

CHAPTER



One-to-One Web Marketing Overview

"This is not a fad. The 'one-to-one future' is no longer the future. It's happening now!"

Don Peppers and Martha Rogers, *The One to One Manager*

In 1991, we were inspired by the introduction of Regis McKenna's book, *Relationship Marketing* (Addison-Wesley, 1991). In his book, McKenna discussed the age of customer-centered and knowledge-based marketing. Then the marketing floodgates opened in 1993 with the best-selling book, *The One to One Future* written by Don Peppers and Martha Rogers (Doubleday, 1993). At that time, Peppers and Rogers discussed the combined future of marketing and technology and described one-to-one technologies of the future. They discussed the characteristics of one-to-one marketing using individually addressable technologies and mass customization. Even though their book was written before the existence of the World Wide Web, they described technologies that sounded very much like what we now know as the Web.

In this chapter, we provide an overview of relationship and one-to-one marketing concepts. We set the stage for putting these concepts into action in your Web development and marketing efforts. The most important thing to remember when thinking about and implementing these technologies is that technology by itself will not make you successful on the Web. It is the balance of your company's best practices and the creative implementation of the technologies that will make your site a success.

Time Flies When You're Having Fun

When we wrote the first edition of this book, the Web was embraced as a promising new medium. Well, the Web is here to stay. Wow, we got here quickly, yet we have a long way to go to realize the full potential the Web offers in terms of building customer relationships. Morgan Stanley's technology research report, *Advertising Report* (HarperBusiness, 1997), showed how long it would take for the Internet to reach 50 million users relative to other communications media:

Radio	38 years
TV	13 years
Cable	10 years
Internet	5 years (estimated)

The worldwide Internet user population now is more than 300 million and is expected to more than double by 2005. For both consumer and business industries, the Web is now a legitimate channel for communication and commerce.

In 1997, IDC predicted the Web population would grow from 50.2 million in 1997 to 174.5 million in 2001. The latest estimates show the Web population at more than 300 million in 2000.

According to Forrester Research, total U.S. e-commerce was \$110 billion in 1999 and is expected to reach more than \$1.3 trillion in 2003. Of the total e-commerce transactions in 2003, \$110 billion will be business-to-consumer (B2C) transactions. In 2003, offline B2C transactions will be \$7 trillion, and offline business-to-business (B2B) transactions will be about \$13 trillion.

In 1998, there were more than 191,000 active B2C Web sites in operation according to ActivMedia. In 1999, there were more than 696,000.

As you can see, the Web is far ahead of the past predictions, and the Web is still growing at a rapid pace. While the Web has been growing, clever marketers are experimenting, creating new marketing models using the Web medium, and figuring how the Web fits into the overall marketing mix. Also, marketers are creating methods to tailor messages to target markets, market segments, and even each individual Web customer.

The State of Web Marketing

Previously, Web sites were something that marketers felt they should have. Today, marketers' Web sites are important to them as another way to reach

customers. As sites cost more to develop, marketers are getting quite serious about making their markets aware that their sites are available. Web site addresses are everywhere—TV ads, magazine ads, sides of trucks, and billboards. Although they are still a small portion of media budgets, online advertising, online promotions, and e-mail marketing are growing in importance.

Since 1995, we authors have seen a maelstrom of new marketing ideas and models, from simple static Web pages to full-blown virtual retailing applications. In the first edition of this book, we focused on customization and personalization of Web pages and online advertising. At that time we also observed that a Web site was a standalone entity. Silent. Flat. Alone. Now, sites are more interactive and dynamic. We now see Web sites, call centers, retail stores, and other channels becoming integrated with one another to a greater degree than before. Now, a customer can actually connect with a human being through a Web site. Web personalization and database marketing are now just the very first steps in the new larger opportunity of customer relationship management (CRM) where the Web site will play an integral part.

