-to-business Internet marketing practices as the year 2000 came to a close for larger companies. Not surprisingly, and just like the hardware that make Internet distribution density so high, we find that the Internet is having an impact on: market size and structure, business buying and selling behavior, negotiation strategies and associated pricing practices. Moreover, distribution systems are experiencing a major realignment while logistics optimizing is even greater. The Web and e-mail are becoming more fully integrated into the business communication mix. The attempt here is to learn about the *most rapidly emerging and changing communication technology of the past 100 years*. Business-driven technology now appears to be driving business marketing tactics and results are augmented through multifaceted complex use of the Internet.

Keywords: Internet integration; Electronic commerce; Business marketing; Industrial marketing

1. Introduction

> . . .The Internet's core advantage lies in its great capacity of fast, efficient, integrated, and interactive exchange of information. . . Thus, the Internet facilitates the information exchanges between organizations, concerning issues such as discovery of new customer needs, trends of the local and global markets, competitive moves, joint development of products, joint selling activities, etc. [1]

E-commerce was, and still is by many measures, hailed as a revolutionary force in business, being able to both improve the way business is conducted today, and perhaps more importantly to reshape complete industries. The increased transparency that is made possible by the Internet should make inefficient markets more efficient and thus send ripple effects throughout the economy [2]. Major companies are expected to use the Internet to alter existing industry structures and business processes, to improve company information, redefine their information with clients, leverage global resources, and pioneer new business models [3]. Similarly, they are to use it to streamline their supply chain, and eliminate inefficiencies with increased automation. Businesses are expected to place orders totaling 3.2 trillion dollars worldwide via the Internet by 2003, according to Forrester Research [4].

A recent empirical study performed on American and European companies, suggests that the Internet enhances business performance in business-to-business organizations, both in terms of total sales and net profit margin, though the

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evidence shows that it may do so indirectly [1]. Whereas just a few years ago companies may have asked themselves whether or not to move their business to the Internet, today companies no longer ask themselves that question. The answer is simple: there can be no room for the company to exist without somehow being on the Internet. Goldman Sachs estimates that using the Internet will reduce purchasing costs in several industries by more than 20%, thus reducing the total cost of doing business by as much as 12.5% [5].

> ...The Internet can be used to conduct marketing research, reach new markets, serve customers better, distribute products faster, solve customer problems, and communicate more efficiently with business partners. The Internet is also a useful tool for gathering intelligence on customers, competitors, and potential markets, as well as communicating information about companies and/or products [6].

While there are many positive aspects to harnessing the power of the Internet to conduct business, some of the negative aspects have begun to recently surface as well.

The present focus is on one of the most prevalent themes in today's Business Marketing Management (BMM) scene, that of the different variances of the exchanges/electronic-marketplaces. A basic premise of this paper is to show how these emerging technologies impact traditional elements of business marketing tactics. The goal is to explain how BMM is evolving through their use of the Internet, high-speed communications, and computers for big business marketers. We will also try to determine how major businesses marketers benefit more from these exchanges and why. This is achieved through the use of both academic and business periodical literature. The subject is based on a relatively new phenomenon and therefore there has been a limited amount of time for academic emphasis on the specifics of Internet BMM, and their impact on marketing mix management. In order to be current, especially in this rapidly changing field, one must follow the recent literature and uncover emerging patterns and trends.[1]

[1] The research approach involved an intensive review of the literature on BMM (also known as industrial marketing) and its relation to electronic commerce. This literature review process included business marketing journals and current periodicals as well as those dealing primarily with electronic commerce. Some useful information was obtained in the form of white papers on business marketing and/or electronic commerce found on the Internet. As with any literature review, we developed a lexicon of terms related to the continually evolving business-to-business Internet marketing theories and concepts such as e-marketplaces and BMM exchanges. This lexicon included, but was not limited to, popular terms such as B2B, e-commerce, the Web, as well as the Internet, industrial marketing, business marketing, electronic marketplaces, and electronic exchanges. Important considerations in the literature review process involved focusing in on critical periods before the proliferation of activity and hence, press coverage on "B2B" and its implications to electronic commerce. In this manner, we began reviewing literature from 1998 through November 2000.

2. Electronic business-to-business models and their promise

2.1. Size matters

The mere volume of business moving to the online exchanges means that BMM marketers have to add them to the marketing mix. A study by the Boston Consulting Group (BCG) of the BMM e-commerce market predicted that one-fourth of all US BMM purchasing will be done online by 2003. Additionally, they estimate that by that year BMM will reach an annual value of 2.8 trillion dollars. This is in contrast to 1998, where the US BMM e-commerce was 671 billion dollars, much of which was Electronic Data Interchange based [7]. Forrester Research surveying 80 executives from Fortune-1000 firms found that 70% of both buyers and sellers expect to become members of an online marketplace (OLM) by 2002, using them for either transaction or information. Deloitte Consulting estimates that 1500 e-marketplaces have already been launched or announced, and at the same time predicts that in 2 years about a thousand of them will fail or merge [8].

2.2. Market mechanisms

Business markets generally tend to create value by two main mechanisms: *Aggregation*—bringing together many buyers and sellers under one virtual roof, where their positions are fixed; *Matching*—brings buyers and sellers together to negotiate prices on a real time basis. Additionally, these markets can be classified into four main categories: *MRO hubs* are horizontal markets that enable systematic sourcing of operating inputs. Because the inputs tend to be of low value goods with relatively high transaction costs, these hubs provide value by increasing efficiencies in procurement. *Yield managers* are horizontal markets that enable spot sourcing of operating inputs. They add the most value in situations of high price and demand volatility. *Exchanges* are vertical markets that enable spot sourcing of manufacturing inputs. They allow buyers and sellers to conduct business with relative ease by maintaining long-term relationships and having terms and conditions agreed upon in advance. *Catalog hubs* are vertical markets that enable systematic sourcing of manufacturing inputs. They in fact automate the sourcing of noncommodity manufacturing inputs, thus creating value by reducing transaction costs. As opposed to MROs, they tend to be industry specific [9].

Analysts at the Gartner Group have distinguished between two often-confusing terms that are used interchangeably by most people: e-marketplaces and BMM exchanges. While e-marketplaces offer little more than information and an online-meeting place, BMM exchanges bring groups of buyers together to cut transaction costs through integration with back-office systems [10].