

# Chapter Eleven

## Marketing Strategies for a Digitally Networked World

### Opportunities in the App Economy<sup>1</sup>



In the early days of digital time, software was something that one bought in a shrink-wrapped package with a disk inside, typically for a pricey sum. No more. These days, one of the hottest software markets is the market for apps: often bite-sized software programs that run on a mobile phone or within social networks like Facebook. It is growing at mind-boggling speed.

Apple's App Store, launched in the summer of 2009, was offering more than 100,000 apps for its hot-selling iPhone by year-end. By 2011, consumers had spent more than \$4.3 billion on apps, upgrades, and the advertising that appears within them. Eddie Marks, who with some college friends at Stanford created a simple app, Shotgun, that lets iPhone users use their phone to simulate the sound of cocking and firing a shotgun, set out to make a little beer money. "We've made more than \$1 million," from the ads that pop up on their app, says Marks. It beats taking a real job, say the duo's envious friends. Google's Google Play app store for Android devices has raced to get into the game, with more than 600,000 apps available by mid-2012, a figure similar to Apple's fast-growing total. Rival app stores have also sprung up, though none can match Apple's and Google's inventory.

But it's not just the number of apps and stores that sell them that is growing. It's also the volumes of revenue—and profit—that some apps enjoy. Zynga, with its hits like FarmVille, an app that runs inside the Facebook community, surpassed the \$100 million mark in revenue in just two years. Zynga's success with FarmVille and other hot titles

led to its billion-dollar IPO in December 2011, though its share price is down by nearly half as we write.

### Games as Apps

While it is not entirely clear to us why tens of millions of people want to be online farmers—and pay real money for digital cattle, seeds, tractors, and more—there's clearly something powerful happening here. And it's profitable, too. When Zynga offered its new digital sweet potato seeds at \$5 per packet, FarmVille players bought more than \$400,000 worth of them in the first three days. Since the seeds are virtual, of course, they cost Zynga virtually nothing to produce, and the revenue drops directly to Zynga's bottom line. It's no wonder that London-based imitator Playfish and California-based Playdom have attracted both venture capital and players in droves.

### More than Games

The hot app economy isn't just about games, however. Far from it. FedEx offers a mobile app for the iPhone that tracks shipments' status and provides updates of when the package arrives. Salesforce.com offers an app on a variety of platforms that lets salespeople monitor leads and account information while on the go. Proongo lets business travelers log their travel expenses and photos of receipts, then e-mails the data back to their desktop. Increasingly, thanks to apps, work that used to be

done in the office on a PC can now be done on a tablet or mobile phone.

There's also a growing number of apps to suit just about anyone's lifestyle. With Flixster—a free app that works on your iPhone, Android device, BlackBerry, or Palm—you can check movie show times, read reviews, and even watch trailers so you can decide where to go with the hot date you have lined up for next weekend. With CNN Mobile—a \$2 app for your iPhone or iPad—you can keep up to date with live video coverage of breaking news. With ESPN ScoreCenter, you can follow the play-by-play action and grab schedules and stats for your favorite team.

### Business Models

But how—other than selling digital sweet potato seeds and tractors—you might ask, can the proliferation of app providers or the social networks that host some of them make any money? The reality is that most of them don't. But one way, aside from selling virtual goods, is to charge a small fee for downloading the app, such as the \$2 that CNN charges for CNN Mobile. The \$2.99 "I am T-Pain" app, which lets fans of the performer mimic his robot like voice, pulled in downloads worth a seven figure sum. Another way to make money is by placing ads inside your app, as the Shotgun founders did. AdMob, since its start-up in early 2006, has placed more than 200 billion ads—including ads for blue-chip clients like Ford and Coca-Cola—in websites appearing on mobile phones and in apps on iPhones and Android devices. Some researchers expect mobile advertising to grow into a \$10 billion business by 2014.

Facebook, with \$3.7 billion in revenue in 2011, of which \$3.1 billion was from advertising, and its own hot—and then not so hot—IPO, appears to have begun to figure out how to generate meaningful

amounts of revenue. For Twitter, now five years old, the jury is still out. As columnist Jessi Hempel noted in early 2009, "Twitter has no business model." By 2012, some observers saw progress, however, with companies as diverse as Nike, Disney, and General Motors testing ways to use Twitter effectively.

### Is It Real, or Is It a Bubble?

All the phenomena we're discussing are rooted in today's reality that people are now digitally networked practically everywhere they go. They use LinkedIn to connect with business associates, Facebook to stay connected with family and friends, and their mobile phones to stay connected while on the go. Observers and investors wonder, however, whether there are enduring businesses here, or whether it's all just another internet bubble.

As the social networking phenomenon approaches market saturation—Facebook alone has some 900 million active users globally—its double-digit growth in users is slowing down. Noted investor Warren Buffett warns that valuations of social networking companies have become overvalued, and that investors should be wary as some of these companies prepare to sell their shares to the public in IPOs. True to Buffett's prediction, Facebook, Zynga, Groupon, and others have seen their share prices drop substantially post-IPO.

Whatever the valuations, though, it appears that digitally enabled social networks of many kinds and the apps that are developed to serve them are here to stay. Some will become real companies, making real money. Others, undoubtedly, will disappear as quickly as the morning dew on a warm summer day. For marketers of all kinds, however, the ubiquity and reach of the social networking phenomenon and the proliferation of apps means that these phenomena demand full attention.

## STRATEGIC CHALLENGES ADDRESSED IN CHAPTER 11

As the vibrant market for apps and social networking sites shows, the quest for new, marketable ideas in today's digitally networked world hasn't run out of fuel. The rapid pace of change on the web, in mobile telephony, and in related technologies offers an abundance of opportunities to create new companies, and it can help transform stone-age companies and provide them with attractive opportunities for growth. But, for most companies, the optimal path through the digital maze is far from clear.

**Strategic Issue**

*What marketing roles can the internet, social networking, and other recent and future technological developments play, and which of these should be pursued?*

Thus, in Chapter 11, we address several timely and important questions that marketing managers in today's companies and entrepreneurs must ask. Does every company need a digital or social media strategy? Do recent technological advances represent threats or opportunities? Most important, how should marketers address the development of strategies to take advantage of—or defend against—the rapid pace of change inherent in today's digitally networked world? What marketing roles can the internet, social networking, and other recent and future technological developments play, and to which of these should significant resources be allocated?

We begin by reviewing several trends that highlight the growing importance of social networking and other related digital developments. We then identify the fundamental principles that underlie today's digital phenomena and the key advantages and disadvantages inherent therein, all of which every marketer must clearly understand. Next, we identify some of the roles that digital networking technologies can plausibly play in marketing strategies, and we articulate a decision framework for managers to use to decide which of the growing array of such tools their firms should employ—from web-based marketing research to advertising on mobile phones or tablets to the delivery of digitized information, goods, and services over the web. Finally, we take a brief look into what it is likely to take to effectively serve the dot-com and mobile markets of tomorrow.

## DOES EVERY COMPANY NEED A DIGITAL OR SOCIAL MEDIA STRATEGY?

Like it or not, despite the scepticism of some early observers, the digital revolution and social networks like Facebook, LinkedIn, and some not yet conceived as we write in mid-2012, are here to stay. And it's not just teens and twenty-somethings who are getting on board. Though social networking penetration is highest among the 18-to-24 age group at 90 percent, more than half the online population aged 45 to 64 were expected to use social networks regularly in 2011, with further growth expected in future years (see Exhibit 11.1)<sup>2</sup>

**Strategic Issue**

*“Do we need an internet (or other new-economy-based) strategy?”*

### EXHIBIT 11.1 Social Networking Demography

U.S. Social Network User Penetration, by Age, 2009–2013 (Historical and Forecast)						
% of internet Users in Each Group Who Use Social Networks						
Age	2009	2010	2011	2012	2013	
0–11	12	14	15	16	17	
12–17	75	78	81	84	85	
18–24	83	88	90	92	93	
25–34	70	77	82	84	85	
35–44	52	65	72	75	77	
45–54	42	53	58	63	65	
55–64	35	48	52	55	57	
65+	20	28	31	34	36	
<b>Total</b>	<b>52</b>	<b>60</b>	<b>64</b>	<b>66</b>	<b>67</b>	

*Note:* Internet users who use social networks via any device at least once per month.

*Source:* eMarketer, February 2011, “Days of Double-Digit Growth in Social Network Use Are Over,” at [www.emarketer.com/Article.aspx?R=1008288](http://www.emarketer.com/Article.aspx?R=1008288).

If you're in newspaper publishing, everyone knows that digital media are eating the lunch of their print brethren, though in some emerging markets that's not the case.<sup>3</sup> If you're in retailing, online (and now mobile) retailing is inexorably taking business from traditional bricks-and-mortar stores.<sup>4</sup> As a result, most newspaper publishers and retailers are working hard to develop digital strategies. At Macy's, the American department store chain internet sales at Macy's and Bloomingdale's jumped 40 percent in 2011.<sup>5</sup> Even Walmart has belatedly decided to "make winning e-commerce a key priority," says CEO Mike Duke.<sup>6</sup> But what about companies in other industries?

Ted Schadler, a Forrester analyst who surveyed 68,000 U.S. homes, says there are important implications in the rapidly changing digital world for nearly all marketers. "The rise of consumers' adoption of personal devices, home networking and broadband, combined with the increasing importance of the internet in media, retail, banking, and health care, means that every consumer-facing industry must better understand the intricacies of technology adoption and use. Missing from most marketers' tool boxes is an understanding that consumers' attitudes toward technology determine a lot about how they receive marketing messages, get service online, adopt new technologies, and spend their time."<sup>7</sup> Consumers having more than five years of online experience spend 24 percent less time reading newspapers and 23 percent less time in front of the TV, according to the Forrester report. And these marketing implications are confined neither to social media nor to the United States. The implications of these changes are equally dramatic virtually everywhere, even in China, and the growing penetration of smartphones and tablets—including the Apple iPad and its imitators—is exacerbating them.