Online advertising has also changed quite considerably since 1997. Forrester Research estimated that online advertising was \$37 million in 1995. Between 1996 and 2004, U.S. online ad spending will experience an average annual growth rate of 65 percent, according to eMarketer. Although Web banner ads are still the predominant form of online advertising, now advertisers can create interactive multimedia online ads that can be full screen and can include audio and video. Some traditional marketing tactics have made their way online, including sweepstakes and coupons. Currently, e-mail advertising and marketing are hugely popular Web marketing activities. More than online advertising, e-mail marketing can go beyond segmented targeting to one-to-one targeting. Jupiter Communications estimates that commercial e-mail spending will grow from \$164 million in 1999 to \$7.3 billion in 2005.

The Internet is now moving beyond the PC. Although it is too soon to tell, some believe the number of wireless devices such as cell phones and personal digital assistants (PDAs) may overtake the number of PCs hooked up to the Internet. According to Ovum Research, mobile advertising will generate 20 percent of total Internet advertising revenues by 2005. Imagine getting a special personalized promotion for a new book by your favorite author sent to your Palm device? If we marketers believed that online customers have unprecedented control and choice over Internet advertising, then consumers with wireless devices will have even greater control over what advertising and promotional messages they receive on their cell phones and pagers.

What Is One-to-One Web Marketing?

Fundamentally, one-to-one Web marketing is the practice of tailoring messages, services, products, and promotions to an individual Web user. Don Peppers and Martha Rogers introduced this marketing technique when they wrote *The One to One Future* in 1993.

One-to-one marketing is not a new concept in the physical world. Nordstrom's, an upscale department store, has a personal shopping service that helps customers buy clothing that best suits their lifestyles, jobs, and personal tastes. Web sites, online stores, and online information services are taking cues from services like Nordstrom and are leveraging information technology to bring one-to-one services to the online masses.

To see what the future holds for marketing on the Web, let's review how one-to-one marketing is different from other types of marketing:

Mass marketing. One-to-all or one-to-many communications without specialization of message or medium.

Target marketing. One-to-many or one-to-few communications with specialization of message and medium for each identified segment of the whole market.

One-to-one marketing. One-to-few or one-to-one communications with individualized message and medium for each highly targeted market or individual customer.

There are many good marketing experts with significant ideas about marketing on the Web. For our book, we focused on relationship, one-to-one, and loyalty marketing ideas. We selected notable experts in each of these fields. We hope that we do justice to applying their great ideas to the Web. First, we will provide you with a condensed version of the key concepts.

Relationship Marketing

Regis McKenna wrote a definitive book, *Relationship Marketing* (Addison-Wesley, 1991), about the changes marketers needed to make to become more customer centered with their marketing efforts. Instead of simply producing and distributing goods and services in mass quantities with no choices in features, he discussed how marketers could find a segment of a market and dominate it through relationship marketing. This mind-

set could enable a company to create products that closely fit the needs of a particular customer set. In order to leverage relationship marketing, marketers needed to move from monologue to dialogue with customers. Here is the condensed version of some of the important principles from his book:

- Owning the market.
 - Define which whole pie (market segment) is yours and dominate it.
 - Develop products and services to serve that market specifically.
 - Define the standards in that market.
 - Deepen relationships with customers.
- Knowledge-based marketing.
 - Integrate the customer into the product and service design process to guarantee that the product is tailored to the customer's needs, desires, and strategies.
 - Generate niche thinking—use the company's knowledge of channels and markets to identify market segments that you can own.
 - Develop an infrastructure of suppliers, vendors, partners, and users that help sustain and support your edge in the market segment.
- Experience-based marketing.
 - Spend time with customers.
 - Monitor competitors.
 - Develop feedback analysis that turns information about markets and competition into product intelligence.
- Adaptive marketing.
 - Sensitivity—communications and feedback channels.
 - Flexibility—organizational structure and operational style that take advantage of the new opportunities feedback brings about.
 - Resiliency—learning from mistakes.

