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by
Jianwei Hou
César Rego



The University of Mississippi

Director, Keith Womer
School of Business Administration
The University of Mississippi
Post Office Box 1848
University, MS 38677-1848
(662) 915-5820
<http://hces.bus.olemiss.edu>

Internet Marketing: An Overview

Jianwei Hou^a and César Rego^{b,†}

a Department of Marketing, School of Business Administration, University of Mississippi, University, MS 38677, USA. jhou@bus.olemiss.edu

b Hearin Center for Enterprise Science, School of Business Administration, University of Mississippi, University, MS 38677, USA. crego@bus.olemiss.edu

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Abstract — Years of Internet marketing research have yielded a set of important findings. The purpose of this paper is to review these findings and assess what has been done and what has not been done in the area. In doing so, the authors review existing findings ranging from the types of products on the Internet, the Internet as a marketing channel, the Internet as an advertising and communication medium, the Internet adoption, to the effect of the Internet on traditional markets. Based on the studies reviewed, implications are drawn for further theoretical and empirical investigations.

Keywords: Internet marketing, marketing channels, advertising and communication medium, traditional markets.

[†] Corresponding author.

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1. Introduction

During the past decade, the popularity of the Internet has been growing explosively. This trend is manifested in several ways. First, according to Cyberatlas.com (2002), the Internet in the United States is growing at a rate of 2 million new Internet users each month; 143 million Americans (54 percent of the population) used the Internet in September 2001, a 26 percent increase over August 2000. Second, the number of companies that create web presence to communicate with customers as well as other firms has been dramatically increasing. Third, the Internet has been accepted by broad consumer segments for various purposes, such as information search and online purchasing. Also, as reported in Cyberatlas.com (2002), 36 percent of Americans use the Internet to search for products and service information, a 10 percent increase over 2000. Among Internet users, 39 percent are making online purchases and 35 percent are searching for health information.

Along with the increasing popularity of the Internet, marketing researchers have given qualitative and empirical attention to this phenomenon. Some academic journals have released special issues related to the Internet marketing (e.g., Marketing Science, Journal of the Academy of Marketing Science, and Journal of Retailing). Years of research have yielded many important findings. Among those studies, the Internet has been viewed as a marketing channel, a new advertising medium, and a communication platform.

The purpose of this paper is to overview existing studies regarding theories and findings of some aspects of Internet marketing and to provide directions for further investigations in the area. The remainder of this paper is organized as follows. Section 2 discusses the types of products that may be suitable for online selling. The Internet as a marketing channel is reviewed in Section 3. Section 4 reviews the issue of Internet acceptance by firms and consumers. The effect of the Internet on traditional markets is discussed in Section 5. Finally, conclusions and perspectives for further research are provided in Section 6.

2. Products on the Internet

Research on the topic of Internet products attempts to answer the following questions:

- What kind of products may be suitable for online selling?
- What kind of marketing strategies can be used to facilitate online selling?

Any product is perceived by a buyer to be a combination of utilities (e.g., qualities, values, and/or capabilities) that is expected to provide customer satisfaction assessed in terms of expected benefits minus costs incurred (Murphy and Enis 1986). By gathering information prior to purchase, consumers can predict whether the purchased product may satisfy their needs and/or expectations (Alba et al. 1997). The value of this information to consumers depends on its nature and its reliability (Alba et al. 1997). The nature of the information will likely be altered if one views such information based on search, experience, and credence goods classification (Darby and Karni 1973).

From an economic standpoint, goods are often classified into search, experience, and credence goods in terms of the consumers' ability to assess quality and value before and after purchase (Darby and Karni 1973). The quality and value of search goods can be

easily assessed by consumers prior to purchase; the quality of experience goods is difficult and/or costly to assess prior to purchase and usage; the quality of credence goods cannot be verified even after repeated purchase and usage.

Based on this trichotomous classification, some marketing researchers have drawn some tentative conclusions regarding the types of products that may be successfully sold on the Internet. For example, Klein (1998) states that for search goods, the Internet has the potential to provide information in a more accessible, less costly, and more customizable format, thus increasing the value of the Internet, reducing the costs of search directly (e.g., time, travel) and enhancing the expected benefits by facilitating consumers' information-processing. Similarly, Peterson, Balasubramanian and Bronnenberg (1997) anticipate that consumers who wish to directly experience a good prior to purchase may view the Internet as an ineffective replacement of traditional in-store shopping where the good can be inspected.

