
Topic 2 ▶ Marketing Adaptation in the New Economy

LEARNING OUTCOMES

By the end of this topic, you should be able to:

1. Explain the main drivers of the new economy;
2. Discuss changes in business and marketing practice which are caused by the new economy; and
3. Examine how marketers use the Internet, customer database and Customer Relationship Management (CRM) to conduct their business.

▶ INTRODUCTION

These days, companies need new thinking on ways to operate and succeed in the new economy. The new economy, which emerged in the last few decades, requires a new marketing and business practice. The new economy also encompasses some traits of the old economy. Marketers must know what is meant by the new economy and the steps needed to make their organisations sustainable in the new economy.

In this topic, the main drivers of the new economy will first be explained. Next, we will discuss how business marketing and practice have changed. After that, we will see how companies use the Internet, customer database and Customer Relationship Management (CRM) to improve their marketing performance.

2.1 MAIN DRIVERS OF NEW ECONOMY



SELF-CHECK 2.1

Globalisation, international trade agreements such as AFTA (Asean Free Trade Agreement), development of information technology, changes in information technology activities, shift in economic activities to become knowledge based (in tandem with K-economy) and various new challenges in the business and marketing world in the new millennium have driven many organisations to form efficient and effective business management in order to be competitive and proactive in addressing the challenges and opportunities in the new economy. As one of the successors who will lead and determine the rise and fall of the Malaysian economy, why is it important for you to understand the new economy?

There are many factors that shape and determine the new economy. This section will discuss the four main drivers in shaping the new economy.



Digitalisation and connectivity



Disintermediation and reintermediation



Customisation and customerisation



Industrial convergence

2.1.1 Digitalisation and Connectivity

At present, most electronic devices and information technology are in digital form. Data and information can be sent from one electronic device to another much easier, faster and more accurately. This can be done by connecting an electronic device with another through wire communication or others. This created the Intranet, Extranet and e-commerce which have changed the shape of the old economy into the new economy.



ACTIVITY 2.1

Please visit <http://www.angelfire.com/uitmsegamat/keuntungan.html> to learn about the development of the Internet, Intranet and Extranet and their importance in the field of business and marketing.

You may also read an article on cyber-economy in:
<http://www.globaltechnology.co.id/library/articles/eCommerce/article003.htm>

2.1.2 Disintermediation and Reintermediation

The advancement of technology allows a firm to offer goods and services online. As a result, we now have pure click companies, which are companies that exist only in digital form without any physical existence. Traditional companies are facing the threat of being eliminated by these e-retailers.

Even though some intermediators have lost their businesses, new intermediators have emerged to supply Internet services for businesses and customers to make modern business trade a success. These are the main drivers of the new economy.

2.1.3 Customisation and Customerisation

Customisation is different from customerisation. Customisation means a company can offer a variety of products and services according to a specific order or a customer's taste, whether the products or services are ordered personally, by telephone or online. Marketers design their products or services according to customers' needs. The company acts as a provider of a facility or service for the customer in order to complete the transaction.

On the other hand, customerisation means a combination of operational and marketing customisation. A company has to be able to interact with each customer personally in terms of the message, services and customer relations. Customers can place an order for goods, services, price and distribution channel according to their personal choice. A company is said to have a customerisation trait if it is able to communicate with its customers individually and respond by modifying its goods and services according to customers' taste. Customisation and customerisation are among the main drivers that shape the new economy.

2.1.4 Industry Convergence

The borders of industries have become indistinct at an alarming rate day by day. This is because more companies attempt to apply techniques and knowledge from other industries to increase their competitiveness. For example, a pharmaceutical company basically is a chemical company which uses its technology and knowledge of biology to formulate new medicines. Film companies such as Fuji and Kodak are also basically chemical companies. However, these companies are undergoing a change to become electrical companies as they start to use electronic technology to produce their films in electronic form. Therefore, it becomes harder to identify the boundaries between industries in the new economy environment.



ACTIVITY 2.2

To obtain more information on the Fuji and Kodak companies and learn about their products and services, visit:

<http://www.fujifilm.com>

<http://www.kodak.com>

2.2 CHANGES IN BUSINESS PRACTICE

Changes that occur in technology and economy have resulted in a new set of business beliefs and practice, which are explained in this section. .