One-to-One Marketing by Peppers and Rogers

Don Peppers and Martha Rogers have written two books on the subject of one-to-one marketing. The books are full of thought-provoking concepts that can be applied to Web site creation and promotion programs. Following are some of the highlights from each of their groundbreaking books.

The One to One Future

The *One to One Future* was published in 1993, which was well into the high time of database marketing. It presented groundbreaking and earth-shattering concepts to marketers. Here are just a few of the book's key concepts that can be applied using the Web:

Share of the customer. Peppers and Rogers presented the idea of switching the marketer's mindset from share of the market to share of the customer. Instead of focusing solely on the higher investment of marketing to your entire marketplace in order to increase revenue, you want to focus as well on increasing the revenue of each customer—also known as increasing the share of each customer on a one-to-one basis. This idea has the benefit of increased profitability because it is cheaper to increase sales to existing customers than to acquire new customers. Another benefit is that during the process of increasing the share of each customer, you are building longer-term and loyal relationships with customers. In order to maximize the share of each customer, you will need to know what that customer thinks, which can be done only with one-to-one communication mechanisms.

Customer retention versus acquisition. Typically it costs five times more to acquire a new customer than it does to retain a customer. Most businesses experience a customer churn rate of about 25 percent annually. According to Peppers and Rogers, if you are able to reduce this by 5 percent, you could add as much as 100 percent to your bottom line. The idea is basic: Higher revenue at the same expense falls directly to the bottom line as higher profit.

Law of repeat purchases. The more successful you are in getting each customer to buy from you, the more you can increase your long-term profits. The more units you sell to a particular and valuable customer, the higher each unit's margin will be over time. The overhead associated with each purchase decreases when the cost of marketing to a loyal customer declines.

Customer dialogue. "In the one-to-one future, it won't be how much you know about all of your customers that's important, but how much you know about each of your customers." The way to apply this concept is to use interactive communications with your customers. Dialogue is two-way, not one-way. It is an exchange of ideas between two parties. Using two-way communications vehicles and feedback mechanisms enables you to learn more than you would through market research. Make it easy for customers to communicate with your orga-

nization. Act on what they say in order to build trusting and loyal relationships, which will translate into more sales and better profit margins.

Enterprise One to One

In 1997 Peppers and Rogers dealt the second blow to the marketing community with *Enterprise One to One*. This book revisited the one-to-one mantra with added excitement surrounding the limitless technological possibilities of the Web, interactivity, and the use of customer data. Here are the pertinent concepts from this book:

The new competitive rules. Customer-driven competition is synonymous with one-to-one marketing. With traditional marketing methods, this type of competition was cost prohibitive. Information technology, including Web technology, can raise the competitive playing field because it can track customers, enable interactive dialogue, and allow mass customization where products and services can be created to the specifications of an individual customer.

The learning relationship. The way to build the strongest link between you and your customers is to establish a learning relationship. To do this, follow these four steps:

1. Find out what your customer needs through interaction and feedback.
2. Meet these needs by customizing your product or service, and remember the specifications.
3. Continue interaction and feedback to learn more about the customer's individual needs.
4. Keep your customers satisfied so that you do not lose them to your competition.

Convenience and incentive. If you make it convenient for customers to give information about themselves, the better the opportunity you have to learn more about them, and the more they will do repeat business with you. In addition to important personal communications between your customers and company representatives in sales, marketing, and support, the Web and other interactive media can make it convenient for customers to share their thoughts with you. You can also provide an incentive to customers to enter into a learning relationship with your organization—free add-ons, free service, discounts, special memberships, and so forth.

Some rules for the (information) road. Now that you have the powerful one-to-one marketing tool of the Web, you will want to consider how to approach customers for their personal information. First, you don't want to ask for all of the information at once. A learning relationship should be conducted in the long term, especially because markets and customers rapidly change. Second, give the customer the choice of what information to provide. This establishes a relationship based on trust, which will widen the communications channel between you and your customer. Third, you want to make the customer's life better with the information you are collecting. You will want to create an equitable value exchange between the information you are collecting and the service you provide in return. Finally, you will want to establish a Privacy Bill of Rights. See Chapter 9, "One-to-One Web Privacy," on how to create privacy policies to increase your customers' confidence in the learning relationship.