Advertisers, too, are getting on board. Procter & Gamble, the world's largest advertiser, has made social media an integral part of its brand-building efforts, and all its major brands now include social media elements in their marketing plans. "For us, the real aha! was an incredible ability to listen to consumers much better, much faster, more broadly," says Alex Tosolini, head of e-business at P&G.<sup>8</sup> These efforts have led to Facebook campaigns that have delivered market share rises of 11 percent for Pepto-Bismol (as a reliever of Saturday night eating and drinking binges) and 5 percent for Secret, a deodorant targeted at teenage girls.<sup>9</sup> But measurement of the effectiveness of such campaigns remains difficult, observes Oliver Fleurot, CEO of MSL Groups, a global PR network owned by Publicis Groupe. "Measurement in social media is still in its very, very, early infancy," he says. "Advertisers are clearly intrigued by this space where 900 million people interact. They are not sure how to be part of the conversation."<sup>10</sup>



What should marketers conclude from these developments? Notwithstanding the mind-boggling stock market valuations of social networking companies, notwithstanding the difficulties many companies have had in developing business models that actually make money, and notwithstanding the so-called digital divide, in which some segments of the population are still underrepresented in the internet population, the long-term prospects for jumping into the digitally networked world with both feet are still enormous. The growing market acceptance of the internet and various digitally networked technologies—both software and hardware—and the inherent advantages that they bring suggest that nearly every company needs to examine how it will be affected by and can take advantage of these developments.

The outcome of such an examination might well be the development of the company's own digital or social media strategy. The fact that one's competitors will surely develop and deploy such strategies is a further argument for doing so. But care needs to be taken in doing so, not only in developing cost-effective strategies that deliver results, but also in addressing a variety of ethical issues that are likely to arise (see Ethical Perspective 11.1). Today's well-educated business students can bring up-to-date insights—as well as digital and social networking expertise—to the companies they join.

## E Ethical Perspective The Growing Risks of Information Ubiquity 11.1

As smartphones and their applications make it possible for users to tell the world where they are moment by moment—as they check in on Foursquare at their local Starbucks, for example—their whereabouts, if not properly protected, may become known to others, whether they like it or not. Even more dramatic are new wearable devices or apps that continuously detect and transmit a user’s medical data. These devices are collecting what is, in many cases, extremely sensitive information. “We are all part of a brave new experiment in privacy whose outcome is unclear,” says Alessandro Acquisti, a professor at Carnegie Mellon University.

What is a company considering the gathering or use of such information to do? Clear principles should be established, for example, indicating that it is the users who own their data and it is they who should decide what to do with the stuff. This means, among other things, that opt-in formats and easy opt-outs should be part of any such solution. Such firms also need to be transparent about exactly what information is being collected and how it is being used.

**Source:** Martin Giles, “Here Comes Anywhere,” *The Economist Special Report, Personal Technology*, October 8, 2011, pp. 15–16.

## THREATS OR OPPORTUNITIES? THE INHERENT ADVANTAGES AND DISADVANTAGES OF THE DIGITALLY NETWORKED WORLD FOR MARKETERS

What advantages do the new internet, telecommunication, and social networking technologies provide to marketers and their customers? Eight potentially attractive elements characterize them: the ability to optimize, the syndication of information, the increasing returns to scale of network products, the ability to efficiently personalize and customize market offerings, the ability to disintermediate distribution, global reach, round-the-clock access, and the possibility of instantaneous delivery. Collectively, these elements lie at the heart of **viral marketing**, wherein those who see something they like on the web or on their mobile phones share it with others. Viral marketing, of course, is a marketer’s nirvana, as it makes it possible to gain widespread awareness, perhaps even adoption, at little cost. A recent study has examined how marketers can best “seed” and manage a viral marketing effort. The study found that the best seeding strategies can be eight times more effective than others, and it identified four key factors that are central to viral marketing success: message content, the structure of the social network that is targeted, the behavior of the recipients, and the incentives for them to share the message, and the seeding strategy.<sup>11</sup> Thus, taking best advantage of today’s digital tools requires a keen understanding of what makes them possible, along with creative planning and effective implementation. We examine the eight fundamental elements next.

### The Ability to Optimize

In many aspects of marketing practice, it can be difficult for marketers to understand what is working, what’s not, and why. The beauty of today’s digital technologies is that everything is measurable. Data—and data analytics—rules! Tools like Omniture’s Test & Target or Google’s web Optimizer enable marketers to dynamically change content aimed at different market segments and optimize what runs where to get the biggest bang for the buck. Whether it’s paid search, banner ads, or even a social networking effort on Facebook (we address these tools and others later in this chapter), the ability to measure everything, while working at a scale that has not been possible before, and optimize spending is what sets today’s digital marketing efforts apart from the rest of the marketing effort.

That said, however, as the digital landscape changes so fast, new companies with new metrics and techniques are fueling rapid innovation in the digital marketing and **big data** arenas, and attracting considerable amount of venture capital as well. Thus, while marketers are excited about—and even obsessed with—all the data that’s now available to them, knowing exactly what to do with the data, and how to make the most of it, is not always clear.

## The Syndication of Information

**Syndication** involves the sale of the same good—typically an informational good—to many customers, who may then combine it with information from other sources and distribute it. The entertainment and publishing worlds have long employed syndication, producing comic strips, newspaper columns, and TV shows that appear in many places at once. Without syndication, today’s mass media would not exist as we know them. Though internet marketers rarely use the word *syndication* to describe what they do, it lies at the heart of many e-commerce business models. Inktomi, an **originator** of syndicated content, provides its search engine technology to many branded search engine sites. YellowBrix, a **syndicator**, provides news articles in electronic form and delivers them to other sites, each of which appeals to a different target audience. E\*Trade, a **distributor** of syndicated information, brings together from many sources content relevant to its investor clientele and packages it in ways useful to these clients. iMode, the mobile telephone operator in Japan, syndicates an enormous variety of information—even cartoons.

Why is syndication important? First, because syndication delivers informational goods (digitized text, audio, music, photos, CAD/CAM files, even digital sweet potato seeds), rather than tangible goods, a person or company can syndicate the same informational goods or services to an almost infinite number of customers with little incremental cost. Variable costs approach zero. Producers of tangible goods and most services (from chocolate bars to haircuts) must spend money on sugar and chocolate or labor for each additional chocolate bar or haircut sold. Not so for information producers, where sending a digital copy of a photo or an internet news feature to one more recipient, or a Facebook posting of where you had lunch today, is essentially free. Second, the syndication process can be automated and digitized, enabling syndicated networks to be created, expanded, and flexibly adapted far more quickly than would be possible in the physical world. By using technology called **Really Simple Syndication (RSS)**, syndicated content can be fed to users having preferences for such content (see Exhibit 11.2).

Syndication via the internet—and via mobile phones or tablets or other devices—opens up endless opportunities for marketers. It replaces scarcity with abundance. Information

### EXHIBIT 11.2 RSS Lets Expedia Send Customized Alerts for Hot Travel Deals

You’re planning your spring break holiday, and you know what you want, but you’re tired of searching countless websites for the best deal to the sunniest destination. Now, thanks to Really Simple Syndication (RSS) technology, Expedia.com lets customers select alerts for exactly the sort of travel they are planning. A sunny beach in Mexico? No problem. A luxury villa in Italy? Easy. Expedia’s Sally McKenzie says, “This is just another example of how Expedia (gives) travelers the travel intelligence and tools they want, when, where, and how they want it.”

The power of RSS is that it lets consumers with newsreader facilities in their browsers specify the kind of syndicated information they want to see. Follow your stock portfolio? Track your favorite football team? RSS makes it simple. Or, if it’s travel info you want, tell Expedia where you want to go at [www.expedia.com/rss](http://www.expedia.com/rss), and they’ll watch the best deals for you.

**Source:** PR Newswire, “Expedia.com Introduces Most Comprehensive Service Providing Real-Time Travel Deal Alerts Leveraging RSS Technology,” May 2, 2006.

**Strategic Issue**

*Syndication via the internet—and via mobile phones or other mobile devices—opens up endless opportunities for marketers.*



can be replicated an infinite number of times and combined and recombined in an infinite number of ways. It can be distributed everywhere, all at once, and be available all the time. At ChinesePod, a web 2.0–based language school founded in 2005 by Shanghai-based Irishman Ken Carroll, millions of students in more than 100 countries have downloaded free Chinese podcast language lessons, an example of the power of syndication. About 250,000 listen regularly, and some sign up for premium services, such as live conversations in Mandarin with a tutor in Shanghai, using Skype and their broadband connection. Carroll’s 35 employees in Shanghai, including some of the city’s best language teachers, together with ChinesePod’s Apple and Android apps, serve customers from Alaska to the Vatican.<sup>12</sup>

Taking advantage of the full potential of syndication, however, requires new thinking. Companies need to identify and occupy the most important niches in syndication networks. These are the ones that maximize the number and strength of links to other companies and customers, though shifting market conditions inevitably mean that these links must change as markets evolve. Bloomberg, the ubiquitous provider of syndicated information to stock traders and analysts, is an example of a company that has positioned itself well; many of its clients now regard their Bloomberg terminals as indispensable. Thus, almost any company can think of itself as part of a larger, interconnected world and seek ways to occupy originator, syndicator, or distributor roles in an appropriate syndication network.

### **Increasing Returns to Scale of Network Products<sup>13</sup>**

Any undergraduate economics student knows that an increased supply of a good leads to lower value, hence lower prices. But that was before fax machines, operating systems, and other products used in networks, where the second fax machine, for example, makes the first one more valuable, and so on. This characteristic of informational networks—a product becomes more valuable as the number of users increases—is often called a **positive network effect**, or **network externality**. When combined with the syndication of informational products, this characteristic has led to the seemingly crazy strategy of giving one’s product away for free, often a strategy of choice for marketers! Facebook and other social networks offer potential value for advertisers and others in the large network that they have created, though Facebook users pay nothing to participate in the network.