Since search goods generally tend to be more suitable for online selling compared to experience goods, in order for an experience good to be sold online successfully, information regarding the good's quality and value to the customer should be made available prior to purchase. Researchers have addressed this issue from different perspectives. Taking the software and the wine product category as an example of experience goods, Klein (1998) discusses how the Internet could transform experience into search attributes. For instance, the consumer can download a trial or demonstration version of the software and thus get insights into the product functions. Several wine sites offer visitors a broad scope of information, ranging from wine taste information, winery histories, consumer reviews, to easily searchable product databases. Alba et al. (1997) also illustrate that the same product can be a search, experience, or credence good and how an experience good can be converted into a search good.

"If the key attributes of ice cream relate to experienced flavor, Ben & Jerry's Cherry Garcia might be a search good at a Ben & Jerry's store, which allows a consumer to taste the ice cream prior to purchase. It would be an experience good at first if a person were buying at a supermarket that sells ice cream only in cartons and does not allow tasting prior to purchase. Consequently, the Ben & Jerry's store initially would have an informational advantage over the supermarket. However, when the consumer learns that cherry Garcia on the carton label reliably predicts experienced flavor, the supermarket no longer would be at a disadvantage."

In other words, an experience good tends to be transformed into a search good as consumers become more familiar with the product, provided the key attributes of the good remain consistent.

Moreover, it has been also suggested that for some experience goods that are dominated by perceptual attributes, the Internet can be as effective as or even more effective than traditional transaction channels to deliver useful information to consumers (Alba et al. 1997, Klein 1998, and Peterson, Balasubramanian and Bronnenberg 1997). For example, consumers who purchase flowers based on the pictures presented in stores can do so on the Internet through 2D/3D images; many Websites have allow consumers to preview a video or listen to a music CD before they make a purchase, which cannot be done traditionally. Alba et al. (1997) term such a phenomenon as "predictability of satisfaction" which means that the suitability of a certain product category for online selling depends on the degree to which consumers can predict how satisfied they would be if they make the purchase.

Mahajan, Srinivasan and Wind (2002) conduct a study on 48 dot.com retailers in 2000. They only identify 1-800contacts.com as the sole winner based on those dot.com retailers' performance on the stock markets. Consistent with authors' hypothesis, the winner is offering search goods online (i.e., contact lens).

Based on previous discussions, the following propositions are presented:

P 2.1: Search goods are generally more suitable for online selling than experience goods.

P 2.2: Well-known products are more suitable for online selling than other products.

P 2.3: Firms can implement marketing strategies such as allowing product trial and providing more assessable information to transform experience goods into search goods on the Internet thus negating the disadvantage of selling experience goods online.

Although research on this topic is mainly based on theoretical reasoning, results from this research stream seem robust as the consensus (as indicated in the propositions) has been established and well accepted within this area.

3. Internet as a Marketing Channel

3.1 Internet as a Transaction Channel

Just as any innovation, the success of the Internet as a marketing channel depends on the advantage the system can offer compared to other alternative systems or technologies – as by providing new valuable features that better match the consumer needs or exceed the utility provided by other channel formats. Researchers have been comparing the Internet with other marketing channels from different perspectives. Alba et al. (1997) distinguish different retail formats in terms of costs and benefits to consumers, including providing alternatives for consideration, screening alternatives to form a consideration set, providing information for selecting from a consideration set, transaction costs, and other benefits such as entertainment, social interaction and personal security. Peterson, Balasubramanian and Bronnenberg (1997) indicate that the Internet shares several characteristics with other marketing channels and adds a number of other features and capabilities that are unique to the Internet medium. These characteristics include the following (Peterson, Balasubramanian and Bronnenberg 1997; Varadarajan and Yadav 2002):

- Storing larger amounts of information at relatively low costs and providing information interactively and customizably, thus diminishing information asymmetry between buyers and sellers;
- Providing powerful and inexpensive ways (e.g., search engine) to search, organize, and distribute such information;
- Providing perceptual experiences (e.g., 3D image and video preview);
- Serving as a transaction medium as well as a physical distribution medium for certain goods (e.g., software);
- Establishing presence at relatively low costs;

No existing marketing channel possesses all of these characteristics. Alba et al. (1997) propose that for a given product category, competition among alternative retail formats (e.g., supermarket, department store, catalog, and Internet) is virtually based on the comparison made by buyers among these formats. Consumers compare different channel formats in terms of benefits provided by each format. The Internet has a

potential to benefit consumers in several ways. The Internet enables consumers to access goods that are unavailable in their local markets, gather information about alternatives at nearly no monetary cost (consumers only need to pay the Internet connection fee), efficiently generate a consideration set from various suppliers through certain searching engine, and easily make a comparison among alternatives. In addition, Verity and Hof (1994) suggest that it could be 25% less costly to engage in direct online marketing.

