

INTERNET AS THE MEANS OF CREATING VALUE FOR CONSUMERS *

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Abstract. *The previous decade is characterized by great changes in business operations of enterprises. One of the most significant changes, conditioned by the development of information and communication technologies, is the transfer from the conventional to a modern exchange process. This is not an alternative approach to business operations any more, but this represents an imperative of the success in the global market. The authors discuss in the paper the value-chain transformation, marketing changes induced by the Internet and basic elements of the Internet-based marketing strategy.*

1. INTRODUCTION

The appearance and rapid diffusion of new technologies, particularly the information technology, caused substantial changes in business operations of enterprises. Marketing is one of the spheres affected by these changes, in which turns are necessary and limited in time. The appearance of the Internet as a global interactive medium has made the life of people more comfortable and essentially altered their purchasing behavior. The most important technological shift occurred in the field of market research and marketing communication. It is reflected in forming new models of market research by the application of various searching tools offered by the Internet. They enable the enterprise to recognize the changes and trends in its environment that may exert vital influence upon its market position. The changes in marketing communication are characterized by shifting of companies from mass media and standardized messages towards new media containing personalized messages via CD-ROMs, virtual catalogues, interactive computer services etc. This integrated marketing communication enables faster information flow through communication channels and bringing the consignor closer to the consignee. The competitive

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advantage of the enterprise is increasingly being based on its capabilities of developing and adjusting a marketing program coordinated with the needs of profitable clients.

The Internet has created a global and virtual market that exceeds geographic boundaries and time limits. Substantial changes have happened resulting in the necessity to approach the problems of market relationship management in a radically new manner. The market as a whole is increasingly diversifying from a physical domain towards a new global market that is more and more attaining the character of an electronic market in which transactions are conducted in a completely new way. The activities realized through the Internet offer new business possibilities, but require a completely new approach to the marketing concept as well. The implementation of new technologies, the Internet in particular, into the existing business models is critical for providing direct benefits to customers and business partners in a new global electronic community. In this paper, the authors have pointed out the value chain transformation from physical to virtual, the changes in the marketing originated under the influence of the Internet, as well as the basic elements of the Internet-based marketing strategy as the preconditions for the superior value creation and delivery to consumers in the new circumstances.

2. REDEFINING THE VALUE CHAIN

The value chain concept helps the company management to comprehend relevant relations with all its protagonists in order to enable the company to take the position that provides added value creation. This is the position in which the benefits go to the company and not to its competitors. The value chain consists of total activities that have to be performed in the function of designing, producing, selling, delivering and supporting the products (1, p. 41). The analysis of these activities provides information relevant for the redesign of internal and external business processes aimed at the efficiency and effectiveness improvement. The information, therefore, underlies the added value creation process, so the strategic management is focused on the value chain integration. However, under the influence of the Internet, the value chain is transformed, and the information becomes the source of the value itself (2, p. 13). Therefore, the information management within the value chain has two direct consequences. First, the information technology enables avoiding of intermediaries in the value chain and providing a direct access to consumers. Second, information becomes the key variable of the value added process. Linear business process becomes a matrix of potential inputs and outputs, which may be used and distributed by a wide variety of channels.

Being that information is a strategic resource in the new environment, creation of values in a virtual value chain includes five modular activities: information collection, organization, selection, synthesis and distribution. Each of the five activities enables the development of new relationships with consumers. The added value transition from a physical to a virtual value chain encompasses three phases (3, pp. 141-150): more effective management of physical operations, creation of a parallel value chain and usage of information in developing interactive dialogue and relationships with consumers. In the first phase, the company acquires the capability to manage physical operations more effectively, as a result of the value chain integration. Managers use a wide scale of information technologies to coordinate activities in a physical value chain. In the second phase,