Are the various networks a thing of the future, or will their “closed worlds,” each walled off from the others, make them dinosaurs in the end? David Ascher, of Thunderbird, an open-source e-mail provider, says “E-mail in the wider sense is the most important social network.” Charlene Li, an analyst with Forrester Research and author of *Groundswell*, a book on the social technology phenomenon, shares Ascher’s doubts about their staying power. “We will look back to 2008 and think it archaic and quaint that we had to go to a destination like Facebook or LinkedIn to be social,” she says. Future social networks “will be like air. They will be everywhere and anywhere we want them to be.”<sup>14</sup> Four years later, however, as we write in 2012, the closed social networks are still going strong.

The network effects of today’s digitally networked world have spawned considerable new thinking about the relative value of different kinds of media. Conventionally, there were two broad media categories: paid media—magazine, TV and radio ads and the like—and publicity, now referred to as earned media, which marketers coveted but did not pay for, at least directly. Today, the potential for social media like Facebook to deliver word-of-mouth conversations about a brand has moved to a front-and-center position in brand managers’ deliberations about how to deliver truly integrated and cost effective marketing campaigns (see Exhibit 11.3).

**EXHIBIT 11.3** *Paid Media, Earned Media, Owned Media: What's Your Company's Focus?*

No longer is what marketers used to call “publicity” an afterthought. Given the growing power of digital marketing, marketing professionals now think of media as divided into three categories: **owned media** (such as a brand’s website, blog, or Twitter account), **paid media** (print and broadcast ads and the like, along with such things as paid search or online display ads), and **earned media** (places where customers themselves—and their Facebook pages or tweets, for example—become the medium). While the boundaries between the categories can be blurry (Is a Facebook fan page owned or earned, for example? What about a branded YouTube video?), for some marketers, paid media are now seen, to a significant degree, as catalysts for winning consumers’ engagement via earned media like Facebook and Twitter.

A key challenge for marketers is how to integrate all three kinds of media for maximum—and cost-effective—results. Hallmark, the greeting card company, created a series of touchpoints for moms to connect with like-minded moms and with Hallmark itself. As a result, some moms created videos about Hallmark products, others wrote blog posts about Hallmark, and others then shared these videos or posts with their social networks.

As observer Curtis Houglund asks, “Why would a TV spot end and there be no URL or Facebook page? The

conversation should be ongoing and cross-platform.” Increasingly, earned media are the holy grail. You run a Super Bowl ad (paid), which gets the media talking about it (earned) and Twitterers (also earned) abuzz. But achieving success in earned media “often requires a paid spark,” says Grant Owens, an account planning vice president at digital marketing agency Razorfish. “We have empirical evidence that a kick-start from paid media is often the difference between a cultural juggernaut and complete silence.”

According to Forrester, more than half a billion word-of-mouth impressions were made online in the United States as long ago as 2009, a figure that is certainly far higher today. This kind of volume can build product or brand awareness very quickly, and it’s why earned media is becoming so important to marketing campaigns.

**Sources:** Sean Corcoran, “Defining Earned, Owned, and Paid Media,” Forrester Blogs at [http://blogs.forrester.com/interactive\\_marketing/2009/12/defining-earned-owned-and-paid-media.html](http://blogs.forrester.com/interactive_marketing/2009/12/defining-earned-owned-and-paid-media.html), December 16, 2009; Heather Whaling, “5 Ways Social Media Has Changed marketing Campaigns,” Mashable.com, at <http://mashable.com/2011/05/12/social-media-change-marketing/>, May 12, 2011; Lauren Drell, “How Social Media Is Changing Paid, Earned, and Owned Media,” Mashable.com, at <http://mashable.com/2011/06/23/paid-earned-owned-media/>, June 23, 2011. For more on Hallmark, see [www.hallmark.com](http://www.hallmark.com).

## The Ability to Efficiently Personalize and Customize Market Offerings

Amazon tracks the books I buy and, using a technology known as **collaborative filtering**, is able to compare my purchases with those of others and thereby recommend to me books they think I would like, personalized to my taste and reading habits, as Amazon understands them. If they do this well, my purchases go up, and I become a happier customer because Amazon helps me find books I want to read. While collaborative filtering technology has a long way to go (the book I bought for my daughter when she was studying for a semester in Ecuador does not make me a Latin American culture buff), the potential of this and other similar technologies offers the promise of creating sharply targeted market segments—ultimately, market segments of one.

Collaborative filtering is but one way of personalizing a market offering to each customer. In addition, when formal decision rules can be identified in the way customers behave (for example, reminding customers of, or making special offers for, upcoming birthdays or offering supplementary items based on past purchases), **rules-based personalization** can be done. The most predictive rules, however, may require customers to divulge information that they do not want to take the time, or are not willing, to divulge.

**Mass-customization** techniques, which are user-driven instead of marketer-driven (as we have seen for personalization approaches), allow customers to specify the nature of what is offered to them, from T-shirts to coffee mugs and more.<sup>15</sup> Several office supply firms offer corporate users the ability to create customized office supply catalogs tailored to their company. Such catalogs simplify ordering procedures, save time and money in the purchasing department, and help control expenses by offering to perhaps far-flung employees only what the purchasing department has approved in advance. Similarly, some

online music sellers offer consumers the opportunity to order customized CDs consisting of only the songs the customer chooses. In today's highly competitive markets, personalization and customization can help build customer loyalty and make it less likely that customers will switch to other suppliers.

### Disintermediation and Restructuring of Distribution Channels

Many goods and services are sold through distribution channels. The internet makes it possible for marketers to reach customers directly, without the expense or complication of distribution channels, a phenomenon known as **disintermediation**. Burlington Industries, for example, makes dress socks I like, but they are harder and harder to find because of the demise of local apparel retailers and the growing reach of chain retailers marketing their own brands. The solution? Burlington now sells them directly to consumers at [www.burlingtonsocks.com](http://www.burlingtonsocks.com).

What's next in the disintermediation derby? The humble razor blade is now on the list. DollarShaveClub.com wants to break the industry duopoly—Gillette, owned by Procter & Gamble, and Wilkinson Sword and Schick, owned by Energizer Holdings, hold the majority of the market—by going straight to the consumer online with a low-priced monthly supply of razors and blades delivered to the consumer's door. Dollar Shave Club's YouTube video, starring cofounder Mike Dubin has surpassed 4 million hits to date.<sup>16</sup>

Deciding to disintermediate or restructure one's channel, however, should not be done lightly. Levi Strauss, the jeans manufacturer, angered its existing retailers by offering custom-fit jeans direct to consumers via the web. Ultimately, the company withdrew the offering due in part to the howls of protest it heard from its regular retail channel members. Similar concerns have arisen in the travel industry, as airlines and others have disintermediated travel agents by selling airline tickets and other travel services directly to consumers—as do web-based travel agents like Expedia.com and Travelocity.com—via the web. Someone must perform the functions normally performed by channel members—taking orders, delivering products, collecting payment, and so on—so those who consider disintermediating their channels and selling direct must determine how they will perform these functions and must evaluate whether doing so is more effective and efficient than using intermediaries. Companies that carry out all these functions on an outsourced basis are available to would-be web-based marketers.

Somewhat paradoxically, however, as web-based disintermediation has grown, new kinds of intermediaries have appeared to fill new needs. The music industry is now rife with new kinds of intermediaries, from Apple's iTunes music store and Apps Store to subscription-based services such as Pandora Radio and Spotify, where subscribers can create their own personalized stations or playlists.

Other new intermediaries include aggregators and affiliate schemes. Aggregators such as Kayak.com, a travel aggregator, are a more evolved version of price comparison sites. These sites assist the customer in finding the best deal from hundreds of sites. Travel agency and tour operator sites cooperate with Kayak because of the vast amount of traffic Kayak attracts, as well as the fact that their competitors are likely to be on Kayak as well. Affiliate schemes, of which Commission Junction ([www.cj.com](http://www.cj.com)) is one of the largest, are similar. CJ is an application service provider whose platform allows businesses with products to sell (advertisers) to interact with businesses (or individuals) with websites to populate (publishers). The publisher makes money from commissions from the advertiser when a purchase is made by a customer who was directed from the publisher's site. Why are aggregators and affiliate schemes growing? The aggregator sites can focus on improving the technologies that allow customers to find exactly what they want, and publishers can specialize in promotion and attracting customers, since they are not involved in managing the product that the customer is actually buying.

#### Strategic Issue

*Deciding to disintermediate or restructure one's channel should not be done lightly.*

Even when channels are not disintermediated by digital technologies, as is the case with Amazon, which is still a retailer at heart, the overwhelming efficiency of doing business on the web or a mobile, and doing it with scale, instead of the old-fashioned way, can be overpowering. A recent study by investment bank William Blair found that Amazon's price advantage over other retailers ranged from 5 to 13 percent over Walmart and from 24 to 32 percent over nutrition retailer GNC.<sup>17</sup>

### Global Reach, 24/7 Access, and Instantaneous Delivery

With the internet, typically there is no extra cost entailed in making information, digital goods, or services available anywhere one can gain access to the web—literally, **global reach**, making the offering available 24 hours per day, seven days per week, 52 weeks per year and, in some cases, providing instantaneous delivery. In our increasingly time-pressed world, access and service like this can be of great value to customers. Air Asia, the rapidly growing low-priced airline based in Singapore, sells most of its tickets on its own website, many of them to international travelers who reserve flights from afar, even from another continent. Flight confirmations are delivered instantly. Software vendors, like those selling apps as we saw at the beginning of this chapter, whose products may be purchased and instantaneously downloaded from the web, provide similar responsiveness. As mobile telephony and GPS technologies develop further, similar benefits are starting to be available to customers and marketers whose products are well suited to mobile media.

