Customer-Oriented Marketing of Internet Business : Application to Fashion Business

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Summary

Recently Korean firms are increasingly interested in internet business while the number of internet users reaches more than 10 million in Korea. As e-commerce develops rapidly, customer-oriented marketing for online business becomes very important. The issues of how to achieve customer satisfaction in Internet business and how to plan a marketing strategy for online business faced managers of Internet business.

Customer-satisfaction is much more important for internet businesses than for traditional offline 'brick and mortars'. Marketing activites need to be carried out on customer-orientation to achieve high level of customer satisfaction. This paper will discuss how to develop customer-oriented marketing for online business. It will specifically study the characteristics and success factors of Internet business, differences between online marketing and traditional marketing, selection of targer market, and online marketing-mix strategy for e-business in view of customer-orientation. Finally it will suggest a future direction for online fashion business by applying the customer-oriented marketing of Internet business to the fashion business.

I. Introduction

Recently Korean firms are increasingly interested in internet business while the number of internet users reaches more than 10 million in Korea. As e-commerce develops rapidly, customer satisfaction and marketing become very important for the e-business. The question of how to achieve customer satisfaction in internet business and how to plan a marketing strategy are to be solved by managers of internet businesses.

Customer-satisfaction is much more important to Internet business than to traditional offline 'brick and mortar' companies. One reason is that customers do not have to pay high switching cost. In other words, swtiching cost that occurs when buyers change vendors is very little in online market compared with offline market. It is also easier for buyers to compare goods on various sites in Internet. Also there are plenty of suppliers

in the online market. Therefore it is customers, not suppliers who has a strong bargaining power of the market.

The profit in e-commerce can be created through customer satisfaction and maintenance of loyal customers. According to a report published in the U.S., profit in online business is generated after a customer visit the Internet site more than four times (Martin 1999). In other words, satisfying buyers and obtaining loyal customers are far more important for profit generation in internet business than they are in offline business. The reason is that it costs customers far more to compare products from various shops or switch their regular vendors to other ones in off line market than in online market. Thus it is essential for the internet business to develop customer satisfaction management in order to satisfy buyers and therefore to improve their loyalties (Lee, 2000).

Marketing activities need to be carried out on customer-oriented basis to improve the level of customer satisfaction. The customer-oriented concept of modern marketing should be applied to internet business to achieve high customer satisfaction and better business performance. This is true for all type of internet business whether it is pure player who started Internet business from the beginning or click and mortar who transformed his traditional business into online business. Therefore this paper will discuss how to apply customer-oriented marketing to Intenet business with an eye on fashion online business. Specifically it will study the characteristics and success factors of e-commerce, the differences between online marketing and traditional marketing, target market selection, and development of marketing mix of online business on the customer-oriented basis. Finally it will discuss how to apply those customer-oriented marketing to fashion online business and suggest the future direction of marketing of the fashion online business.

II. Characteristics and Differences of Online Marketing with Traditional Marketing

Internet business model has a different structure from that of traditional business model with distribution as a major function. Using information technology, online business model has many different aspects. In other words, online business through the Internet contrasts with traditional business using distribution channels in many ways.

First, internet business uses no intermediate channels, but direct selling to buyers (Lee, 1999). Internet marketing, unlike traditional one, provides goods and/or services directly to customers, not passing through distribution channels such as wholesalers or retailers. By doing so, it can provide price savings to customers because it can avoid distribution margins. Second, Internet business enables customers to order items by specific configurations they want to put in. In the traditional market customers can

choose only one out of several models that manufacturers have already made, while in the online business they can purchase customized model they order to configure. Interactive contact between a buyer and a seller is important in the internet business because the seller provides information on product specification for the buyer and checks feedbacks from the customer and reflect them in their business system including web site. Therefore customer-oriented marketing is important for the successful internet business.

Third, internet business focuses on one-to-one or relational marketing while traditional business mainly use push marketing with advertisement or sales promotion as major tools targeted to unspecified customers. Rather than using mass-marketing tools, internet business use generally customer relation marketing that focuses on building relationships with customers by providing tailored marketing mix based on their needs and tastes. For example, Dell Computer is successful in customer relation marketing by developing and managing separate webpages for customers whose annual purchase exceed 5 million dollars. In these so-called 'Premier Pages' Dell provides all information not only on transactions but also on service and salesperson in charge for the customers. Differentiated pricing policy and sales promotions are offered through these pages, too (Rangan and Bell 1998).