2.2.1 Marketing Management Based on Customer Segmentation

Usually, a company with more than one product will organise managers or a marketing section to manage the products. However, now some companies organise marketing groups to fulfil the needs of various customer groups such as households and companies,, which have different purchasing behaviour. This shows that marketing management has shifted from marketing management based on product unit to marketing management based on customer segment.

2.2.2 Customer Lifetime Value

Usually, companies only need to focus on the profit of each transaction. Companies in the new economy, however, have added one more convergence for their trade, which is the convergence for customer lifetime value. These companies will design offers and prices that will benefit both parties in the long run.

2.2.3 Financial Scorecard and Marketing Scorecard

Other than the monetary balanced scorecard frequently used by company management in the old economy, the company management will look at its marketing balanced scorecard to interpret happenings in the stock market (not only sales revenue), rate of lost customers, customer satisfaction, product quality compared to its competitors and many more. Company management in the new economy will use these markers to project company performance.

2.2.4 Stakeholders

The focus of the company management in the old economy is solely on the benefits of the shareholders and views the cost of other stakeholders such as the workers wages, goods distribution channelling cost and the supplier as a burden that will only reduce the company's profit. On the contrary, company management in the new economy sees that these parties play important roles in realising the company's mission. They believe that the success of the company depends on the performance of all the parties.

2.2.5 Marketing Activity by Workers

Usually, a company will form a marketing department to market its goods or services. This will cause other departments in the organisation to assume that their departments are not responsible for marketing products or services offered by the company. However, in the new economy, every employee or department plays an important role in making marketing activities successful and in turn, accomplish the company's mission.

2.2.6 Branding through Company Performance

In the old economy, advertising was effective to build knowledge and brand inclination. However, brand recognition depends on customers' experience of using a company's goods and services and by word of mouth. Thus, the company has to consider its performance in the process of fulfilling customers' needs in order to create a high equity brand.

2.2.7 Customer Retention

Most companies in the old economy increased their sales by focusing on customer acquisition and paying marketers a big sum of money for every new customer acquired. As a result, marketers rarely focused on customer retention. This caused some customers to be dissatisfied with a new product or service offered by a company and subsequently stop using the product or service. On the other hand, companies in the new economy pay more attention to customer retention because the cost of acquiring new customers is considerably higher than the cost of maintaining old customers.

2.2.8 Detailed Yardstick of Customer Satisfaction

Almost all of the old economy companies fail to measure customer satisfaction and the factors affecting it. However, more and more new economy companies have begun to emphasise and highlight the measuring of customer satisfaction. These companies began to use knowledge and technology from other fields such as statistics to design a measurement model that is intended to measure customer satisfaction.

2.2.9 Under-Promises and Over-Delivery

In the old economy, some marketers make empty promises to customers. On the contrary, companies in the new economy realise that customer satisfaction is determined by customers' expectations of the company's performance in fulfilling the customers' needs. Therefore, companies demand message customisation with their promises. As a result, some of the companies under-promise and over-deliver to increase customer satisfaction. Thus, marketers need to gauge the internal ability of the company before making promises to customers. Marketers must avoid making empty promises to customers.

2.2.10 New Hybrid

Most companies at present are hybrids or a mixture of new and old economy companies. Companies must maintain their efficiency and expertise which have brought them success and acquire new efficiency and comprehension to develop and grow. The market today is a combination of traditional customers (customers who do not buy online), cyber customers (customers who buy online) and hybrid customers (customers who do both). Therefore, companies should engage in both traditional and online transactions to fulfil the needs of all customers.



ACTIVITY 2.3

In your opinion, how do the changes in business and marketing practice influence a company's retail business?

2.3 CHANGES IN MARKETING

E-commerce is the use of electronic methods and platform to perform a business. E-commerce is more specific than e-business. E-commerce allows customers to do their transactions online as well as obtain information about a company's background, policies, goods and services.

E-commerce has enabled electronic purchasing and marketing. E-commerce and e-business can be classified into four Internet domains: business to customer (B2C), business to business (B2B), customer to customer (C2C) and customer to business (C2B).