Despite the web's advantage of global reach, local logistical and other issues make doing business on the web a different cup of tea from one place to the other. In places like Vietnam and India, developing a system for collecting cash on delivery is essential, due to a paucity of credit cards and a reluctance to use them online.<sup>18</sup> In places like Belgium, where broadband penetration has yet to cross the 20 percent mark (compared to Sweden and South Korea, which exceed 80 percent), e-commerce is difficult to do at all.<sup>19</sup>

### Are These Digital World Fundamentals Opportunities or Threats?

Most marketers can choose to take advantage of one or more of the fundamental attributes and benefits offered by today's digital and social networking technologies, including those we have identified above. To that extent, these technologies constitute opportunities available to marketers who employ them. Viewed differently, however, they raise complex ethical issues (see Ethical Perspective 11.2), and they also present potentially significant threats.

First, the fact that the variable cost for syndicated goods approaches zero sounds like a good thing, until one realizes that for most products, price, over the long run, usually is not far from variable cost. If variable cost is zero, will prices drop to near zero, too? If so, such an outcome might represent disaster for information producers. Fierce warfare—between Amazon, Apple, Google, and Barnes & Noble, as well as antitrust regulators in Washington—has broken out over control of the pricing and terms under which electronic books are sold. To make matters worse for publishers, Amazon has begun signing authors, such as the self-help guru Timothy Ferris, to deal with it directly, cutting publishers out of the game entirely.<sup>20</sup>

Amazon is also enraging brick-and-mortar retailers with its Price Check app, which enables consumers to scan a product's bar code while shopping in a store and price-check it against Amazon's probably lower price. Google Shopper, eBay's Red Laser, and others are offering similar applications.<sup>21</sup> Manufacturers that want to maintain the ability of brick-and-mortar retailers to achieve the gross margins they need to stay in business may start offering slightly different models to their online and offline retailers to make such comparisons more difficult.

#### Strategic Issue

*The fact that the variable cost for syndicated goods approaches zero sounds like a good thing.*

## E Ethical Perspective Are Web “Cookies” a Good Thing?

11.2

In 1993, early days in internet time, a cartoon in *The New Yorker* magazine showed two dogs using a computer. One of them said to the other, “On the internet, nobody knows you’re a dog.” These days, somebody probably does know you’re a dog, who your master is, and whether you prefer Iams or Purina dog chow. So-called “cookies,” digital codes placed on your computer to enable websites to remember who you are when you log on and to track the sites you visit, how long you linger, and other such data, are what makes such detailed customer knowledge possible.

Collection of online consumer data is a growing phenomenon, one some observers are concerned about. “When you start to get into the details, it’s scarier than you might suspect,” says Marc Rotenberg, executive director of the Electronic Privacy Information Center, a watchdog for privacy rights.

Companies that collect all this data argue that it’s all in the consumer’s interest because it makes the ads they see more relevant. Matt Simpson, chairman of the digital media group of the Institute of Practitioners in Advertising and digital media head at OMD, a UK-based media agency, says, “In a perfect world, you can deliver a more relevant message and spend less money.”

In a study by research firm comScore, Yahoo! emerged as the cookie champion, collecting data 811 times each month for an average user. That doesn’t count another 1,709 data collection instances on partner sites such as eBay and others, where Yahoo! places ads, bringing the total for Yahoo! users to more than 2,500 data collections each day.

Consumers have not been vocal about such practices, perhaps because such data collection is largely invisible. But just how much would you like Yahoo!, or any other internet company, to know about your shopping habits, what you view on the web, and so on? Web companies say their policies on such data collection and dissemination are clearly spelled out, and most say they have consumer protection policies in place.

But Rotenberg is not convinced that all this data collection is a good thing. Web companies are “recording preferences, hopes, worries, and fears,” he says. Government authorities in the United States and Europe are joining the fray. The U.S. Federal Trade Commission has called for a “do not track” system that would enable consumers to avoid having their click-streams tracked online. New rules in Europe that took effect in 2012 require that first-time visitors to a site be asked for consent to collect cookies. Proposed additional rules in the European Union would give users the right to tell websites to permanently delete existing personal data. Will the regulators and privacy advocates prevail? Most online marketers are hoping they won’t. Will that remain the case? Who knows?

**Sources:** Louise Story, “Internet Firms Keeping Ever-Closer Tabs on You,” *International Herald Tribune*, March 15, 2007, p. 15; and Maija Palmer, “A Deeper Peeper,” *Financial Times*, April 15, 2009, p. 11; John W. Miller, “EU Floats More Rights for Online Privacy,” *The Wall Street Journal* European Edition, November 5–7, 2010, p. 19; and Julia Angwin and Jennifer Valentino-DeVries, “Web Privacy ‘Inadequate,’” *The Wall Street Journal* European Edition, December 2, 2010, p. B2; Dave Lee, BBC News Technology, “Cookie Law: Websites Must Seek Consent from This Weekend,” May 25, 2012, at [www.bbc.co.uk/news/technology-18194235](http://www.bbc.co.uk/news/technology-18194235).

Selling music on the internet also seemed like a good idea to music publishers and even to artists. Imagine getting \$12 to \$15 for the music on a CD, with no retailers or distributors to take cuts of the revenue and no costs to pay for fancy packaging! Disintermediation sounds good if you are a music publisher, but it’s a threat if you’re a music retailer, even a web-based one such as Amazon! If you were Apple’s Steve Jobs, however, disintermediation was music to your ears. The combination of Apple’s iPod portable digital music player and its iTunes online music store followed by its iPhone and iPad, has transformed the company, with these lines of business growing to more than 86 percent of total revenue for Apple’s six months ended March 31, 2012.<sup>22</sup> Internet distribution of music may also change how new bands are discovered and promoted (see Exhibit 11.4).

Another threat to today’s digital technologies is that there are few barriers to entry, and many internet strategies are easily imitated. Apps of all kinds have proliferated, but few win traction with users and most get lost in the crowd.

Other threats include privacy and security issues, which can drive away customers rather than attract them if they are not handled with care. The most restrictive jurisdictions’

**EXHIBIT 11.4** *Arctic Monkeys Say “No Thanks” to the A&R Crowd*

In January 2006, the Arctic Monkeys sold more than 360,000 copies of their album, “Whatever People Say I Am, That’s What I’m Not,” in its first week of release, the United Kingdom’s fastest-selling debut since records began. But who are they? The Arctic Monkeys, based in Sheffield in the United Kingdom, were one of the hottest new acts in years. Says a spokesman for music retailer HMV, “In terms of sheer impact . . . we haven’t seen anything quite like this since The Beatles.”

But the traditional route to musical success, being discovered by an A&R person, signing a contract, then going on tour, and so on, isn’t the route the Arctic Monkeys followed. Instead, the quartet started gigging at small venues in 2003 and handed out demo CDs to the crowd, who in turn put the band’s songs on the internet

for others to hear. Despite alluring promises of fame and fortune, they resisted signing with a major record label, opting eventually for the independent Domino Records label.

The band members are quick to point out that they did not put the songs online themselves and were barely aware of what was happening at the time. “The only reason people have got into it [the music] is because they’ve listened to it and they like it, so it’s something real,” says Jarvis Cocker, another Sheffield-based singer.

**Sources:** BBC web site, <http://news.bbc.co.uk/1/hi/entertainment/4644214.stm> and <http://news.bbc.co.uk/1/hi/entertainment/4660394.stm>. For more on the Arctic Monkeys, see [www.arcticmonkeys.com](http://www.arcticmonkeys.com).

privacy rules may eventually apply to internet marketers anywhere. Privacy laws in Europe, compared to the United States, are substantially more strict.

In the United States, internet privacy has been dealt with largely through market forces, whereby consumers are expected to avoid sites where privacy is not handled to their liking. As firms attempt to take advantage of the global reach afforded by the internet, will they run afoul of privacy laws in countries whose consumers they serve? In what jurisdictions will complaints be heard and dealt with? Will the most restrictive countries end up ruling the roost? These ethical and legal privacy questions are far from settled.

### First-Mover Advantage: Fact or Fiction?

In the internet gold rush in the late 1990s, and again in the later rush to build social networking sites, the key to success was said to be **first-mover advantage**. The first firm to establish a significant presence in each market niche would be the one that succeeded. Thus, Amazon would win in books. eBay would win in auctions. Myspace would win in social networking, and so on. Later followers need not bother. But is first-mover advantage on the internet or elsewhere real?

Being the first mover can bring some potential advantages, but not all first movers are able to capitalize on those advantages. Thus, many are surpassed over time by later entrants, just as late-comer Facebook left Myspace in the dust by 2008. One thing a pioneer must do to hold on to its early leadership position is to continue to innovate in order to maintain a differential advantage over the many imitators likely to arrive late to the party but eager to get in. Easy to say, not so easy to do.

Jim Collins, author of the best sellers *Good to Great* and *Built to Last*, is more blunt about the supposed rule that nothing is as important as being first to reach scale. “It’s wrong,” he says. “Best beats first.”<sup>23</sup> As Collins points out, VisiCalc was the first major personal computer spreadsheet. Where is VisiCalc today? It lost the battle to Lotus 1-2-3, which in turn lost to Excel. What about the once-ubiquitous Palm Pilot? It came to market years after early leader Sharp and the Apple Newton. Palm’s designers found a better way to design personal digital assistants—using one reliable script, instead of everyone’s own script—and sold more than 6 million units.<sup>24</sup> But Palm was then leapfrogged by BlackBerry, which has been further leapfrogged by Apple’s iPhone and other smartphones based on Google’s Android operating system. Even the mighty Google wasn’t the first of the search engines.

**Strategic Issue**

*Being first may help attract investors and may make some founders and venture capitalists rich, but it's hardly a recipe for building a great company.*

In the bricks-and-mortar economy, Walmart didn't pioneer discount retailing. Nucor didn't pioneer the minimill for making steel from scrap. Starbucks didn't pioneer the high-end coffee shop. Yet all were winners, while the early leaders fell behind or disappeared. None of these entrants were first—they were *better*. Being first may help attract investors and may make some founders and venture capitalists rich, but it's hardly a recipe for building a great company.