Finally Internet business is not restricted by time and space. Marketing activities can be carried on for 24 hours a day, 7 days a week and 365 days a year. Online business can target the global market from the beginning because it is not limited by the offline national borders. Therefore it is essential for Internet businesses to develop a marketing strategy aiming at the world market and provide a website in English as well as in Korean. Of course tariff rates on online transactions between countries should be settled before e-commerce replace traditional trade fully.

Ⅲ. Segmentation, Target Market Selection and Positioning of E-business

The customer-oriented marketing for online business follows the traditional marketing management process: market segmentation, target market selection, positioning, and development of a marketing mix of product, place, price and promotion.

3.1. Market Segmentation

Market segmentation refers to process in which customers are grouped according to their responses to marketing stimula. It is effective to group together customers showing similar tastes and differentiate marketing programs accordingly since they have various demands of products and show different responses to marketing activities according to age, occupation, life style, and social class (Lee, 1995, 1999).

There are several criteria for segmenting the market based on customers' characteristics. First criteria is to group customers according to demographic charac-

teristics such as age, occupation, sex, income and the level of education. For example, 'Sky Love', as a chatting site, manages various different web pages according to customers' ages. Second, customers can be grouped by purchase patterns such as frequency, scale and motive of purchase. Dell Computer, for example, provides discriminated products and marketing by managing different web pages of individual consumer, small and medium-sized companies, large companies, government and educational institutes based on purchase volume and motive. Third, Internet sites can be differentiated based on customers' psychographic characteristics such as life style or social class. Fashion sites whose customers are mostly women often manage various pages for each group of career women, housewives and college students. This is logical since women have different tastes of design, style and price range by their life styles.

3.2. Target Market Selection

After the market is segmented, the next step is to determine target customers. Out of various market segments we select a target market on which marketing resources will be focused. Particularly starters of e-commerce better concentrate their marketing programs on the selected target customers as they have limited resources.

The factors to be considered in selecting the target market are in the following. First, marketers consider the size of a market segment and its profitability: the bigger the market size and the higher the profitability, then the higher possibility to be the target market. Second, they should also consider the degree of competition in the market segment. The market with high competition is less likely to be selected as the target market because it will result in a low profitability (Lee, 1999). Particularly, online business, it is much effective to identify and concentrate on a niche market not occupied by competitors since 'first move advantage' effect is very strong in internet business. Third, they should also consider about whether the market segement is adequate for the direct business model. As online business is directly carried through internet, the segment of so-called 'touch and feel' customers who want to buy a product after experiencing it with their own eyes and hands is not appropriate as a target for e-business. It is said that Asian customers have a strong 'touch and feel' tendency. Thus, Dell Computer, famous for its direct sale in USA, modified their direct marketing strategy by operating showrooms to test a computer before ordering it in the Chinese market. Since many Korean women enjoy the pleasure of shopping in a department store, it would be wise for the e-business whose customers are mainly women to target career women without much time to enjoy shopping.

Dell Computer provides a successful example of target market selection. When it started online direct business in 1996, Dell selected business market, not individual consumers, as its main target market and has focused on the business market. Business customers put emphasis on the quality and performance of the personal computer rather

than its price. Also they do not require much aftersale service because they have their own computing center. They prefer Dell brand to IBM or Compaq because they want their PCs to be built by the needs of different departments. Dell earned high profits by selling customized quality computers at a high price but 20 percent less than competing offline brands such as IBM As a result. Dell did not suffer from price competition unlike other online firms which focus on individual consumers. Moreover the company classified its customers based on the purchasing volume and provides separate websites called 'Premier Pages' to those whose annual purchase exceed 5 million dollars. The premier pages contain such detailed information on customers' transactions as specifications of purchased items, stock lists, sales person in charge, contact points, and aftersale service. Dell currently owned over 20,000 premier pages (Rangan & Bell, 1998). Dell is a good example of internet business that achieved its success by customer relation marketing through the internet.

3.3. Market Positioning

To obtain high recognition of the website is very important for online businesses by designating its positon in a customer's mind that is differentiated from its competitors. Market positioning of e-business is to determine the position of its website and put on it differentiated image from the competitors (Lee, 1999, 1995). The positioning strategy is extremely important for online business where customers constantly switch around many different sites without much cost. Let's take an online shopping mall as an example. Marketers must decided what image of the site will be presnted to customers. Should the site be positioned as selling high-quality brands at high prices, or as the site offering reasonable quality goods at reasonable prices? Dell Computer, for instance, has succeeded in delivering high quality products with reasonalbe prices by offering customized high-quality PCs at a cheaper price, about 20 percent lower, than offline stores (Lee, 2000).

