

Building Competitive Advantage on the Internet using Relationship Marketing

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Extended Abstract

This paper examines how direct marketing, enhanced by data mining techniques, can be adapted to the Internet. Direct marketing is a technique that can help the on-line marketer to build relationships with individual customers and hence achieve competitive advantage.

Relationship marketing (RM) is a relatively new paradigm within the marketing discipline, emphasising long-term relationships with individual customers over short-term marketing transactions. It has emerged as a result of an increasingly competitive climate coupled with market fragmentation and increased consumer sophistication. A feature of RM is highly targeted marketing activities, such as direct marketing, aimed at the most profitable existing and potential customers.

There is a clear need for highly targeted marketing activities within the Internet environment, a collection of 'smaller submarkets', where developing relationships with on-line consumers results in sales, repeat sales and profits [Lev95]. However, applying relationship marketing techniques to the Internet is not straightforward. The on-line marketer must realise that marketing on-line involves one-to-one promotion. The difficulty may be that the demographics of the on-line consumer do not favour relationship building: 67% of Internet newcomers are male, 88% own a home computer, 39% have a college degree and 17% live in households with incomes of \$80,000 or more [Hic97]. The on-line consumers could be described as impatient, having no allegiance to particular web sites, in short, on-line consumers are 'switchers', empowered to choose which site they visit so that when faced with a barrage of on-line advertising, they simply switch to a different web site. It could be said that the on-line consumer may not want to enter into a relationship.

Given these characteristics, the task of building long-term on-line relationships, it would seem, is problematic. The key is to achieve customer loyalty which should lead to increased shareholder value and asset efficiency [Blo97] and avoid, customer switching, which can reduce profitability and market share [Pau97].

According to [Blo97] customer satisfaction is assumed to "have a direct positive link to customer loyalty". [Bar97] suggests that there are a 'myriad of approaches' to building customer loyalty and to tailoring marketing programmes. These generally include database marketing, direct marketing, loyalty programmes. [Kot97] believes that financial benefits, social benefits and adding structural ties will encourage 'bonding' and 'satisfaction'. [Lev95] highlights three possible approaches to achieving on-line customer loyalty: give consumers an emotional stake; multiply the number of visits; and increase the quality of each contact. The process of convincing the customer to 'stay a customer' is highly dependent on the customer's perception of 'value'. In consumer markets it is only possible to achieve competitiveness through superior customer value [Jen97]. Thus, the marketing strategy must make superior contributions to the consumers' perception of and attitude to value. A critical component of any on-line marketing strategy, then, has to be an understanding of the salient dimensions of on-line customer value.

Direct marketing is a process which can help on-line marketers achieve customer loyalty, by converting 'switchers' into loyal and repeat purchasers. This paper proposes a method of on-line direct marketing outlined in chronological order in Table 1.

Table 1: The On-line Direct Marketing Process

1. Specify Database elements:	Name, address, phone, fax, gender, web sites visited, recent purchases, frequency of web sites visits, expenditure etc.
2. Micro Marketing:	Navigational/ purchasing behaviour data gathered, added to database.
3. Target Segment:	Specified.
4. Perform Data Mining:	Customer profiles built, trends and behaviour patterns identified.
5. Mass Customisation:	Most appealing loyalty incentives offered to target segment.
6. Update Database:	Recording response of customer to loyalty incentive.

In stage one, management must ensure that the elements of data to be captured are relevant and appropriate to the organisation. Data capture should not be limited to customer transactions but should also include enquiries and complaints. It is in stage two that the patterns in customer transactions and navigational behaviour are monitored. Using this data, on-line marketers can identify target segments. In stage three, customers are categorised according to type or value. Data mining (DM), stage four, is the term given to the automated discovery of non-obvious, potentially useful and previously unknown information from large data sources. DM can provide data about the unique characteristics of customer segments identified, so that inferences may be made in relation to customer value and appropriate loyalty incentives can be developed [Mul97a]. Stage five, mass customisation implies different incentives for different customers. Moreover the incentives should be fashioned to reward long-term behaviour, in order to discourage short-term deal seeking by on-line consumers. And finally, stage six records and measures the success or otherwise of the loyalty programme. The information can be used to take corrective action for future loyalty programmes.