## DEVELOPING A STRATEGY FOR A DIGITALLY NETWORKED WORLD: A DECISION FRAMEWORK

Most companies of substantial size or scope, whatever their industry, will need to develop strategies to take advantage of new digital, mobile, and social networking technologies, but doing so is easier said than done. While we recognize that nonmarketing applications of these technologies may be compelling for many companies, our focus remains on marketing. Thus, in this section we focus on how the latest such tools can fruitfully be employed for marketing purposes.

### Marketing Applications for a Digitally Networked World

Earlier in this book we pointed out that a number of activities have to be performed by somebody for an exchange transaction to occur between a selling firm and a potential customer. Retaining that customer for future transactions adds additional activities, such as providing effective and responsive customer service after the sale. From the customer's point of view, these necessary activities can be summarized in a six-stage **consumer experience process** that begins with communicating one's wants and needs to prospective sellers; moving through the awareness, purchase, and delivery processes; obtaining any necessary service or support after the purchase to support its use or consumption; and ultimately sometimes returning or disposing of the product (we identify the six stages in Exhibit 11.5).

Customers first provide information about their needs to sellers, whose **customer insight** permits them to develop goods or services intended to meet the customer's needs. This stage in the process requires that information flow from customer to seller, as shown in Exhibit 11.5. While there may be several back-and-forth iterations in the insight stage, as new product developers invent and refine their product ideas, ultimately some good or

**EXHIBIT 11.5** A Customer Experience Model for Marketing Decision-Making

Stage in customer experience process	Direction of information flows	Direction of product flows (goods or services)	Direction of cash flows (revenue opportunities)
Customer insight	P ← C		
Production promotion, customer acquisition, and brand building	P → C		
Transaction	P ↔ C		P ← C
Product delivery		P → C	P ← C
Customer support and service	P ↔ C	P → C	P ← C
Product return or disposal		P ← C	P → C

P = Producer  
C = Customer

service is developed, and information about the new product—**promotion, customer acquisition, and brand building**—then flows to customers to inform and encourage them to buy. If the customer likes what is offered, a **transaction**—an agreement to buy—ensues, requiring that information about pricing, terms, delivery, and so on flows to the customer, and cash—either now or upon delivery—flows the other way. With a transaction consummated, **delivery** of the good or service is made, with the product flowing to the customer and money or other compensation flowing to the seller. But the seller’s job is not yet done for the customer may need some kind of **customer support or service** during use, in which case additional information may flow in either direction or additional goods or services may flow to the customer, possibly in exchange for additional revenue. Finally, the customer may need to **return, dispose** of, or discontinue use of the good or service, at which point the product may be returned to the seller, cash may flow back to the customer (as a result of the product’s return or some kind of trade-in, perhaps), and another transaction—with this or another seller—may ensue, thereby repeating much of the process.

Social networking, the internet, and to an increasing extent, mobile telephony offer applications at some or all of these stages. We now explore some of these applications, though in this fast-moving arena, new ones will undoubtedly arise before the ink is dry on this book. Then, in the next section, we set forth a decision framework to assist marketers in deciding for which of these stages, and with which applications, resources should be allocated.

### *Applications for Customer Insight*

In Chapter 5, we discussed the role of marketing research in understanding customers and developing products—whether goods or services—to meet their needs. Marketers rely on a flow of information from customers or prospective customers about their wants and needs, however latent these may sometimes be, to generate the insight essential to the development of compelling new products. How might today’s digital and social networking technologies facilitate this process?

First, consider the trove of data posted daily on Facebook and other social networking sites. Sifting through such data—and providing it in an organized manner to customers willing to pay for it—is becoming a big business (see Exhibit 11.6). In some industries, keeping track of what customers are saying about your business can be crucial. Take hotels, for instance. These days, everybody checks out TripAdvisor, Yelp, or another website before booking a vacation, because user reviews are seen as more objective sources of information than the property’s own site. Entrepreneurs Mark Heyneker and Jay Ashton saw an opportunity here, to alert hotels to potentially damaging posts on such sites. “We monitor fire hoses of Twitter content, all public Facebook content, YouTube, everything on Flickr,” declares Ashton, who says that their company, Revinate, has about 1,000 clients, including hotels from the most widely recognized brands like Radisson, Hyatt, and Holiday Inn.

#### **EXHIBIT 11.6** *Why Do Men Wear Stubble?*

Marketers have long wanted to be able to gather evidence of trends using data floating around on the web. NetBase, a social media analytics company, enables them to do just that. On one assignment, NetBase found 77,000 mentions of stubble online, in less than six seconds. Its analysts then sorted the positive comments into themes and built a chart in less than an hour, ranking the top reasons why men wear stubble. The top-ranked

answer wasn’t a surprise—men who wear stubble do so because they see it as sexy—and any hip urbanite could have told them that. But the ability to now quickly gather and mine the abundance of web data is.

**Source:** Ryann Flinn, “The Big Business of Sifting through Social Media Data,” *Bloomberg Businessweek*, October 25–31, 2010, pp. 20–21. For more on NetBase, see [www.netbase.com](http://www.netbase.com).

Pollsters and other marketing researchers are increasingly turning to the internet to conduct marketing research, due to its cost-cutting, time-saving advantages over traditional survey methods.<sup>25</sup> Why? Just as internet marketers see the potential for “easier, faster, and cheaper,” so, too, do researchers when they consider the internet.

Among the online research techniques is the use of instant messaging (IM) to gather consumer data. “Clients are using the (IM) tools and liking what they get out of them,” reports Joel Benenson, CEO of iModerate, an online market research firm. In IM-based focus groups, for example, researchers can use IM to probe respondents’ answers more deeply in follow-up conversations.<sup>26</sup>

Nonetheless, using the web for research is not without controversy. Traditional researchers debate the web’s merits on a number of dimensions: in terms of representativeness of the current makeup of the web audience, somewhat whiter, richer, younger, and more educated than the population as a whole; in terms of self-selection biases, where people volunteer to participate in web-based polls; and in terms of the randomness, or lack thereof, of web samples. Procter & Gamble, the world’s largest user of marketing research, reported that two online surveys by the same provider, conducted two weeks apart, delivered diametrically opposite results.<sup>27</sup> But many of these problems are present in other forms of research, too, especially as more people refuse to answer mail or telephone surveys.

Regardless of its limitations, however, web-based research, for customer insight, both for qualitative studies and for large-scale quantitative studies, is here to stay and will undoubtedly grow.

### Strategic Issue

*Using the web for research is not without controversy.*

### ***Applications for Product Promotion, Customer Acquisition, and Brand Building***

The basic tools for these activities have grown extensively over the past few years. The “if we build it they will come” mind-set that allowed companies to perceive their website as a mere marketing tool as opposed to a channel that required its own, specific marketing efforts has become obsolete. The tools that today’s *au courant* web marketers use comprise a variety of time-tested tactics like banner ads, **search engine marketing (SEM)**, **search engine optimization (SEO)**, e-mail marketing, blogs, and promotional websites.

Perhaps the most fundamental of these tools over the past decade or so are SEM and SEO, which enable marketers to take best advantage of consumers’ search efforts on Google or other search engines. We address SEM and SEO in some detail in Chapter 13. More recently, with the rising number of consumers spending time on social networks, Facebook has worked to earn the trust—and budgets—of advertisers. Doing so, and finding a way to monetize Facebook’s 900 million user base, has not been easy, however. Facebook has been unwilling to allow banner ads, for fear of upsetting its users.<sup>28</sup> But as a now publicly held company, pressure to create more meaningful advertising revenues will grow. On the other side of the table, advertisers will have to find ways to take advantage of Facebook’s large and potentially targetable audience. Companies like Wildfire (see [www.wildfireapp.com](http://www.wildfireapp.com)) have sprung up to help marketers do just that.

Google and Facebook aside, the pace of innovation is so rapid that new applications are arising and sometimes growing explosively. Consider the daily deals marketer Groupon, for example. Groupon enables Thalia Spice, an Asian fusion restaurant in Chicago, to offer discounted meals to fill tables that would otherwise be empty during slow periods. Groupon junkies can find daily deals on everything from meals to massages from merchants in their city.<sup>29</sup>

From its modest presence in just 30 American cities in 2009, with 2 million subscribers, Groupon has exploded into a global phenomenon. Groupon’s targeted location-based approach is getting even more precise with the testing of its app for mobile phones. Simply tell its Groupon Now application, “I’m hungry,” and it will tell you which nearby restaurants



have deals right now.<sup>30</sup> Advertising on mobile phones is beginning to skyrocket with the increasing penetration of smartphones in North America and Europe and, undoubtedly soon, everywhere. Analysts predict that mobile advertising will be a \$10 billion business by 2014.<sup>31</sup>

Then there's the burgeoning number of so-called flash sales sites like Europe's Vente Privée and Gilt Group in the United States. These sites enable apparel makers and others to offload unwanted inventory in a classy manner, without disturbing their normal distribution channels. "It's a huge period of innovation for consumer-facing commerce, unlike anything we've seen in the past 10 years," says Josh Goldman, of Norwest Venture Partners, which has invested in a number of e-commerce startups.<sup>32</sup>

And what about online consumer reviews, whether by consumers or professionals? The growing clout of TripAdvisor for travel decisions, despite occasional concerns about whether all the reviews are fake or real, has made TripAdvisor one of the few success stories in the recent spate of dot-com IPOs. By July 2012, its stock price was up 77 percent since its 2011 IPO.<sup>33</sup> A recent study has shown that online reviews of less popular items have greater influence over purchase decisions than for those of more popular items.<sup>34</sup> Such reviews can affect the firm's value to its shareholders, too.<sup>35</sup>

Then there's product sampling, no longer just done by gray-haired ladies in a supermarket on Saturday. These days, outfits like Birchbox.com use the web to attract customers willing to receive boxes of new product samples—from cosmetics to children's clothing to tea—for a low monthly fee. "It's a business model we love," says Kent Goldman of First Round Capital, an investor in three such services. "You have regular subscribers; you have a direct relationship with them."<sup>36</sup>

Another arena that appears poised to grow rapidly is that brought about by the confluence of GPS technology and mobile phones. This confluence makes it possible for marketers such as retailers and restaurants to deliver promotional messages to customers who are nearby. Whether customers will want to receive such messages, and on what basis might they opt in to receive them, are issues that have not yet been fully resolved.

