

# Marketing on the Internet — who can benefit from an online marketing approach?

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## Abstract

The research builds upon the literature in electronic commerce and past research in marketing with the objective of understanding factors that impact a product's adaptability to online marketing. A review of marketing channel choice literature reveals a set of factors and channel choice functions that are considered important in making channel decisions. Using this as a basis, four major channel functions, namely, product customization, availability, logistics, and transaction complexity are considered relevant in understanding the implications for Internet marketing. By building upon previous research in the area of channel selection, we provide a means of classifying Internet marketing initiatives based on product characteristics. The classification scheme based on product characteristics can help analyze the significance of each factor on the success of a firm's online marketing approach. Further, the classification scheme is used to discuss decision support implications. © 2000 Elsevier Science B.V. All rights reserved.

*Keywords:* Electronic commerce; Channel selection; Internet marketing; Product classification

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## 1. Introduction

The potential of the Internet as a commercial medium and market has been documented in a variety of publications [17,20]. Despite overwhelming statistics regarding Internet development, both successful and unsuccessful cases of Internet marketing have been reported [15,16]. There is no proven successful method that can help management evaluate how beneficial Internet marketing could be before

they commit substantial capital investment on Internet marketing and risk the possibility of interfering with their current channels. In this research, we focus on the use of the Internet as a virtual storefront where products are sold directly to customers. We contend that product characteristics play a major role in the successful marketing of a product on the Internet. We build a product characteristics based classification framework to study the implications of using the Internet as a marketing channel.

Channel selection is a complex task for both researchers and practitioners in marketing. Although

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Internet marketing has boomed in recent years, most companies have used it mainly for advertising or promoting corporate images. Not many companies have fully utilized the power of Internet marketing as a new channel for handling transactions on the Internet. The existing research in channel design and selection has only considered the traditional channels, including direct and indirect marketing approaches. There is no documented results or research that provide a systematic method to guide evaluation, planning, and execution of the channel choice decision when it comes to Internet marketing. The research done in Ref. [30] provides a comprehensive review of research in traditional channel selection and is used as the basis for building our model. In this paper, we extend and modify their work to include the new transaction/distribution channel, Internet marketing.

In this study, we first identify the product factors that may impact the selection of transaction channels. This is done through a thorough review of the literature in both traditional marketing channel selection and the new online marketing approach and identification of the key benefits of Internet marketing. Product factors that have impacted the successful capitalization of Internet marketing are added to the current list of factors identified by previous marketing research.

The rest of the paper is organized as follows. A summary of the review is presented in Section 2. To better understand the type of products or services selling on the Internet, Section 3 gives the classification of retailing on the Internet. Here, the findings from Section 2 are used as the basis for building the classification grid. Section 3 also discusses the decision support implications of the classification. Section 4 concludes the research with a summary of contributions and a direction for future research.

## 2. Literature review

### 2.1. Current research in channel selection

Marketing channel decisions are among the most critical decisions facing management. In marketing

literature, the types of channels can be divided broadly into direct and indirect marketing approaches. Most companies do not sell their products or services directly to the final users for three reasons: (1) lack of financial resources to carry out direct marketing; (2) decreased cost-effectiveness (e.g., selling gum or other low-price consumer goods directly); (3) to focus on the core business [21]. Internet marketing shares some of the characteristics of both direct and indirect marketing forms. However, the extant literature in channel selection only classifies products into *direct* or *indirect* marketing and cannot be applied directly to Internet marketing choice. Several product and market factors determine channel choice (these are summarized in column 2 of Table 1) [30]. These factors can be classified based on the function performed by the channel in fulfilling customers' requirements. The classification scheme of Ref. [30] groups the factors into eight channel functions and provides their implications for channel choice (see Table 1, column 1). Although the Internet is an entirely new channel, it has many of the same characteristics as those of conventional channels. We believe studying the factors considered significant in conventional channel selection can also help in analyzing the characteristics of Internet marketing. However, there are factors that either were considered less important in conventional channel literature or are unique to online marketing that need to be added to the analysis (indicated in bold letters in Table 1, column 2).

In Section 2.2, we identify the key advantages of Internet marketing recognized by companies participating in Internet marketing. The findings are then used as the basis for extending the channel selection theory to encompass online marketing.

### 2.2. The advantages of internet marketing

Marketing activity occurs through three types of channels: distribution, transaction, and communication channels [28]. Although this study focuses on using the Internet as a new transaction and/or distribution channel, there are substantial interactions and overlap among the activities performed by the three types of channels. Therefore, we need to consider the

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