the company creates a parallel value chain by substituting physical with virtual activities. Most often, these are the consumer services or supply activities that are carried out over the Web. In the last phase, the company uses the information as a resource for establishing new relationships with consumers and new ways of value delivery. Each market segment and every consumer represent a source of generating information and knowledge that may be applied to any activity in the virtual value chain. The criteria that have to be fulfilled by a real e-organization are the following (4, p. 87): a bigger income portion is realized over the Internet, all the major business processes are connected to the on-line environment, the business is positioned in time intervals and reaches global audience, it has a centralized networking organizational structure instead of a hierarchic organizational structure. These features enable high flexibility and capability of an organization to react to changes. The reaction speed is critical for the success, as the changes in a digital environment are rapid. According to these criteria, the only e-organizations are the ones that were first to start with such model of business operations, such as Amazon.com, Yahoo!, Covisint. They are followed by Dell.Computers. This site is accessed by 2 million visitors per month, and the on-line sale amounts to more than 40% of the total annual income of the company. The Internet sale has enabled this firm to reduce collective costs from 15% in 1994 to 9% in 2000. The Dell has accomplished a total integration of the business and the Internet technology (5).

3. MARKETING CHANGES UNDER THE INFLUENCE OF THE INTERNET

The Internet essentially changes the model of business operations of companies. The organization adaptation to its possibilities resulted in a transformation of the marketing concept and strategies. A generally accepted prognosis of renowned institutions is that the application of information and communication technologies shall be intensified in the approaching years. Thus, for example, some prognoses state that by 2004 the Internet shall be used in the American market for even 80% of the car-sale. The research conducted by the company Chrysler (6) showed that 70% of new buyers of cars have the access to the Internet and that more than 45% of them are ready to consult the Internet prior to deciding upon the purchase. Various terms are used in marking the marketing that is focused on individual Internet users and satisfaction of their demands in a profitable manner. The most frequent among them are the following: Internet marketing, marketing over the Internet, on-line marketing. There are similarities, as well as certain differences among them. The principles and methods of the on-line marketing are derived from the traditional marketing, while the basic differences originate from the specific characteristics and rules of the Internet itself. Major differences may be classified according to the following aspects: approach to the market research, the place and time of communication, image formation, communication direction, interactivity. The Internet enables companies to transmit a lot of information to the targeted auditorium, but, on the other hand, it is also the source for gathering of information on essential happenings and main protagonists in the environment. These data are different, including publications of governments and other state organs, statistics, news, various research results, newspaper articles, etc. At the same time, the Internet services, like WWW, e-mail, and others, help in locating and finding information. There are, also, certain special services that provide grouping of us-

ers around specific conversation topics, such as discussion groups, bulletins, advice, etc. The efficiency of the on-line market research depends on adequate definition of target market to be investigated and on the determination of discussion groups in which the target market members participate, as well as on the identification of the topics to be discussed in particular discussion groups. In the on-line marketing, the space and costs do not represent limiting determinants any more. At low costs, it is possible to present to the users a great number of information, graphics, pictures, depending on their demands. The on-line purchase is information-based, and consumers require answers to concrete questions. Time limits in the network communication are surmounted as the Internet users search for information and messages by themselves, so the time spent in the network is their investment rather than expenditure. This universal information on all the aspects of the offer and total business operations of an enterprise is the real basis for its image creation, and it is not only a symbol, like in the traditional promotion. The communication is initiated by consumers, not by enterprises, requiring from the enterprises completely different methods in message creating, designing and forwarding. The information flow is interactive, via e-mail or discussion groups, which provides close and exclusive relationships between the organization and consumers, aimed at attaining a high satisfaction level.

The usage of the Internet as a marketing tool varies from organization to organization (4, p. 86). Its essential feature is reflected in developing a new market system, which has to be totally different from the existing one. Taking this into consideration, we may refer to the transformation of the marketplace into the marketspace, where geographic, physical and time barriers do not exist. The major difference between the marketspace and the marketplace lies in the radical move from the concept of "a physical place" to "a market space". Physical, conventional performance of transactions has been replaced with a virtual context in which customers and vendors get into contacts, create interactive dialogues and efficiently carry the exchange process out. Abundant information and communication infrastructure is a good basis for this.