Finally, there's the newest form of search, one that may hold considerable potential to grow, video search (see Exhibit 11.7). Though its commercial potential has not yet been widely tapped, some observers believe that video search is a plausible candidate on the short list for the web's "next big thing."

Though all of these new wrinkles enable companies of various kinds to build their brands or promote product sales in a highly targeted manner, and most benefit from being

### EXHIBIT 11.7 Video Search Grows on the Web



When 9-year-old Tyler Kennedy of Alameda, California, had to gather information for a school report on the platypus, he began his search on the web, of course. But he didn't use Google or Yahoo!. YouTube was his search engine of choice.

In November 2008, Americans conducted nearly 2.8 billion video searches on YouTube, which slipped past Yahoo! to become number two in the internet search derby, though still a long way behind Google's number one position. With so much video content now online, video search is a natural development. According to Suranga Chandratillake, CEO of Blink, a video search engine, "An increasing number of people . . . are doing video searches to supplement and improve what they do in their offline lives."

Do you need to regROUT the tile in your bathroom? There's an online video to show you how. Are you thinking about buying one of the new tablets? Check out videos on YouTube of the weirdest, best, or even the most expensive models. As YouTube's director of product management Hunter Walk notes, "Video is part of the discovery process. Depending on the user and the type of content, users may want to start with video or text."

Will YouTube be the next Google? Blogger Alex Iskold, founder of internet start-up adaptiveblue.com, says that the "shift toward video will continue, and that young internet users would only accelerate it."

**Source:** Miguel Helft, "Video Search Opens New Frontier on internet." *International Herald Tribune*, January 19, 2009, p. 14.

highly measurable as well, there's a dark side. Shell's efforts to drill for oil in Alaska have been opposed by a group of environmental activists, who have run fake ads and videos intended to damage the company's image, even using the Shell logo, and circulated them virally on Facebook and YouTube. To make matters worse for Shell, some news outlets picked up the false reports.<sup>37</sup>

### ***Applications for Conducting Transactions***

If promotional activities do their jobs, the hoped-for consequence is that some customers will decide to buy. Can the internet or mobile telephony help transactions occur? Several web-based companies are in the business of enabling client websites to handle transactions. BroadVision Inc., for example, offers a wide range of software products that enable clients to conduct B2B or B2C commerce on their websites or via kiosks or mobile telephones. Such companies typically provide back-end systems and inventory control, prepare warehouse and shipping documents, and bill the customer for the sale. Some such systems now allow companies to engage in **dynamic pricing**, a controversial system that gauges a customer's desire to buy, measures his means, and sets the price accordingly.<sup>38</sup> In this respect, target markets of one are now here, to the chagrin of some consumers!

Another arena where internet and mobile transactions are growing in number is banking, with or without the banks! From online bill payment to moving money from one account to another, online banking seems here to stay, with its lower costs to handle a transaction (the banks like that) and 24/7 convenience that means the end of "bankers' hours" for consumers (they like that).

In Africa, where internet connections are not widespread, but mobile phones are everywhere, the mobile is fast becoming the banking instrument of choice. In Kenya, nearly 70 percent of Kenyan adults use Safaricom's M-PESA banking service for services ranging from paying a taxi driver to sending money to friends or family. These mobile banking accounts provide Africans, many of whom work in the informal economy and probably have never had a bank account before, with a safe place to keep their money and to transfer it as simply as sending a text message. There's lots of potential for bringing Africa's unbanked into the twenty-first century, banking-wise, since more than \$1 trillion in cash currently resides—not very safely—under the mattress or, quite literally, in holes in the ground.<sup>39</sup>

In the developed world, mobile phones are taking over from banks in another way. With services like Google Wallet on an Android phone, the user simply taps her phone at a point of sale terminal, listens for the beep, and the transaction is done in seconds. With **near field technology** (NFT), there's no more swiping a credit card or scrawling your name at the terminal. Just touch and go. If such systems become more widespread, plastic cards and wallets may become relics of the past.<sup>40</sup>

### ***Applications for Delivering Digital Products***

Many companies probably don't give much thought to it, but an increasing array of goods and services can be digitized and thereby delivered to customers via any digital medium, including the internet, satellites, and mobile telephones. More than fifty years ago, the then-current technological miracle was the analog delivery of sounds and images to consumers via the newfangled invention called television. Today, as we have seen earlier in this chapter, books, music, language lessons, and more can be delivered digitally any time, at any digitally connected place. In 2, 5, or 10 years, what else will be digitally deliverable? Psychotherapy, with or without a live therapist, and legal advice are available online from numerous providers. Online postage is available at several websites, including that of the United States Postal Service. And audio books, such as Madonna's *Mr. Peabody's Apples* children's book—read by the author herself—and thousands of other downloadable



titles, are available from Audible.com and from other sources such as Apple's iTunes online music site.

Health care appears to be an arena where digital delivery offers significant benefits. A fast-expanding array of telemedicine applications, some using two-way video, is bringing medical expertise to the most remote places, like oil rigs in the South China Sea. Telemedicine is already a \$3.9 billion business that includes hundreds of monitoring applications for smartphones and monitoring devices in homes. It even saves taxpayers money and improves public safety by offering remote diagnosis in prisons.<sup>41</sup> For the story of how one Israeli entrepreneur is taking mobile health care one step further, see Exhibit 11.8.

Delivering products digitally is not confined to consumer marketing, of course. An entire industry, **software-as-a-service** (SaaS) has sprung up to deliver the benefits of software without the hassle involved in owning and maintaining the software itself. Salesforce.com, which enables salespeople to keep track of customer and other data, is but one B2B example.

### *Applications for Customer Service and Support*

An increasingly important application on the internet is for various sorts of customer service, replacing more costly—and sometimes more inconsistent and error prone—human support. Companies from Dell to the Denver Zoo use the web to provide answers to frequently asked questions, from technical ones in Dell's case to how to arrange a children's birthday party at the zoo. Savvy marketers know that, for all the hoopla about acquiring new customers, the real driver of the bottom line is the ability to profitably retain existing ones and that effective, responsive customer service is a key ingredient in doing so. They also know that **customer retention** is a competitive necessity. In nearly every industry, some company will soon figure out new ways to exploit the potential of today's digital data to create value for customers. Without the ability to retain those customers, however, even the best-conceived business model on the web will collapse. So new companies such as Zendesk are sprouting up to address the customer retention issue. Zendesk, founded in Copenhagen and now headquartered in San Francisco, is integrating Facebook and Twitter into its SaaS-based customer service technology.



The growing number of web-based or app-based customer service applications—from tracking a FedEx parcel online to getting boarding passes on mobile phones to chat

#### **EXHIBIT 11.8** *United Hatzalah's Fast Response Saves Lives*

Anyone in Israel who sees an auto accident or other incident creating a medical emergency can dial 1221. Within 2 to 3 minutes, United Hatzalah's (UH) nearest volunteer will arrive on the scene, most likely riding one of the charity's "ambucycles," which can dart and weave through traffic far quicker than any ambulance can. In such emergencies, the first few minutes can make the difference between life and death. UH volunteers treat more than 500 people each day throughout Israel, individually serving an average of nearly one call per day. Each UH volunteer is a trained EMT, medic, or doctor—who stops whatever he or she is doing to rush to stabilize the affected individual. When the ambulance arrives, the UH volunteer goes back to her day job.

UH founder Eli Beer, who was named a Young Global Leader by the World Economic Forum in 2012, aims to get the average response time down to 90 seconds, using his company's proprietary combination of GPS and mobile technology. Soon, a downloadable app for mobile phones will bypass the call center, making the faster response times possible.

Beer's model—a dispersed network of volunteers using mobile phones, a basic medical kit, and a motorbike—is simple, but ingenious. What Beer is doing is combining technology and people to meet a real human need. To what other applications and in what other places might such a system be employed?

**Sources:** "Scattered Saviours," *The Economist*, January 28, 2012, p. 56; the United Hatzalah website at [www.unitedhatzalah.org](http://www.unitedhatzalah.org).

functionality that can access a real person—offers the tantalizing combination of better service and significant cost savings. The trick is to focus on the customer service benefits first, rather than mere cost cutting. Customers are quick to discern when cost cutting takes precedence over genuine service responsiveness. Does anyone like the way call center software has changed the way consumers obtain phone numbers from directory assistance, or the fact that some banks won't provide bank-by-mail envelopes to those who prefer to do their banking the old-fashioned way?



One bank, Kazkommertsbank (KKB), Kazakhstan's largest, discovered in 2010 that its most profitable customers were those who did their banking from home. So it started a loyalty program for such customers, using Facebook and Twitter to update customers on new benefits. By helping KKB to cross-sell other services, the new program has increased the lifetime value of such customers.<sup>42</sup>

One myth some companies have bought into is that the internet is a self-service medium. They assume that they can let customers do all the work, but most customers really don't want to do more. One solution is **coproduction**, in which companies carefully consider which burdens they can remove from the customer, using digital technologies, and which customers can perform, assessing costs and benefits to both parties. Doing so can provide insights into new ways to serve customers better, as Charles Schwab has long done when it e-mails customers to alert them to big moves in their stocks.

#### Strategic Issue

*One myth that some companies have bought into is that the internet is a self-service medium.*

#### ***Applications for Product Return and Disposal***

Customers' experiences with goods and some services do not end until the products are consumed, returned, or disposed of. Some companies have found ways to use digital technologies to facilitate these processes. Dell, for example, provides an internet space where Dell customers can sell their old computers when they upgrade to a new one. Many companies can avail themselves of similar applications. In retailing, many retailers with both online and offline stores accept returns at any location.