A seemingly significant benefit of the Internet compared with other marketing channels is the number of alternatives that become available to consumers within a given product category. Due to the lower searching costs on the Internet, consumers have an opportunity to consider a thousand alternatives, which is not the case from in-store shopping. However, Alba et al. (1997) indicate that some consumers may feel too tedious and stressful when they try to locate a product from an extremely large consideration set, unless the next one to be considered is thought to be systematically different from those previously considered and has a different combination of utilities. Szymanski and Hise (2000) also find that product offerings (number of offerings and variety of offerings) do not affect consumers' satisfaction with the online retailing. Therefore, the mere increase of possible alternatives considered may not be the major reason for the Internet's adoption as a marketing channel.

Whether consumers choose online or offline shopping depends on what types of shopping experiences they are willing to gain through shopping. Burke (2002) conducts an online survey (2120 responses) asking shoppers to evaluate 58 online and 78 in-store features of the shopping experience. A high percentage of his respondents reports that online shopping must have following features: online and offline product prices, convenient customer service access (e.g., toll-free telephone), reliable shipping (e.g., to home or office), secure online credit card payment, e-mail order confirmation, and order tracking, whereas offline shopping must offer knowledgeable sales associates, competitive prices, fast checkout, and payment options.

One feature that the Internet does not have is the social interactivity; that is, the interaction between a customer and sales associate. On the one hand, a salesperson can provide information about the specific product attributes, a capability that greatly reduce consumers' information processing costs (Alba et al. 1997). On the other hand, as suggested by Tauber (1972), because customers are social creatures, they shop for interpersonal communication as well as for goods. Tauber (1972) indicates five social motives that drive consumers to purchase, namely, social experiences outside the home, communication with others having a similar interest, peer group attraction, status and authority, and pleasure of bargaining. For consumers who value the social interaction, "the success of a store, as well as customer satisfaction with the store, depends on the store's location and the manager's ability to employ the retailing mix in a manner that is consistent with the unique socioeconomic and psychographic characteristics of the customer base" (Ingene 1984). However, it should be noted that not all customers need and want social interaction when they shop. Various consumers interact with retail settings in very different manners. For example, Stone (1954) finds that one-third of his respondents are "economic" shoppers who envision stores in terms of price, product quality, and merchandise assortment.

Shopping time is another issue that may matter to consumers' selection among channels. Ingene (1984) divides shopping time into voluntary and involuntary time spent in a retail store. Voluntary time (e.g., brand and price comparisons, browsing, and social interactions) is under the consumer's control and consumers spend such time mainly to enhance their shopping experience. Thus, consumers can decide whether they should reduce and even avoid voluntary time during a shopping trip.

Factors that may affect voluntary time include “consumers’ intrinsic interest in shopping, the in-store retailing mix, and consumer’s sense of time shortage” (Ingene 1984). In contrast, consumers cannot avoid and reduce involuntary time (e.g., gathering and carrying products, and/or waiting in line) if they make the purchase. Applying this notion to the Internet, it is clear that the irritating involuntary time can be eliminated when consumers purchase online. The Internet shopping can also shorten voluntary time because consumers do not need to visit the physical store. Two issues should be noted here. First, consumers cannot acquire the product immediately after they make the purchase online. Second, only limited social interaction is available on the Internet.

Based on the previous discussions and propositions, the following propositions are presented:

P 3.1: Product types, product information, consumer characteristics, and consumers’ use of shopping time are linked to consumers’ selection among channels.

P 3.2: Consumers are more likely to purchase search goods online than experience goods. The more the product information is provided on the Internet, the more likely the consumers will purchase online. The higher the consumer values the social interaction, the less likely the consumers will purchase online. The stronger the consumers’ sense of time shortage, the more likely the consumers will purchase online. The number of alternatives provided has little effect on consumers’ selection among channels.

Empirical studies on this topic are scarce and should be conducted to a greater degree in the future. Following questions are presented for future research directions.

- On the demand side, what factors may influence consumers’ shopping and purchase on the Internet? Why do consumers choose the Internet over other marketing channels? Do personality such as risk-taking, product categories, attitude toward the Internet, demographic characteristics (e.g., income, education, gender, and age), experiences, and/or decision rules matter? On the supply side, what is the influence of sites designing, pricing, branding, shipping and handling, customizing, advertising, and information providing?
- What factors may influence the consumer’s use of a combination of several marketing channels to make the final purchase, such as acquiring information in one channel and purchasing in another channel? How do consumers’ decision strategies affect the integration of multiple channels?

3.2 Internet as a Communication Channel

Conceptually, the Internet serves as an extremely efficient medium for accessing, organizing, and communicating information (Peterson, Balasubramanian and Bronnenberg 1997). At present, the Internet encompasses various communication technologies ranging from the written and spoken words to visual images.