One of the profound quotes to remember from the book is this: "If a firm is not in direct touch with its customers, then every single interaction is a priceless opportunity to learn more."

Building Loyalty through Marketing

On average, the marketing costs required to acquire a new customer are five to six times more than the marketing costs needed to get customers to reorder from a company. Thus, a company with a highly loyal customer base will be more profitable than a company that has a less loyal customer base where this company has to constantly acquire new customers at a higher cost to achieve revenue goals.

Frederick Reichheld is a leader of Bain & Company's (www.bain.com) Loyalty Practice and author of *The Loyalty Effect* (Harvard Business School Press, 1996). He has conducted extensive research to uncover the effect of increasing customer loyalty in various industries. In 1989 he published a study that showed that raising customer retention rates by 5 percentage points could increase the value of an average customer by 25 to 100 percent. Customer loyalty has two important effects on a company.

The first is the *customer volume effect*. If you can reduce customer attrition, you gain a larger growth in volume of existing customer revenue versus trying to make up lost volume from customer attrition by acquiring new customers. The second effect is the *profit-per-customer effect*. In many industries, companies actually lose money when they acquire

new customers, and it takes several transactions over time to see profit materialize from these customers. If you lose mature customers, you actually lose the ability to recoup acquisition investment, break even, or receive profit. Loyal customers' spending tends to accelerate over time. The more a single customer orders over time, the more profit a company receives because each interaction generally requires less investment by the company than initial transactions. The goal is to increase repeat purchases by focusing on loyalty-building efforts to increase customer profitability.

Customer Relationship Management (CRM)

A new wave in the marketing industry is customer relationship management (CRM). According to Fredrick Newell in his book, *Loyalty.com* (McGraw-Hill, 2000), customer relationship management "is a process of modifying customer behavior over time and learning from every interaction, customizing customer treatment, and strengthening the bond between the customer and the company." Newell suggests that marketers must change their practice of company-centric database marketing to the practice of customer-centric CRM. With database marketing, marketers target customers so they can sell more at less cost. With CRM, marketers focus on what the customer wants rather than what the company wants to sell. The Web is a good platform for applying CRM because of its ability to cost effectively customize the Web experience, e-mail, and online promotions. CRM systems also allow companies to recognize specific customers across channels—phone, Web, e-mail, direct mail, retail point-of-sale (POS) systems, and so forth.

According to Newell, "The key to CRM is identifying what creates value for the customer and then delivering it." The primary way to deliver CRM is to capture information about a customer, not only what he or she bought, but also his or her behavior, feeling, and environment that affects his or her buying decisions. This data is managed in a way to enable the marketer to predict future purchases and buying behavior. But, would a marketer perform CRM on every customer? No, marketers can use CRM methods to identify the most profitable customer relationships. CRM also helps marketers optimize communications from the customer's point of view in order to maximize customer value (relevant to specific customer groups) and enhance customer loyalty among profitable customer segments. CRM is a long-term profit-building process, which can take many years and a considerable investment.

The Web: A Relationship-Building Platform

Jim McCann, the founder and president of 1-800-Flowers.com (www.1800flowers.com), wrote an article for *Upside* magazine in November 1997 entitled “Interactive Customer Service.” In this article, he warned that computers are just tools that allow companies to provide interactivity, and they cannot motivate customers or nurture the bond that results in repeat business by themselves. In his words:

Despite our name, 1-800-Flowers, we’re in the “social expression” business, like the people who sell greeting cards and chocolates. Flowers are symbolic, timeless, not high tech. And yet we conduct 10 percent of our business online. We’re using this new channel to reach a growing market segment that is embracing new technology and is motivated by convenience. But we’ve never lost sight of customer satisfaction, which we handle the old-fashion way: one-to-one.