### **Developing Digital World Marketing Strategies: The Critical Questions**

Knowing what marketing arrows are available in one's digital quiver is one thing. Deciding which of these applications will deliver the best return on investment is quite another. Our flow model of the customer experience process (see again Exhibit 11.5) facilitates such decision making by raising six important questions that should be asked about whether to employ new digital and social networking tools at any or all stages of the process. These six diagnostic questions are shown in Exhibit 11.9. We address each of them in this section.

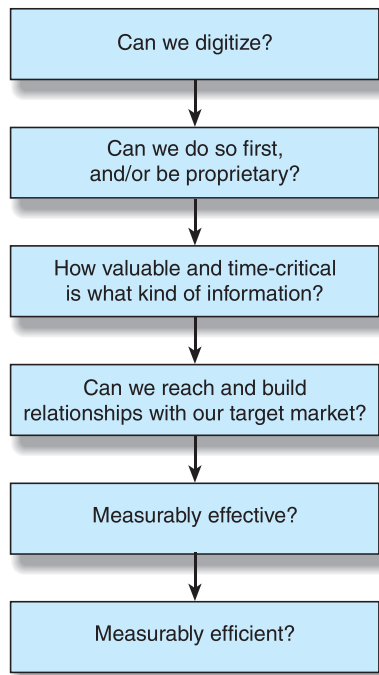
#### Strategic Issue

*Knowing what marketing arrows are available in one's digital quiver is one thing. Deciding which of these applications will deliver the best return on investment is quite another.*

#### ***Can We Digitize Any or All of the Necessary Flows at Each Stage in the Consumer Experience Process?***

At the heart of today's digitally networked world is the reliance on digital means of transmitting *information*, some of which is recomposed into *goods*—CDs, books, and more. In considering whether to employ new digital technologies at any stage of the consumer experience process, a company should ask whether any of the flows—information, goods or services, or cash—can be digitized.

For cash, the answer is an automatic yes, via credit cards, payments on M-PESA, with new touch and go technology, or through other forms of electronic payment, except where currency issues pose problems, such as in some international settings. New forms of electronic payment are already enhancing the security of cash flows over the web, and social

**EXHIBIT 11.9** Diagnostic Questions for Digital World Marketing Decisions

networks hold the potential to enhance trust in transactions. International remittances provider WorldRemit uses Facebook to help its happy users spread the word about its low-cost and efficient money-transfer services.<sup>43</sup>

For goods and services, the question is more difficult. Text, audio, and visual images (moving or still) can be digitized, as can books, music, photos, and, given enough bandwidth, movies and other videos. But what about the *soft hand* of a cashmere sweater? The *heft and balance* of a carpenter's hammer? The *taste* of fine European chocolate? The *fragrance* of a new cologne? The fit of a sweater offered by an online retailer? Today, these important informational attributes of goods cannot be readily digitized, though one new company is using robotics technology to address the "fit" problem (see Exhibit 11.10). At present, most tangible goods and many services cannot easily be transmitted digitally. For others, however, such as legal advice, therapy for mental health patients, and other goods or services that can adequately be represented in words, sounds, or images, the possibilities are endless. Will technology soon make possible the digital transmission of physical goods? Who knows? When it happens, the many sci-fi buffs around the world will not be surprised! Beam me up, Scotty?<sup>44</sup>

When any of the flows at any stage of the consumer experience process can be digitized, given sufficient information and ingenuity, the remaining questions in Exhibit 11.9 should then be considered to decide whether or not other such applications for a particular flow should be implemented.

### ***Can We Do So First and/or in a Proprietary Way?***

As we have seen, barriers to entry on the web and in social networking are low, and most good ideas can be quickly imitated. A key question in deciding whether or not to employ a new digital application is whether one can do so in a proprietary way, thereby deterring imitation, or do so with a sufficient head start so that competitive advantage can be established before others follow. Amazon was early in the internet retailing game and enjoyed

**EXHIBIT 11.10** *Beer-Bellied or Toned: This Shirt's for You*

Two-thirds of all books and half of all PCs are sold online. For clothing, however, the number is only 8 percent. Why? It's obvious, right? Will the shirt fit? Will I like the fabric? Heikke Haldre and his team at Fits.Me, an Estonian start-up that hopes to take the online apparel business by storm, wants to solve the fit problem once and for all. The customer uncertainty translates into a huge problem for the retailers. Not only must they contend with a return rate that can be 25 percent or more, but many customers simply don't buy if they aren't confident that the shirt will fit.

Haldre's solution? A robotic mannequin that shows the consumer what this particular garment will look like on *his/her* particular body. How? The robot can replicate 2,000 body shapes. When a retailer signs up with Fits.me, they first send in their clothes. Each size is placed on the robot, which then cycles through all the body shapes it knows, while a camera takes pictures of each

permutation. This photographic log is then stored in an online database. Once you go online and type your measurements into the retailer's site, it calls up the photo corresponding to your precise body type and clothing size. "It can be as beer-bellied or gym-toned as you are," says Haldre. "And we can show you how a small versus a medium fits on you, for example."

Getting the male mannequin right took persistence, says Haldre, more than three years of development. The women's version is more difficult, he says. But his engineers are undaunted. As Haldre tells it, "My engineers now have the best job in the world: Studying women's breasts."

**Source:** Cliff Kuang, "Fits.Me's Shape-Shifting Robot Lets You Try on Clothes, Online," *Fast Company Online*, September 27, 2010, [www.fastcodesign.com/1662372/fitsme](http://www.fastcodesign.com/1662372/fitsme). For more on Fits.Me, see <http://fits.me/>.

a helpful head start. As we have seen, however, being first or early in today's digitally networked world rarely provides an advantage for long.

### ***How Valuable and How Time Critical Are What Kinds of Information to the Recipient?***

For the informational flows in Exhibit 11.5, a key question in making resource deployments is the importance of various kinds of information to the recipient, either the company or the customer, depending on the direction of the flow. The more valuable and time-critical the information, the more sensible it may be to invest in digital applications to provide easy, timely, and 24/7 access to those who can benefit from the information. Walmart puts on the web password-protected, up-to-the-minute, store-by-store, SKU-by-SKU sales information that its key suppliers can access, thereby enabling them to better ensure that Walmart's stores remain in stock on their merchandise.

### ***Can Digital and Social Networking Tools Reach and Build Relationships with Customers in the Target Market?***



Making information, goods, or services available on the web or on mobile devices is of little use if the people to whom those flows are directed lack web or smartphone access. As we have seen, some groups are underrepresented on the internet, a situation that's likely to remain, though smartphones are expected to dominate even most emerging markets very soon. In tomorrow's digitally networked world, the computer of choice will overwhelmingly be in our pockets, not on our desks.

Simply *reaching* customers with digital tools may not be enough, however, especially for marketers of commodity-like products. Going beyond reach to build mutually beneficial *relationships* may be what is needed. Facebook hopes to develop a significant role here. Amazon has built loyal relationships with its customer base by focusing its efforts on exceptional customer service. While book lovers may find books for lower prices elsewhere, many of them simply return to Amazon's site, with its easy 1-Click™ ordering, customer reviews, and other customer-friendly features. Using the latest tools for building customer relationships may be these tools' most important application in the long run.

### ***Are Digital Tools Measurably Effective and Efficient Compared to Other Solutions?***

#### **Strategic Issue**

*Deciding to invest in a particular digital marketing strategy or application comes down to two final questions. Is the new solution effective, and is it more efficient than other solutions?*

Ultimately, given favorable answers to the first four questions in this section, deciding to invest in a particular digital or social networking strategy or application comes down to two final questions. Is the new solution effective, and is it more efficient than other solutions?

Marketers' concerns over the effectiveness and efficiency of their websites have led to the development of web analytics, software solutions that monitor and summarize website usage patterns (see Exhibit 11.11). Web analytics technology is the equivalent of having a

team of marketing researchers follow customers through a bricks-and-mortar retail store. The technology can uncover a variety of problems that can plague websites: cumbersome navigation, content that can't be easily found, underperforming search engine strategies, and unprofitable online marketing partnerships. The results of these analyses can improve customer satisfaction and response to the website, strengthen the marketer's hand in negotiating terms of partnership deals, and even identify new market segments that might be better served with tailored sites. "Many organizations I have worked with are not exploiting their data," says Giles Warner, who specializes in data analytics at Deloitte.<sup>45</sup> Deciding what metrics are the most important—to assess customer behavior on the site or on their mobile devices, not just traffic—is key.

For companies transacting business on the web or on mobile devices, a particularly important issue is what Saul Klein of Index Ventures calls "the leaky bucket" issue. In Klein's view, at the top of the funnel is somebody visiting your site, while out the bottom end comes a completed transaction. The trick is to systematically measure the points where potential customers drop off without making a purchase, and then find ways to keep more of them in the funnel until they buy. Kevin Cornils, CEO of British spectacles e-tailer Glasses Direct discovered an even bigger benefit of tracking customer activity in his company's funnel. "The initial role was to try to save some of those customers, but it is actually making the business a lot better at being customer-focused for the long term," he says.<sup>46</sup>



In the final analysis, setting SMART objectives that the latest tools or activities are intended to meet—specific, measurable, attainable, relevant, and timebound—and running cost-benefit analyses to assess their likely performance are necessary for making go/no-go decisions and for prioritizing which initiatives should be pursued first. Fortunately, the inherent measurability of many of these tools often provides clear and compelling feedback on whether they are meeting the objectives. In addition, attention must be given to a variety

#### **EXHIBIT 11.11** *Web Optimization Creates a Utah-Based High Flyer*

"Where," you probably wouldn't bother to ask, "is the fastest-growing publicly traded software company based?" Orem, Utah, might not come to mind. Omniture's web optimization software, which sits on the computers of more than 2,000 of the world's largest corporations—including Microsoft, Walmart, and Toyota—is revolutionizing how companies measure their websites' performance. Take Harrah's Hotels & Resorts, for example, long a measurement disciple. Harrah's used to pay an ad agency to manage the more than 70,000 keywords that it bids on every day from Yahoo!, Google, and other search engines. It needed several software

programs to analyze the results. No more. Omniture shows Harrah's not only how many clicks each search ad generates, but also the conversion rate—the number of consumers who actually buy based on a search ad. "It has dramatically changed the funding for each of the keywords and categories we buy," says Greg Johnston, Harrah's e-commerce director. "We are saving hundreds of thousands of dollars."

