Catching the customers on the Web

The Internet will have a huge impact on the way business is done - especially for small and emerging companies. Albert Angehrn and Jean-Louis Barsoux explain the ramifications.

For all that has been written about the Internet, most managers remain confused regarding its likely strategic impact on their businesses. Our aim, in this article, is not to try to predict the likely technological evolution of the Internet but rather to provide managers with a generic framework (the ICDT model) for understanding the opportunities and threats generated by the Internet - and for developing a strategy to leverage these. The Internet, as this article will make clear, is of particular relevance to small companies and emerging businesses; entrepreneurs cannot afford to ignore it.

What to make of the Internet: the ICDT model

The Internet, and its related basic services, such as electronic mail and the World Wide Web, have created a new space in which to do business. This has given economic agents - whether individuals or companies - alternative channels for exchanging information, communicating, distributing different types of products and services, and initiating formal business transactions.

The ICDT model (see Figure 1) takes its name from the four ‘virtual spaces’ created by the Internet: a virtual Information space; a virtual Communication space; a virtual Distribution space; and a virtual Transaction space. The four spaces are treated separately because they correspond to different strategic objectives and require different types of investment, and organizational adjustments.

The virtual information space (VIS) is about visibility. It operates like a large billboard. It shows who's who, what's available, how much it costs and so on. It may offer flexible access that allows visitors to ‘choose their own path’ but it remains a one-way communication channel.

The virtual communication space (VCS) is about interaction. Like a café, it provides a ‘space’ for engaging in relationship building, exchange of ideas or opinions. The ‘space’ itself can range from a simple chat-line to a sophisticated 3D space in which individuals ‘meet’. Members of the virtual community can communicate at high speed, low cost and bypass traditional physical and geographical constraints.
Figure 1: The four visual business spaces

The virtual distribution space (VDS) is about service delivery. As with the postal service, there are constraints on the types of items that can be delivered through this channel – it is only suitable for products and services that can be wholly or partly digitalized. Furthermore, the recipient takes ‘something’ away but payment itself happens elsewhere.

The virtual transaction space (VTS) is about trading. It is a bit like a stock exchange in that goods and services are not transferred in this space, only orders, commitments, invoices or transfers of payment.

Access to markets and resources

Information space
In terms of engaging with the environment, the VIS is the virtual space that has attracted the most attention - primarily because it affords instant global access, whether to potential customers or business partners.

For many companies, the Internet represents little more than a parallel way of diffusing standard information and their Web sites mirror the content, not to say the appeal, of their corporate literature. However, simply creating a Web site does little to stimulate interest. It establishes contact but if the aim is to connect with other economic agents then the information provided has to be pertinent.

Relevance can be enhanced by customizing the channel to user groups. For example, potential business partners may have very different company or product information needs from potential consumers.

But this is not a one-off effort. If a company wants people to return to the site, and to build up an on-going relationship, then it needs regularly to update the content of its pages. That requires dedicated personnel and investments in multimedia competencies. Moreover, there is a lot of information to extract from monitoring the flow of visits to the site. Companies that take the trouble to compile and analyze this information may find it a cheap way of understanding customer preferences.
Communication space
The VCS presence of most companies remains underdeveloped because businesses are still not sure what objectives it might serve. Part of the problem is that the interface with customers has traditionally been the responsibility of the marketing department, which is more used to broadcasting to than interacting with customers.

The VCS provides an opportunity to exchange information and opinions through e-mail, in on-line forum discussions, or more advanced interaction spaces. Discussions among visitors regarding their experiences with the product and ideas relating to its usage may have an unforeseen payoff for the company. Besides helping to differentiate the product, it may also yield unexpected insights on possible product adaptations or highlight untapped market segments. There is also a case for opening similar sites for corporate users - potential partners, suppliers or distributors from within the same industry - who might interact in closed user groups, discuss industry trends via on-line forums and formulate requests for meetings with company representatives.

Distribution space
Exploiting the VDS potential of the Internet is primarily aimed at cutting costs and lead times. Of course, software and publishing companies have been particularly quick to latch on to the possibilities of dispensing with intermediaries and delivering their products directly.

But the Internet can also be used to distribute to customers auxiliary services associated with ‘physical’ products such as cars. Instruction manuals, customer support and consulting services, product-related training and updates - including digital pictures and music - can all be provided over the Web in ways that ‘augment’ the value of the ‘core’ product.

What is more, the Internet creates the possibility of offering new value-adding services. Some companies have found that they can repackage the information they use to control their own processes and make this information available to customers as a service.

A typical example is the magazine or newspaper that gives outside access to its archives - initially designed to support its own journalists. Another example is the Federal Express service that allows customers to track their parcels on-line. This reduces the number of expensive calls to customer service representatives and has increased customer loyalty in a fiercely competitive market.