Another important aspect of the positioning strategy is to decide whether the site should be perceived as general or specialized one by customers. Leading e-businesses like Hansol CSN, Interpark, Yahoo! and Amazon pursue the general portal image, but it might be effective for the followers to build an image of unique site delivering a specialized products and services to selected customers. In other words, a new site should be better positioned as a provider of total solution on a selected area to a group of selected customers.

Also it is important to differentiate the site image from competitors in terms of products range or use convenience. If a site is difficult to access or its information is not updated constantly, it will be soon buried in the memory of customers. Since internet users can visit various different sites and compare products without much trouble, it is hard to give high satifaction to customers if the site is not updated constantly, or if

desired information or goods are not provided promptly.

IV. Marketing Mix Strategy of Internet Business

4.1. Product strategy

Michael Dell, CEO of Dell Computer, says that he succeeded in the internet business because the item he sold through the internet is standardized product without much need for buyers to touch and feel. In short, it is important in the internet business to select products for online commerce that do not require buyer's personal 'touch and feel' before he or she order (Lee, 2000). In addition, it is more effective to develop a total solution to satisfy customers' needs and wants rather than product itself. Solution refers to a combination of product and information provided to satisfy customers needs and wants. In other words, content and commerce should be combined to provide a solution to custmer's needs and wants in internet business. Amazon is a good example; what customers basically want from Amazon is new information or knowledge about a certain field not just hardware in the shape of a book. Amazon became the leader in the market by not only selling books but also providing book reviews and up-to-date information on the related area. Further it detects customers' interests on a topic and provides new book information related to it on the basis of the past purchase information of the customers.

Also internet business should better offer a wide range of related products in online market. Dell Computer, for instance, enables its customers to purchase all products as they want as a package by providing not only PC but also various items related to the PC like external data storage devices or software as options.

Website design and construction is another factor of product strategy in e-commerce. Homepage is where customers first meet the online business and hence their impressions about the business are formed. Homepage must be constructed in a way that meet user-friendly criterion For example, a homepage with a fancy design and moving images might look nice but customers might have difficulty accessing it and feel confused about it.

4.2. Price strategy

Online pricing must be determined in the way that customers can actually feel cost-saving effect compared with offline market. Thus it is essential for online companies to reduce overhead, inventory and distribution cost to provide price savings for customers. Also pricing strategy must be develped based on market-oriented pricing instead of cost-plus pricing. In other words, prices are often decided by market not by sellers in the online market. The reason is that customers can compare prices that different online businesses offer through internet in the online market more easily than in the offline market. For example, customers take the lead in pricing in 'reverse auction'

system in which customers indicate what they want and vendors competitively offer prices for it.

4.3. Distribution strategy

Although it is a type of direct marketing, online business is fundamentally related to physical distribution since it involves transport and delivery of products in offline space. In Korea it is urgent to build a quick and safe delivery system because physical distribution facilities and courier system are not fully developed. Therefore it would be effective to strategically ally with a prominent courier and let it carry products both inbound and outbound. Considering Korean customers' tendencies to check goods carefully before buying them, it is effective to use off-line shops like supermarkets or convenience stores as distribution points. In this way, customers can go to the nearest supermarket or convenience store, check the product they have ordered, make a payment and take it home. Also it is important for online business to install a order-tracking system by which customers can check the product they ordered in transit at any time.

Second factor of distribution to consider for online business is to decide whether to open company's own marketing website or to rent a space on a well-known mall service site. According to a recent survey on e-commerce customers, the most important factor they consider in on line purchase is a reputation of the brand. Thus it would be wise for e-commerce starter with a less prominent brand to buy a space on a famous internet shopping mall untill its brand name obtain a certain level of recognition among the public.

4.4. Advertisement strategy

The online advertisement strategy can be classified into two types of aggressive 'push' and passive 'pull' strategy. The push strategy is to actively inform online consumers of the web site by sending e-mails to various news groups, online communities, and potential customers. When sending e-mails, however, it is important to let receivers reject further unwanted e-mails because they can cause unpleasant response from the receivers.

The most common type of Internet advertisement is banner or insert ads (Hanson, 2000). Unlike other types of advertisement media the banner ads compete against the contents the site provide. In short, online consumers are interested in information on the site, not the banners placed at the sides of right and left or up and down. Thus, the banner ads must have a very strong appealing message or show fancy pictures or strong promotional events. A recent survey suggests that the most effective banners are the ones shown when online consumers search topic of interest or download some programs or texts.