**Source:** Spencer E. Ante, "A Radar Screen for E-biz," *BusinessWeek*, European Edition, April 30, 2007, pp. 68–70. For more on Omniture, see [www.omniture.com/en/](http://www.omniture.com/en/).

of business process issues that can get in the way of effective execution of even the best intentions for a digital world strategy in an old-economy company. Avoiding these errors is easier said than done, of course, but web analytics can help catch any errors that are made.

## MANAGING DIGITALLY NETWORKED STRATEGIES: THE TALENT GAP

Setting out the opportunities that new digitally networked technologies provide—for almost any company, of any size, in any industry, anywhere—and the fundamental principles and forces driving these technologies is easy, relatively speaking, as is providing conceptual frameworks for thinking about the issues and trade-offs involved. A much more difficult challenge is finding the people to manage and lead the necessary efforts and initiatives in this complex and rapidly changing arena, especially when it comes to marketing, rather than purely technological issues. Observers note that the shelf life of chief marketing officers (CMOs) is short—a mere 26 months, on average, according to a recent study—much shorter on average than that for CEOs, CFOs, or CIOs.<sup>47</sup>

While marketers are confronted with a bewildering array of new media possibilities and consumers—thanks to the digital revolution—are better informed than ever, Wall Street wants results, quarter after quarter. “It makes for a deadly cocktail of high expectations, resistance, and complexity,” says Mark Jarvis, CMO at Dell.<sup>48</sup> John Costello, a former CMO at Home Depot, Sears, and Yahoo!—adds, “CMOs have almost everyone second-guessing (them) and looking over their shoulder.”<sup>49</sup>

As Sean Meehan, a marketing professor at IMD business school in Switzerland notes, “The marketing playbook is the same playbook it always was, it’s just that there are new tools and they’re very powerful tools in terms of reach. And if you use them well, you will learn more about your served community. But if you misuse it, you can blow it completely.”<sup>50</sup>

Several years ago, the CMO’s job was much more straightforward than it is today: develop the brand’s positioning, hire an ad agency to create great ads, and manage the promotional budget. If the campaign hit the mark, it was bonus time. If not, out the door you went. But how does a typical senior marketing executive in his or her 40s or 50s know what to do with today’s dizzying array of new media—social and otherwise—and new tools, most of which didn’t even exist when he or she was learning the business? Blogs, search engine optimization, social networking, mobile advertising, and more; and never mind figuring out what’s cool in the mind of tomorrow’s consumer, much less today’s.

As Wharton marketing professor Patti Williams points out, “It’s not clear how Crest should leverage search advertising. How many people are going online to search for toothpaste?”<sup>51</sup> But leveraging the power of social networking, as we’ve seen earlier in this chapter, is already within P&G’s grasp. Then there’s the difficulty of reaching a wide audience with many of today’s highly targeted tools as well as figuring out how to buy the new media efficiently. A marketing executive at a large advertiser such as Procter & Gamble, Diageo, or Toyota might, as Wharton’s Dave Reibstein notes, think all this sounds like great stuff, “but I would have to deal with 10,000 of you. I would need a manager to manage this interface and that becomes an overwhelming task. It takes a village of these (focused audiences) before we can have impact.”<sup>52</sup> Thankfully, new technology-driven businesses will soon be up to this challenge.

Finally, there’s the fact that changing habits is never easy, for marketers or anyone else. “In many cases, institutionalized cultures, agency relationships, and media relationships are still limiting them,” says Donovan Neale-May, executive director of the CMO council, a trade group for marketing executives.<sup>53</sup> Thus, perhaps it is not surprising that younger companies without long histories of traditional advertising, as well as web-based businesses, are adopting these new digital and social networking strategies much faster than larger and older firms. Chris Moloney, CMO of Scottrade, an internet stock brokerage,



thinks part of the problem is generational. He thinks about half of today's CMOs are extremely knowledgeable about the internet and what it offers.<sup>54</sup> Half are not. But Facebook, Twitter? And what about Pinterest and Instagram?

The good news in all of this is that today's web-savvy, well-educated marketing graduates have much to bring to the table in the companies they join. Getting a grasp of how the digitally networked world really works, along with some experience in an internship or other work setting, may be a great way to jump-start one's marketing career, and having grown up as a digital denizen surely doesn't hurt!

## DEVELOPING STRATEGIES TO SERVE DIGITAL AND SOCIAL NETWORKING MARKETS

This chapter has, for the most part, addressed how companies of any kind, size, industry, or age can use digital and social networking tools and technologies for marketing purposes. No doubt, however, there are readers who see bigger fish to fry in the digital skillet. They see this arena as offering the prospect for starting an entrepreneurial venture, in a new firm or within an existing one, to serve a market created by the advent of social networking, the internet, mobile telephony, or other new or still-emerging digital technologies. Thus, we close the chapter with a brief look at some of the issues involved in serving the new markets created by the digital networking revolution.

### Serving the Digitally Networked Markets of Tomorrow

What might tomorrow's entrepreneurs do to craft marketing strategies to serve new markets—like the one for apps or that for aggregating today's niche media to solve Dave Reibstein's problem—in our increasingly digitally networked world? For one, would-be internet or social networking entrepreneurs should consider the various ways in which revenue can be generated on the web or in other settings such as mobile phones. Unless someone, a business or a consumer, is eventually willing to fork over money for what a new business offers, its chances for success lie somewhere between slim and none. The rush to create new social networking sites, following the success of Facebook and YouTube in the United States, and others like them elsewhere, raises exactly this question. Thus, understanding one's **revenue model** and being willing to change it as market and technological conditions warrant are essential.

Next, such entrepreneurs must ask not what can I sell but what do today's and tomorrow's customers need, and how and where might they want to consume what I have to offer? From business-to-business (Grainger.com), to business-to-consumer (Amazon or LandsEnd.com), to consumer-to-consumer (eBay.com), to consumer-to-business (Priceline.com) models, there's no limit to the ways in which companies can provide better, easier, faster, or cheaper solutions using these tools and technologies. If a particular business idea does not fill some real, though perhaps currently latent, need identified by these questions, however, there is likely to be no viable business, Twitter's history to date notwithstanding.

Finally, would-be entrepreneurs must realize that barriers to entry are incredibly low in this new world. For everyone who has the next latest and greatest web-based or social networking idea, there are dozens of other prospective entrepreneurs likely to be exploring similar ideas concurrently. It's not really the ideas that count. What matters is the team that will execute an idea to deliver the performance and value that customers, whether businesses or consumers, or even potential acquirers of the nascent business want and will pay for. Facebook wanted, and paid dearly for, Instagram. Is Pinterest next in the sights of Facebook, Google, or someone else? Or will it, like Twitter, build a large audience but struggle to develop a business model that works?<sup>55</sup>

Thus, execution is key, a truism we explore in greater depth in Chapters 12 and 13. As Intel's Andy Grove said at the turn of the twenty-first century about building the next wave of (it is hoped successful) internet businesses, "It's work. Very unglamorous work. . . . The heavy lifting is still ahead of us."<sup>56</sup> Grove's observation remains true today. Much of this work is of the kind set forth in the earlier chapters of this book: understanding customers and the markets they make up, understanding industries and the competitors that do battle in them each day, and developing marketing programs that can establish and maintain sustainable competitive advantage.

But there's also the work of developing marketing strategies well suited to the market and competitive conditions that currently prevail in one's industry and implementing those strategies. In this chapter, we've explored the digitally networked world and how both existing and new firms can find ways—measured in terms of effectiveness and efficiency—to take advantage of the promise it offers. In the chapters that remain, we examine how best to organize for the effective implementation of, and monitor the results generated by, these strategies. "Give me 'A' execution of a 'B' plan over 'B' execution of an 'A' plan" is a common refrain heard from venture capitalists and other investors. Planning is important. But effective execution delivers the results, and results are what count.

## Marketing Plan Exercise

Develop a digitally networked strategy for your product(s) or company. Identify relevant digital tools that should be included in the marketing strategy you are preparing.

Develop the rest of your marketing mix, integrating your digital strategy therein, and prepare arguments why the product, pricing, promotion, and distribution decisions you've made are the best ones to make given the market and competitive conditions you face.

## Discussion Questions

1. As director of marketing of a medium-sized Canadian sporting goods manufacturer that produces helmets for use in sports, such as cycling, skiing, hockey, and football, you have been considering using the internet as a marketing tool. Although your helmets are sold in retail stores and to schools and athletic programs across Canada, you believe the company could reach a bigger audience and sell more helmets if the company also sold the product online at the company's website. What arguments would you use to convince the CEO that online marketing is a good strategy?
2. In meeting with the CEO of the helmet manufacturer, you have been asked to outline the possible threats of selling the product online. Explain.
3. You have been hired to do some marketing research for a candy company that sells its products mainly to kids that represent all races and economic levels. The company is leaning toward using the internet to conduct the research. The company managers' reasoning is that web-based marketing research is easier, faster, and cheaper than more traditional methods. Why might you persuade the company executives to think otherwise?
4. What characteristics are common among industries that are highly susceptible to being revolutionized by digital technologies?

Additional self-diagnostic questions to test your ability to apply the analytical tools and concepts in this chapter to strategic decision making may be found at the book's website at [www.mhhe.com/walker8e](http://www.mhhe.com/walker8e).

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