The distinction between the two environments can be broken down into three components (2, pp. 7-8): content, context and infrastructure. The content refers to the transition from the physical marketplace to an electronic marketspace, where information is a substantial strategic resource. Close and continuous information exchange among the protagonists ensures their better mutual understanding, transaction efficiency and creation of value added. The context of the marketspace consists not of physical but of on-line interactions of both sides. Numerous companies have developed both business domains, performing simultaneously physical and on-line transactions. This is a hybrid strategy that includes both traditional and interactive elements. The infrastructure contains computer companies that allow prospective customers to search for products and services remotely, "test drive" new components over the Internet, and specify their own configuration, which allows a company to add value to its products and services and satisfy its customers by keeping processes virtual.

In the marketplace, a product's strength is established and managed by manipulating the content, context and infrastructure through a traditional marketing mix, wherein the three elements are usually aggregate. However, in the marketspace, these three elements can be disunited to create new ways of adding value, lowering costs, forging relationships with non-traditional partners and reassessing "ownership" issues.

The WWW is the most famous and widely used Internet service. Its most significant characteristics are (Fig. 1, 8, p. 157): constant availability of information over the Internet, interactivity of the involved parties, efficient transfer of information (with minimal losses and costs), individuality in communication with users that enables the creation of highly adaptable products, integration of communication and transactions that enables direct ordering of products, followed by the electronic money transfer. These characteristics strengthen the trust and loyalty and increase the satisfaction as the essential variables of the relationship management.

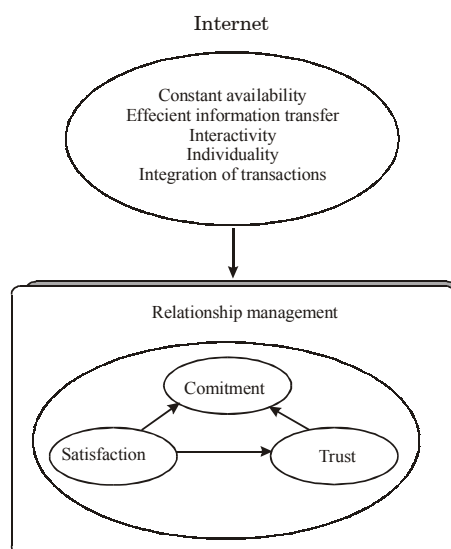


Fig. 1. Frame of reference for customer relations through the Internet

4. INTERNET-BASED MARKETING STRATEGY

The Internet technology offers wide possibilities for the growth of companies. Compared to other media, the Internet has significant advantages, which also affect the economy of its usage. Striving for quick gain of high returns, a great number of organizations have implemented the Internet technology and entered the Web, taking into account that the Internet-consumers are highly sophisticated and disposing of more than average incomes. The standard advertising via mass media has been losing its importance. It makes only 26% of the total investment in promotional activities in the USA (9, p. 514). Nevertheless, a certain number of companies do not cherish great expectations related to the on-line marketing, as it is a time-consuming and difficult job, just like the conventional marketing (so-called off-marketing). These companies comprehend the seriousness of the development process of marketing strategies, relying fully or partially on the application of new technologies. The process essential feature lies in the capability of organizations to coordinate the Internet usage in order to develop it and connect it with the strategic goals.

Global competition requires prompt and proactive reaction from the enterprise management. This reaction is reflected in the integration of the Internet into the business and marketing strategy. The advantages of such approach are manifold: the reduction of global expansion barriers; simplification and operationalization of the process of exchange with other parts of the world; the application of direct marketing, which reduces the dependence on distributors and agents; the reduction of on-line market research costs; facilitated and faster market segmentation and target market selection; global competitiveness; improved feedback with the market; minimization of the discord between the desired and delivered values.