Internet advertisements are evolving in various types as information technology develops rapidly. Such types include insert ads shown instantly when users move from one site to other one, package ads which place ads on different sites together, and alliance ads. The alliance ads is a way of cooperation in which a content provider and a shopping mall site can build a win-win relationship. When online consumers visit the shopping mall site through the banner ads linking the two sites and make a purchase, then a certain proportion of income generated from the purchase is paid to the content provider.

It is also very important to register web site in prominent searching engine. It is better to enter as many subject words as possible in order to place the website name in the front pages of the search list. Finally traditional media such as newspapers, TV, leaflets, magazines, or outdoor sign boards can also be used to build high awareness of the website address. In other words online business firms have go offline to build a brand on the internet.

4.5. Promotion strategy

The promotion strategy takes the form of holding online events and providing free gifts, samples, free e-mail addresses and/or homepages (Lee, 2000). Examples of the online events are free gift draws, online chatting with celebrities, and auction of celebrities' belongings. Online community activities of people with similar interest are especially important for online sales promotion. Thus it is recommended to support such activities by offering promotional items for their offline meetings or to help organize a new community on the internet (K. Nam & D. Kim 1998).

Recently promotional campaigns often aim at building a long-term relationship with customers. Point-up system is an example of such kind. Customers are given points each time when they visited the site or purchase on the site, and are provided financial incentives when the accumulated points reach a certain level.

4.6. Publicity strategy

Publicity is important in online business because 'first move advantage' affects success of the business strongly. Dell Computer has grown into one of the leading computer companies in the world by selling customized personal computers directly on the internet. Although many firms followed Dell's online direct business model, American consumers still think of Dell computer when they like to purchase a customized PC on the internet. One reason for the high recognition of the Dell brand among online consumers is that Dell took the first move to use internet to sell PCs directly. After its first online marketing of customized computers in July 1996, stories about Dell's bold adventurous move were published in newspapers and magazines relating to computer for 6 months. As a result, the image of the Dell's online brand name became differentiated from other

competitors and was highly recognized among the consumers.

Thus, when planning to start an online business, it is very effective to find a niche in the market that are not occupied by competitors to take the first move advantage. Also, it is desirable to prepare appropriate materials showing the site's uniqueness for media publicity. Another important factor for publicity is the activity of e-Community, or online society of people with the same interest on the site. Therefore internet companies must help such online communities organized on the internet and actively support their offline activities to attract media's interests.

Ⅴ. Customer-Oriented Marketing of Online Fashion Business

Recently the fashion business take a trend to go online and some already started online fashion mall on the internet. Online transactions, however, are not actively occurred so far even though large online shopping malls carry fashion items including garments and handbags. The reason is that the online mall sites do not offer other appealing factors or alternative incentives to compensate the loss of joy of shopping. Some compensations are needed to offset the weakness of e-commerce which does not satisfy the 'touch and feel' desire of consumers. Therefore following is my suggestions about a future direction of the online fashion business by applying the customer-oriented marketing of internet business.

First, the internet fashion business must be differentiated from the offline business and from the other competing shopping malls. The site needs to be segmented and targeted by customer groups or by product categories to be differentiated from the general shopping malls; for example, it can focus on casuals or dress suits or it can target young or old customers. Also an online brand msut be developed and built only on the internet. In this way online fashion business can focused on the target customers and heighten customer satisfaction.

Second, the fashion site must be designed on the 'total solution' concept. The online fashion business must not only sell fashion items but also provide information about fashion. Also it can help online consumers organize community about fashion, for example, fashion-lovers' clubs, on the internet and support their offline events such as fashion exhibition or shows.

Third, it should provide customized clothings. The most strong advantage of the internet is its interactivity. Thus, online fashion business must try to utilize it and provide customized fashion products on the internet at a lower price than in the offline market. Purchasing low priced customized clothes will compensate for the loss of joy of shopping on the internet.

Forth, pricing on the internet must be determined for online consumers to get the price savings. Prices can be set at least 20% lower on the internet than in the offline market by minimizing physical distribution cost and removing intermediary commission. For the

price saving integration of information flow on the internet is required among all participants in the supply chain. In other words, the information flow must be integrated among suppliers, manufacturers, distributors and carriers to form a virtual integration. The power of virtual integration of online fashion business can reduce inventory cost and heighten customer satisfsaction with low price and prompt delivery of products ordered.

Fifth, online shopping must provide consumers much fun like in the offline market. By using 3D moving picture images online fashion consumers can choose their favorite styles and see virtual figures wearing the chosen items. Moreover, online fashion business can provide fitting rooms in the offline market for customers to try the items they ordered on the internet.

By applying the customer-oriented marketing properly online fashion business will successfully utilize and grow with the new opportunity and rich potential on the internet.

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