The on-line direct marketing tool proposed here achieves highly targeted direct communication with on-line customers of a special product and promotion incentives or offers. Targeting does not have to involve price discounts, it could mean making certain types of consumer more aware of relevant services or products, or service enhancements, special recognition or even inviting them to participate in special events. Because the promotion can be tailored to 'hot' prospects, it has a high chance of success. However, its success is based on descriptive and behavioural consumer data. Without this data, the on-line marketer is in danger of creating promotions aimed at disinterested, impatient, unspecified and more importantly unlikely to buy consumers, typical of the Internet 'pull' environment. In this situation, it is impossible to build on-line customer relationships and any opportunity for competitive advantage is lost.

Consumer data has been described as "the bedrock of all targeted marketing activities allowing marketers to understand and predict how their customers will behave" [Cur96]. On-line transaction details are of some value, but for many on-line marketers the most important consumer data is that concerned with patterns in transactions, such as an increasing revenue over time or the range of products purchased over a period of time. Internet technology offers businesses the opportunity to gather consumer data and monitor consumer choice through customers revealed preferences in navigational and purchasing behaviour on the web. Such data can enable a business to customise future offerings for individual customers. It is evident that such technology facilitates RM, when the database, in particular, is an integral part of the process. The significance of the database lies in its ability to capture, store, analyse and segment customer information. The value of this information is that it enables a company to start calculating real customer value, and can help to measure key customer variables such as margins, longevity and loyalty. In other words, data available from a database must be converted into information and then used to create knowledge for key decision-makers [Hum96].

The database can be used in four ways: to decide which customers receive which offers; to build customer loyalty; to identify target groups or prospects; and to reactivate customer purchases [Kot97]. When selecting 'hot' prospects, [Sto93] recommends applying the R-F-M formula (recency, frequency and monetary amount). The best customer targets are those who bought most recently, those who buy frequently and those who spend the most. Points are established at various

R-F-M levels and individual customers are scored - the higher the score, the hotter the prospect. This rather simplistic method whilst useful is certainly not the answer to the on-line marketers quest in search of competitive advantage. However, it can be greatly enhanced by the process of data mining.

Data mining allows marketers to reveal layers of information about markets or subsets of markets in ever increasing detail, enabling consumer profiles to be built and the identification of profitable and non-profitable segments. The application of data mining techniques to on-line shopping data provides high-level knowledge in the form of rules that describe consumer navigational and purchasing behaviour [Mul97b]. These rules capture trends and behaviour patterns that may be applied within a RM strategy. For example, the high level mined rules may be incorporated as a rule-based system into the architecture of an on-line shopping mall service. When each new customer interacts with the on-line mall to navigate and purchase goods or services, their behavioural patterns are identified by the rule-based system. When this happens, the on-line mall system immediately reacts to change dynamically the information presented to that consumer.

With data mining techniques the potential for on-line direct marketing and hence competitive advantage increases enormously. With behavioural and descriptive data about on-line consumers, it is possible to target: those who spend the most with offers of generous incentives; those who have not purchased for some weeks or months; or perhaps those who have switched to a rival company. The information provided by the database and data mining is related to customers, earning these two technologies an important place within relationship marketing.

Full commitment from management is essential if all the benefits are to be gained from a database driven approach to on-line relationship marketing [Har95, Yov95]. Measurement standards must be agreed prior to the establishment of a database, and the company should expect long-term rather than short-term returns on database and data mining investments [Dav97]. [Wan94] has suggested that firms should see a payoff within one year.

In conclusion, this paper demonstrates that competitive advantage is possible on the Internet through the development and maintenance of customer relationships. The Internet consumer profile poses a problem for on-line marketers, typically it is one of impatient, switching and astute consumers. However, it is possible to develop on-line relationships through direct marketing techniques which rely on measurable and actionable consumer data. Internet technology facilitates the retrieval of not only transaction details but also transaction patterns. The process of data mining supports the analysis of such data to reveal the navigational and purchasing patterns of on-line consumers. For marketers the implications are far reaching, since data mining can improve their understanding of on-line consumer behaviour, resulting in more efficient and effective targeting of on-line consumers. However, the key for marketers is to remember the basic principles of what they are doing and know what consumer data is or is not important.

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