ACTIVITY 2.4

To know more about the e-business model, visit this website:
http://www.ituris.com/English/EnterpriseInfo/E1_34.asp.

2.3.1 Internet Domain: B2C (Business to Customer)

B2C web page is the most useful in marketing goods and services when customers desire and prioritise the comfort of ordering or a lower buying cost. It is also useful when customers need certain information regarding the quality and price of certain goods and services. However, the Internet is least useful for products that must be felt or tested before purchasing. See Figure 2.1.



Figure 2.1: B2C model

2.3.2 Internet Domain: B2B (Business to Business)

Business activities conducted in B2B websites are larger in number than in B2C websites. According to Forrester and Gartner, B2B activities are estimated to be around 10 to 15 times more than B2C activities. Gartner also estimated that more than 500,000 companies will venture into the e-market as buyers, sellers or both. These firms use auction websites, foreign exchange, online product catalogues and barter websites to get more attractive prices for goods and services.

B2B websites have improved the effectiveness of the market. Previously, gathering information from suppliers in the whole world was very difficult and expensive. However, with the utilisation of B2B websites, buyers have a chance of obtaining more up-to-date information from:

- (a) Supplier 's websites;
- (b) Market mediators who are middle men that gather information regarding products;

- (c) Market makers, who are the third party that build the relationship among marketers, sellers and buyers; and
- (d) Customer commodities that allow information exchange between the buyer and the supplier 's products and services. The mechanism also allows a more transparent price of goods and services. See Figure 2.2.



Figure 2.2: B2B model

2.3.3 Internet Domain: C2C (Customer to Customer)

C2C shows that online customers are becoming more efficient and frequent in circulating product information and no longer use goods or services alone. They join Internet interest groups to share and circulate ideas regarding products or services and suppliers. This has made C2C a main influencing factor in purchasing decision making by customers. See Figure 2.3.



Figure 2.3: C2C model

2.3.4 Internet Domain: C2B (Customer to Business)

Communication between customers and businesses has become easier. This is because companies use C2B to encourage communication between customers and companies by inviting potential and existing customers to ask questions, make proposals and send complaints through e-mail. See Figure 2.4.

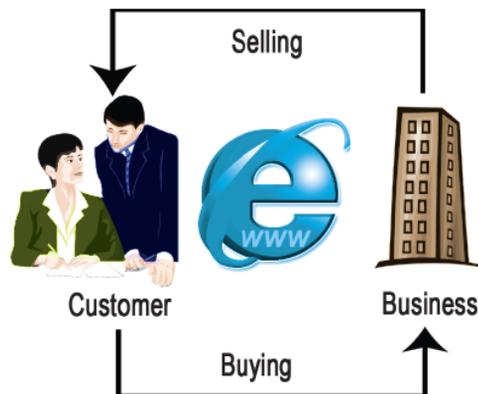


Figure 2.3: C2C model

Difference between Pure Click Companies and Brick-and-Click Companies

A pure-click company is a company that launches a website without the existence or creation of a firm prior to that. Meanwhile, a brick-and-click company is an existing company that launches a website to circulate information or conduct e-commerce.

There are several types of pure-click companies in the market, namely, search engines, Internet service providers, commercial websites, software sites and enabler sites.

For brick-and-click companies, most of them design websites to provide information regarding the company, its products and services, but refuse to conduct e-commerce in the website. This is because the company still has concerns that online sales will create distribution channel conflicts for the existing business. Distribution channel conflicts refer to contradiction in sale channels between the online sale channel and the traditional business which uses agents and existing wholesalers to sell products or services. Therefore, brick-and-click companies face a dilemma on how to conduct online sales without having it interfere with the traditional sale at the store, or with the wholesalers and agents. Distribution channel conflicts are not a problem for pure-click companies as they do not own any existing business or customers.



ACTIVITY 2.5

Use a table to simplify the differences between pure-click companies and brick-and-click companies.

2.4 CHANGES IN MARKETING PRACTICE: WEBSITE

Companies which choose to create a website need to attend to a few important matters that need immediate attention. In this section, we will discuss three main matters – designing an attractive website, placing advertisements and promotions online and constructing a revenue and profit model.