Jim McCann and his company were pioneers on the Web, and their Web site is held as one of the standards among online retailers. His point is important to consider. The Web and one-to-one marketing technologies are only vehicles for building one-to-one relationships with your online customers. The magic of one-to-one marketing happens during the interaction with the customer. Your site should interact with the customer in a nurturing, two-way manner. In fact, there are some interactions that should never be left to the Web to handle, such as complex customer support issues. This is where human interaction will succeed. Your Web site should interact with customers in a very human-like way. Put your thinking caps on before you implement what can be very expensive technology. Think about why and how the system will be designed to facilitate relationship building. Be careful not to let the excitement of cool technology drive your one-to-one marketing strategy. The long-term goal of increasing company value (i.e., revenue and profits) is a key step in evaluating one-to-one opportunities. An equally important step is to understand how customers would value a one-to-one relationship with your company.

Marketers now have a tool they have been envisioning for many years—a tool that allows them to know their customer more intimately than before. Marketers no longer have to make uninformed decisions about their customers because of the two-way interaction and communication capabilities that the Web allows.

One-to-One Web Marketing Matrix

Currently, the Web does a better job of targeting segments or groups of customers than other media. Some online marketing techniques such as Web

site and e-mail marketing enable true one-to-one marketing. For example, Amazon.com is one of the more experienced one-to-one Web sites that presents personalized recommendation on books, music, and other products. Amazon.com learns about individual customers from each and every transaction, and it also incorporates data from other customers with similar buying behavior and preferences. This allows Amazon.com to personalize the Web experience, resulting in over 70 percent repeat customer purchases.

The Web is continuing to make technology advances that allow marketers to further personalize the Web experience in real-time based on the customer's current site behavior, not just past behavior. This profiling capability will also help marketers predict future behavior. The CRM, or eCRM, movement allows marketers to take data from all media and channels the customer interacts with to build an ongoing relationship. Another major Web enhancement is the ability for customers to interact with real human beings behind the Web site with the use of "live help" technologies such as real-time text chat, Web telephony, and cobrowsing. We are also seeing the emergence of "virtual retailing" applications that use 3-D, Shockwave, Flash, and other virtual applications to make the Web experience highly interactive and personalized.

The purpose of this book is to show you technologies and techniques to increase the return on your Web site and marketing investments. In each chapter we present in-depth discussions of each of the one-to-one marketing applications that can be used on the Web. Depending on your budgets and objectives, you may use one technique, a combination of techniques, or all of them. Table 1.1 outlines the Web marketing technologies and how to apply each of them.

Embracing One-to-One Web Marketing Challenges

We have a long, one-to-one Web marketing future ahead of us. Now is the time to consider leveraging the potential of the Web to build relationships with customers and users. On the other hand, there are a couple of important obstacles that need to be removed before both you and your customer can truly benefit from one-to-one relationships. The three main hurdles are *expense*, *technology*, and *privacy*.

Expense

Historically, one-to-one sales, marketing, and service came at a premium. Personal shoppers and other personalized services were limited to people

Table 1.1 One-to-One Web Marketing Matrix

ONE-TO-ONE WEB TECHNOLOGY USES	
Web site personalization markets	<ul style="list-style-type: none"> ■ Learns more about each user or target. ■ Presents personalized recommendations, especially if you serve a wide variety of target markets or provide a wide range of products or services. ■ Increases ability to convert site browsers to buyers. ■ Automates many processes such as recommendation, cross-selling, and account management. ■ Targets site advertising and promotion to individuals based on their user profiles; presents a unique Web experience to each customer. ■ Conducts membership and loyalty programs; some programs can be premium services for which customers pay. ■ Promotes site and brand loyalty.
E-mail	<ul style="list-style-type: none"> ■ Maintains ongoing company and marketing communications via e-mail announcements and newsletters. ■ Reaches people without requiring a visit to your Web site. Enables recall campaigns to increase loyalty. ■ Targets e-mail advertising on other organizations' e-mail announcements and newsletters.
Advertising and promotion	<ul style="list-style-type: none"> ■ Increases awareness and response from the Internet audience. ■ Conducts targeted and one-to-one advertising to optimize ad budgets. ■ Conducts response- and transaction-oriented Web ads.
Community	<ul style="list-style-type: none"> ■ Creates online discussion forums among users and with organization representatives (management, sales, customer service, etc.). ■ Increases site traffic and site visit longevity. ■ Promotes site and brand loyalty.
Customer care	<ul style="list-style-type: none"> ■ Enhances Web site experience to ensure satisfied buyers.