The development of the Internet-based marketing strategy substantially differs from the traditional marketing. It requires much wider company engagement and establishment of strategies and programs based on resources and capabilities of the firm to successfully implement the new technology, as well as to comprehend the intentions of the competition. The essential question is not whether the enterprise should or should not apply the Internet technology, but how to apply it if it wants to be competitive in the market. The marketing strategy redefinition is achieved either by adding interactive elements to the existing one (enlarged strategy) or by developing a totally interactive strategy which is predominantly based on the Internet technology and which makes the on-line marketing more successful.

The struggle for the dominance in the Internet market requires its continuous investigation and comprehension. Geographic distances are overcome, and research has shown that consumers with high purchasing power use the services of the Internet. The Internet market segmentation is different and more dynamic as compared to the conventional segmentation, and it relies on abundant information base provided by the Internet. It is based more on behaviorist than on traditional criteria. This creates more reliable grounds for the adaptation of products and total Web offer to a specific type of Internet-consumers. In the shared Internet application technique (shared browsing), clicking the mouse produces a figure of a man who helps consumers in problem solving.

The Internet integration into the total business operations presupposes the change in the approach to marketing strategy development and programming of marketing mix instruments. The of product competitiveness can be enhanced by including consumers in all the stages of new or modified product development, which facilitates the creation of the desired value. The Internet can also significantly improve the product presentation process by the support of multimedia. It is particularly important if the offered product can be transformed into a digital product.

The transformation of the traditional marketing into the on-line marketing induces alterations in the promotion as a marketing mix instrument. Consider the following fundamental changes (2, pp. 396-397):

- The Internet provides a virtual hypermedia environment allowing a diffusion of the text, media, icons and audio-tools. It enables connection of the subjects from great distances, exchange and distribution of information and other resources.
- The Internet gives consumers greater control over their search for and acquisition of decision-making information to make purchases.
- Consumers can interact with the medium and they become active participants in the marketing process. They can provide the product-related content to the me-

dium, freeing themselves from their traditionally passive role as the receivers of marketing communications.

- Firms can interact with the medium businesses and consumers can provide the content to the medium.
- Businesses can operate without a physical presence in the market.
- Consumers can purchase and acquire products and services on the Internet, and in some cases, they can be delivered instantaneously.
- Leveraging the Internet, business can obtain the benefits of the traditional vertical integration (e.g., economies of scale and scope, low transaction costs) without the ownership over assets.

Revolutionary changes are related to the establishment of a dialogue between enterprises and target markets. It is an individually directed interactive communication, which is achieved through the application of modern devices, primarily the Internet, and which contributes to the increase of consumers' satisfaction and loyalty. The benefits of the integrated marketing communication are numerous: creation of the integrity, consistent messages, objective marketing messages, better usage of media, greater marketing precision, operational efficiency, savings in expenses, consistency of "high level" services, responsibility of agencies, simplification of the working processes (11, p. 68). The integrated marketing communication enables faster information flow through communication channels and allows the approximation of consignors to consignees, greatly influencing the relationship perspective. In case the interaction process is inefficient, the effects will be missing. A significant activity of modern enterprises is the development of web sites in which they present their offer. There are several levels in creating a web site of an enterprise. On the first level, the site is simple and presents only information. The second level is so prepared that it contains specific information on the product and on-line purchase, but it still does not provide two-way communication and interaction. The beginning of the interaction of contents and offered material is provided by the third level. The site influences and contributes to interactive relationships. Visitors may contribute by their discussions to the creation of products and services and they are actively included in some of the enterprise activities. On the fourth level, the interactivity is accomplished and individual dialogue is enabled. The material is developed and adjusted in accordance with the demands and needs of the users, while the organization has the possibility to actively control consumers. This site enables on-line purchases, too. The level 5 exerts high interactivity. It includes the possibilities of a dialogue, creation of consumers' needs, expansion of their influence within the enterprise, which may affect the modification of the attributes of offered products and services. In brief, this is the site where the organization is learning and answering the consumers' requirements, including them into the process of value creation (12, pp. 23-46).