2.4.1 Designing an Attractive Website

The main challenge in designing an attractive website is how to encourage web users to surf the website repeatedly. Rayport and Jaworski suggest that an effective website must have a high score for the following aspects:



Context: Arrangement and design.



Contents: Texts, pictures, sounds and videos available on the website.



Community: How the website is able to allow the user to communicate with another user.



Customisation: The ability of the website to allow the user to change the structure and preface of the website in order to give maximum satisfaction and ease.



Communication: How the website allows communication between the website and the users.



Connection: The efficiency level of the website to connect to other websites.



Commerce: The ability of the website to allow business transaction to be carried out.

2.4.2 Placement of Advertisements and Promotion Online

Advertisements and promotions online will not be the main advertising mediator as users do not prefer online advertisements and promotions. However, they still exist and can be seen on the website. Thus, the company has to make a decision about the type of advertisement and promotion that is most efficient and cost effective to achieve the advertising objective. Many types of advertisements and promotions can be seen on websites. Here, we will discuss three main types of online advertisements, particularly banner ads, sponsorship and microsite.

Banner ads are small squares or spaces that contain texts and pictures in a third-party website. Interested users can click on banner ads to obtain information on the products or services advertised. It is the most popular means of Internet advertising. The company only needs to pay to advertise in this form and the cost depends on the size of the website host. Hence, the company can choose the most suitable banner ads for its advertising purposes.

Sponsorship is another form of advertisement available on the Internet. Here, a company sponsors the cost of the web content. Usually, the content is in the form of news, financial information, etc. With this sponsorship, the company gains the means of advertising by displaying its name and logo in the website as a token of appreciation for the sponsorship.

A microsite is a small space in a website managed by a third party. Microsite is most suitable for companies that sell goods or services that attract less attention from the website host such as insurance. Web surfers also tend to visit this type of website less frequently. Therefore, companies such as insurance firms can advertise their products and put a microsite in a used second-hand car for sale website to advise potential used-car buyers about insurance. At the same time, the insurance company also provides its insurance products to the same customers. The owner of the website, however, will require some payment for placing the microsite.

2.4.3 Construction of Revenue and Profit Model

Dot-com companies need to inform their investors how they generate profits. The companies, therefore, require a revenue and profit model that will illustrate the sources of income, revenue projection, estimated cost and profit that can be gained by investors.

The revenue of a dot-com company can come from various sources such as advertisements, sponsorship, alliance income, membership and subscription, profile income, product sales and services, fee and business commission, market research fee or information and referral income.



ACTIVITY 2.6

To know more about web as a marketing media, visit this website:
<http://nakula.rvs.unibiefield.de/made/artikel/Web-Market/>

2.5 CHANGES IN MARKET PRACTICE: CUSTOMER RELATIONSHIP MARKETING (CRM)

Companies nowadays are becoming more experienced in customer relationship marketing (CRM) and database marketing. Customer relationship marketing (CRM) permits a company to provide excellent real-time services by fostering a more intimate relationship with each important customer through the effective use of individual account information. From this knowledge, the company outlines every offer according to the order and taste of its customers. Customer relationship marketing (CRM) has become more important and acts as a main affecting factor of the company's profit, survival and competitiveness in the new economy. Companies that have a competitive streak are companies that are more productive in seeking revenue, customer growth and retention. Such companies can increase the customer base value, to improve the effectiveness of CRM, by utilising the following strategies:

- (a) Lowering the rate of customers lost;
- (b) Increasing the period of close relation with customers;
- (c) Improving the growth potential of each customer through the sharing of income, cross sales and upselling;
- (d) Turning a less profitable customer into a more profitable customer or ceasing transaction with a particular customer; and
- (e) Paying more attention to customers with higher value.

2.5.1 Customer Database and Database Marketing

To identify and foster a closer relationship with customers, companies should gather information regarding their customers and store the information in the customer database and then perform database marketing. Customer database is a collection of information on existing or potential customers as a whole, current and ready-to-use for marketing purposes such as lead generation, lead qualification, product and service sales or customer relation maintenance. Marketing database, meanwhile, is the process of constructing, maintaining and using the customer database and other database (product, supplier, and agent) for the purpose of communication, conducting business and fostering a close relationship with customers.