	<ul style="list-style-type: none"> ■ Increases ability to convert site browsers to buyers. ■ Reduces customer service costs when you apply Web self-service and live help features.
Data analysis and integration	<ul style="list-style-type: none"> ■ Assesses the performance of your Web site analysis or specific sections of your site. ■ Learns more about your Web visitors and customers. ■ Integrates your user profile and other databases with tracking data (what users are viewing/clicking on) on your Web site. ■ Makes other back-end, historical, or live data available to your Web site such as product/service information, customer information, purchase transactions, shipping, and account management. ■ Performs database marketing on your Web site or on the Internet. ■ Performs data mining to segment customers (by profitability, site usage, etc.) and form predictive models about future site or transaction activity.
CRM	<ul style="list-style-type: none"> ■ Reduces customer churn by learning what customers value about your products, services, Web experience, etc. ■ Determines different segments of customers based on their profitability (i.e., highly profitable, potentially profitable, not profitable). ■ Enables you to predict future customer buying behavior. ■ Allows for better service and consistency across media and channels.
Collaboration	<ul style="list-style-type: none"> ■ Allows for online presentations, document sharing, project management, and knowledge management over the Internet. ■ Reduces direct selling costs such as travel and other sales/marketing communications costs. ■ Enables one-on-one selling, marketing, and collaboration to forge tighter bonds with prospects and customers.

willing to pay for the additional value this type of service provides. Some industry pundits believe that the incremental expense to provide personalized marketing and service does not bring the results required to justify the investment. While it is true that personalized Web marketing costs more, one-to-one marketing can pay significant dividends over time in terms of Web site and company loyalty, the ability to stretch your limited marketing budgets by focusing on targeted marketing, higher response rates from targeted advertising, and so on. Each chapter in this book presents some implementation costs associated with each one-to-one Web marketing technology. As we marketers know, there are two variables in the marketing equation: expense and resulting revenue or response. One-to-one marketing, like all marketing efforts, is an investment over the long term.

Technology

Media hype abounds. Artificial intelligence, intelligent agents, personal bots, personalization, collaborative filtering, data mining, and other sci-fi-sounding technologies are all the rage in technology magazines and even in more general magazines. These technologies are being applied to the Web at a feverish pace by still relatively few Web sites. Some of the technology is expensive and takes a long time to implement because almost every site needs a custom solution. The integration of databases to the Web is still in progress. Each of this book's chapters provides an in-depth look at a one-to-one Web marketing technology, including any relevant obstacles.

Privacy

The privacy issue is an emotional one that raised the discussion about protecting users' personal data to new heights when Web marketers began to use profiling technology and encourage users to register with their Web sites. In order for both the user and the marketer to benefit from one-to-one Web marketing, the marketer must protect users' privacy, give users control over their own personal information, and practice self-regulation in order to prevent governments from stepping in to solve problems. Because this issue is so important to the future of relationship building on the Internet, we dedicated Chapter 9, "One-to-One Web Privacy," to the subject.

Up Next

Chapter 2, “One-to-One Web Site Personalization,” will provide an in-depth overview of the objectives and applications for personalizing a Web site for online users and customers. There are many ways a site can be personalized; you will learn how and why to use personalization to increase repeat visits or purchases.