In order to approach wider interested public, it is necessary to ensure the interconnection of sites. This can be achieved by banner-links, or even better, by getting the access to the firm while surfing through another site containing the address of the firm as an additional information source. Newsgroups and e-mail represent extremely effective and efficient means of presenting products/services and developing discussion with the targeted public. High costs of web-site construction may be used as a good argument in favor of

using traditional media for the web-site promotion and constant presence of its address in the targeted auditorium.

The Internet, as a direct sales channel, through sites or virtual catalogues, induced revolutionary changes in the field of distribution. Savings in the distribution are great as long-lasting and expensive distribution channels are eliminated in approaching many markets, as well as the costs related to merchandise manipulation and resolution of complaints. Alongside with the low price, every consumer connected to the Internet may ensure a fast and easy access to the desired products by finding the particular company web site or by downloading from the same web site. The time of delivery is substantially shortened, and the service quality and purchasing comfort are enhanced. It is possible to combine the electronic commerce with traditional buying models, when orders are placed over the Internet and sale is performed through a wide retail network. The Internet is extremely convenient for catalogue sales. The advantage of web catalogue creation lies in lower costs as compared to printing and distributing costs of great numbers of traditional catalogues, the administrative expenses are reduced, the availability to web consumers is greater, the contents may easily and quickly be changed, and a higher level of satisfaction of needs is ensured. A poor web catalogue layout may be overcome by the simultaneous usage of classical and on-line catalogues.

The price role and way of forming are also changed by the Internet. Consumers are much more informed about the products and prices due to rich choices and available information on prices. The bargaining position of consumers is therefore much stronger. They take active part in shaping orders and prices, so the on-line marketing implies a greater flexibility of price fixing and the price represents a significant factor of supply differentiation. The pricing competition is more developed and even brutal for certain products, such as books and CDs. In this war of prices, the success belongs to the companies that are more superior in economies of scale. This is the major advantage of the biggest virtual bookstore, Amazon.com, which has greatly invested in the infrastructure and which is dominating the market. Internet sales by auction are extremely developed, particularly in the business-to-business marketing, since it is easy to bring a great number of buyers and vendors into contact and to inform them. The on-line market connoisseurs are anticipating unusually rapid changes of prices (3, p. 92). It does not imply that nonprice differentiation is losing significance. On the contrary, this segment of differentiation bears greater importance than in the traditional marketing and it enables heavy price supports.

CONCLUSION

The Internet technology represents a potential that caused profound changes in the economy and society. The changes reached more or less enterprises of all the types of activities. Traditional branches create their competitive advantages by integrating traditional and Internet-based methods of business operations, while so-called digital branches attain their respective competitive advantages by developing strategies that provide market superiority through the predominant usage of the Internet. Integration of the Internet into each business segment conditions the survival of an enterprise in the global market. The essential question is how to perform it and ensure that the enterprise makes the maximum out of the opportunities offered by this technology. It is necessary to dispose of

adequate capital, to have the knowledge and organizational culture favoring the necessary changes. It is important to emphasize that the possibilities of the Internet are still unexplored and that new opportunities are constantly appearing, as well as that they should constantly be integrated into the enterprise business operations.

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INTERNET KAO SREDSTVO KREIRANJA VREDNOSTI ZA POTROŠAČE

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Poslednja decenija obeležena je velikim promenama u poslovanju preduzeća. Jedna od najvažnijih, nastupila kao posledica razvoja informacione i komunikacione tehnologije je prelazak sa konfencionalnog na elektronsko obavljanje procesa razmene. To više nije alternativni pristup poslovanju, već imperativ uspeha na globalnom tržištu. Autori u radu razmatraju transformaciju lanca vrednost, promeneu marketingu pod uticajem Interneta i osnovne komponente Internet-based marketing strategy.