Unfortunately, marketers have always mistaken customer database with customer mailing list. In reality, mailing list is only a set of customers' names, addresses and telephone numbers. Customer database, on the other hand, contains more comprehensive information. The company gathers information in the customer database based on the previous transaction made by the customer, registration information, telephone enquiries by the customer and all the information from each interaction. A good customer database should contain a record of purchases history, demography, psychography and mediagraphy of other information that might be useful regarding the particular customer.

2.5.2 Utilising Customer Database

In general, the company may use the customer database in four ways as described below:

(a) **To Identify Potential Customers**

Usually, a company generates sale by advertising its products or services. In the advertisement, a toll-free phone number is usually provided for potential customers to make enquiries. From these queries, the company is able to build a customer database which is then used to determine potential customers. Next, the company will contact the customer either through e-mail or telephone to turn this potential customer into a real customer.

(b) **To Identify Suitable Customers to Receive Special Offers**

A company is interested in increasing product or service sales by cross-selling and upselling. In order to do so, the company will determine the criteria that describe the special offer. After that, the company can begin to seek existing customers who fulfil the requirement for the next action by referring to the customer database.

(c) **To Enhance Customer Loyalty towards the Company**

The company can build customer loyalty by sending gifts, discount coupons or interesting reading material to customers. For example, a bookstore frequently sends discount coupons through e-mail or booklets to its customers to attract them to buy books there and increase customer loyalty towards the company.

(d) **To Reactivate Customer Purchasing**

The company may reactivate customer purchasing with the use of an automatic mailing programme to send birthday and anniversary cards as well as reminders about promotions based on data in the customer database.

2.5.3 Problems of Database Marketing

Even though database marketing can provide a lot of benefits to a company, it also has a number of problems that need to be considered before performing database marketing.

There are three problems that may prevent companies from using database marketing.

Firstly, the database needs a huge investment to build and operate in terms of equipment and computer software, communication connectivity and skilled workers. Thus, the use of customer database is neither suitable nor cost-effective for these situations:

- (a) The products will only be purchased once in a lifetime such as a piano;
- (b) Customers who show the least loyalty to the company;
- (c) Sales unit is very small, such as sweets; and
- (d) The cost of gathering information is too high.

The second limitation is the fact that it is quite difficult for every worker to be customer-oriented and use all the existing information in the customer database. On the contrary, workers are more inclined to conduct traditional transactions compared to customer relationship marketing (CRM).

The third obstacle is that not all customers wish for an intimate relationship with a company. Some customers may not be comfortable when they find out that a company is gathering their personal information. Therefore, it is important for the marketer to obtain the views and attitudes of the customers towards the privacy of their personal information.



ACTIVITY 2.7

What is the effect of the changes in marketing practice that you find in your marketing environment?



EXERCISE 2.1

1. Differentiate between new economy and old economy.
2. How should a company founded with an old economy idea change so that marketing performance can be enhanced in the new economy?
3. Describe the advantages and disadvantages of customer relation marketing (CRM).

SUMMARY

- Advancement in technology and the drivers of the new market have introduced a new economy that requires companies and marketers to change their business and marketing practices in order to thrive.
- The four main drivers of the new economy are digitalisation and connectivity, disintermediation and reintermediation, customisation, customerisation and industry convergence.
- The new economy has changed a few practices in the old economy. For example, now marketing management is based on customer segment and there is focus on customer lifetime value.
- Companies face many questions regarding e-commerce such as how to design an attractive website, how to advertise their products or services online and how to build the revenue and profit model for dot com companies to win trust and support from interested parties.
- Finally, companies are getting more experienced in customer relation marketing (CRM) by giving priority to the enhancement of customer satisfaction. This requires companies to construct a customer database to detect channel flow, segment and customer needs.

KEY TERMS

Adaption

Attractive website

Customisation

Customerisation

Customer database

Connectivity

Customer relationship marketing
(CRM)

Digitalisation

Disintermediation

Industry convergence

Internet domain

New economy

New hybrid

Reintermediation