Transaction space
The objective here is clear: to engage in business-to-business or business-to-customer transactions such as ordering, invoicing and payment. This has both revenue-generation and cost-reduction potential in that it facilitates order processing and shortens lead times. The cost of an Internet transaction in banking, for example, is a fraction of the same transaction at a bank branch. Business-to-business transactions have benefited considerably from this channel. It allows companies to trigger automatic ordering, to invoice and make payments easily. This has been facilitated by Electronic Data Interchange (EDI) platforms, which provide a high level of security. In fact, many businesses are insisting that potential suppliers install EDI if they want to be considered.
Figure 2: Virtual Vineyards is a Web-based wine and speciality food shop

Business-to-consumer transactions do not yet benefit from the same kind of security or reliability as offered by the EDI system. Currently, the huge potential for wide-reaching commercial activity with consumers is stifled by legal, security and reliability concerns.

Commercial activity so far has been limited to low-value purchases such as software, books, music and magazines. One such example is Virtual Vineyards, a Web-based wine and speciality food shop. Visitors can purchase directly from the company using an on-line form.

A more secure system is proposed by IBM which enables visitors to browse through a catalog of products via the Web and then place orders interactively via a secure credit card information form. Many companies are looking into ways of improving security so it is only a matter of time before on-line transactions explode. Once security can be guaranteed, a company will simply need to hook up its Internet site with its internal accounting system or other transaction-processing systems. This is an advanced type of application that will demand heavy investments.

Internal Web sites

Internal Web sites, known as Intranets, offer businesses most of the same functions as groupware at a lower price, and without the need to tie themselves in to a single groupware vendor. They make it easier for employees to access and share internal information. Although covered in detail in the original paper on which this article is based, they are not detailed here.
Changing the rules

So far, the Internet has had limited impact on how most companies operate and its strategic impact has been weak. However, once it fulfils its potential, cumulative influence of the Internet within the four virtual spaces may produce a different order of change altogether. The full exploitation of the communication and transaction spaces, in particular, may upset a lot of our basic strategic assumptions about how best to absorb, process and leverage information. This assertion is based on what remains a little documented phenomenon - the emergence, thanks to the Internet, of a new breed of business, the global start-up.

The most embryonic start-up becomes a multinational company, at low cost, simply by virtue of setting up a Web site. As the joke says, ‘the great thing about the Internet is that no one knows you’re really a dog’. But many of these new entrants are not dogs at all. The Internet has done much more than magnify their visibility. It has also provided them with a low-cost distribution network, with a way of searching for business partners and of collecting critical information about distant markets and resources. The Internet does more than simply let new entrants compete on a par with established companies; it can sometimes give them the edge. Consider the challenge of accessing resources. The China Internet Company, backed by the Xinhua News Agency, has established a network of Internet sites for 40 industrial cities. This is accompanied by a complete catalog of Chinese laws relating to trade and export, a translation service and news. Given the paucity of a physical infrastructure for information about exports, the Internet will quickly become the key channel for companies wishing to do business with Chinese suppliers.

Similarly, where companies are offering a specialized product or service, the Internet serves to trawl for customers worldwide. It has the capacity to transform former niche markets into mass markets. Moreover, the low cost of distribution on the Internet makes it viable to serve whole new market segments. For example, on-line newspapers have created a new readership among expatriates living in remote locations who were previously neglected.

The Internet also allows small companies to conduct forms of market research that would previously have been prohibitively expensive even for big companies. As already mentioned this can be done by tracking the behavior and preferences of ‘visitors’ to Web sites. Furthermore, the Internet also allows companies to conduct cut-price surveys that are much more effective than phone or mail surveys in that they allow branching (that is, different questions based on different responses to previous questions).

While a virtual marketspace creates new business opportunities, at the same time, much of the conventional wisdom of business is threatened. For example, the size of a business will no longer be much indication of the scope of its geographical activities. The traditional concern with ‘where to do business?’ is superseded by the concept of ‘how to do business?’

A well-established network of physical assets may no longer be of much use -indeed, it may even get in the way of speedy strategic reconfiguration. The key competencies embodied by a company will no longer relate to products but rather to processes and particularly the capacity to link up quickly and effectively with different types of network.
Of course it raises a new set of practical issues. How do you build up trust and commitment without face-to-face contact? How do you increase the motivation to share information where the outcome is uncertain? How do you anticipate the key networks and make the right learning connections?

Companies hoping to leverage the potential of the Internet will also have to create new roles or even whole functions: a scanning function to monitor and influence Internet opinion; a new service development function to think up new ways of creating value for customers; liaison roles to support networks of remote members; usage analysts to perform market research on Web; and archivists responsible for keeping track of content generated on the company's Web sites.

The winners will be those companies that organize themselves to capitalize on the Internet's capacity to increase sensitivity to resource and market opportunities worldwide and to share knowledge and experience internally.

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