Researchers have pointed out some communication relationships that are possible on the Internet but not available in traditional mass media (e.g., magazines, newspapers, television, radio, direct mail). First, the Internet is a many-to-many medium through which companies and consumers communicate between each other (e.g., information on the Websites, email, and/or online forum), whereas the traditional mass media has a one-to-many communications process in which a firm transmits content through a medium to lots of consumers (Deighton and Barwise 2001; Hoffman and Novak 1996). It should be noted that the Internet is also a one-to-many medium. For example, a

company develops a Web site with static information that is accessed by many visitors. Second, consumers and firms can interact with the Internet (Deighton and Barwise 2001; Hoffman and Novak 1996; Stewart and Pavlou 2002). Under traditional media, consumers cannot directly control an advertising message or easily request further information, which can be done on the Internet. For example, a consumer is interested in certain online advertisement and a click can lead him/her to more detailed information. Furthermore, such interactivity can directly result in the actual product delivery for some information goods (e.g., software, maps, music, tickets, etc.) (Kalyanam and McIntyre 2002). Note that a combination of different traditional media may also gain such effect. For example, if a consumer attempts to obtain further information on a TV advertisement, he/she can do so through a telephone. However, this may be less effective than the Internet “in which the call to action can be followed up immediately by the consumer” (Chaffey et al. 2000). Third, perhaps the Internet’s most radical distinction from traditional media is that consumers can put product-related content on the Internet (Hoffman and Novak 1996). For example, Amazon.com allows consumers to post book reviews on the web, which can serve as word of mouth that is valuable to other customers.

The shift of traditional one-to-many communications to online many-to-many communications has important implications (Hoffman and Novak 1997; Varadarajan and Yadav 2002). One is electronic word of mouth. Since some online intermediaries (e.g., Epinion.com) have provided platforms for consumers to post their reviews on products as well as online retailers, as the Internet continues to grow, more and more customers will tend to read these reviews before they make a purchase. One customer’s negative experience with a certain retailer can be disseminated among a thousand consumers, which is not the case in traditional shopping environments. Thus, the effects of word of mouth on consumers’ purchase intentions are arguably much stronger for online shopping than for traditional shopping. Chatterjee (2001) empirically investigates the effect of online reviews on consumers’ purchase intentions and finds that consumers who select retailers based on price-related factors are more likely to change their purchase intentions after reviewing negative WOM information than those who select retailers based on familiarity. Since most online shoppers are driven by the Internet’s ability of offering the best price, one important implication of Chatterjee’s study is that online retailers who attempt to attract consumers by the lowest price are most vulnerable to the negative WOM information and should respond accordingly and properly.

Hoffman and Novak (1996) also suggest that the Internet can be a combination of various traditional media. For example, television media provide relatively short-term exposure with low information content that is dynamic, whereas the print media provide relatively long-term exposure with high information content that is static. Advertising on the Internet carries the features of the both media. It can be a short-term exposure if visitors only spend a short time on the advertising; it also can be a long-term exposure since visitors can read detailed information within each Web site; the content of Internet advertising can be visualized and verbalized as some commercial sites have already provided information in video and/or audio formats.

A new communication method between buyers and sellers occurs since the advent of the Internet, namely, emailing. Such method can not only serve as an advertising medium, but also dramatically reduce companies’ communication costs. An increasing number of consumers are willing to contact firms through emails before and/or after purchase. There can be no doubt that the email marketing provides companies with new opportunities which allow for firms to expand their business by attracting new customers as well as repeated purchase.

Some researchers empirically compare the Internet with other media. For example, Ducoffe (1996) and Brackett and Carr (2001) compare five media (television, magazine/newspaper, radio, catalog/direct media, and Internet) in terms of how valuable they presently are as sources of information and how valuable they will be in the future (5 to 10 years). Subjects in both studies rank television and magazine/newspaper first and second, respectively, indicating that television and magazine/newspaper are still the major sources of information at present time. While subjects in the Ducoffe study ranked the web fifth, students in Brackett and Carr's (2001) study ranked it tied with radio at third. Most notably, in students' future predictions, the web replaces television as the number-one ranked medium, indicating the influence of the Internet as a source of information is expected to increase.

In general, the Internet can provide more product information compared with other marketing channels, but consumers still cannot directly experience the product online. The question raised here is how the content and format of information provided online can affect consumers' willingness to purchase without experiencing the product. In addition, the effects of online word of mouth on consumers' purchase intentions need further empirical examinations.

4. The Adoption of the Internet

Research on this topic attempts to answer following questions.

- What factors may influence firms' and consumers' adoption of the Internet?
- How does the addition of the Internet influence firms' performance how do consumers behave online?

4.1 Consumer side

Research on the Internet marketing has identified a set of factors that may affect consumers' acceptance of the Internet as a transaction channel and/or communication medium, including demographic variables, psychographic characteristics, attitudinal traits and situational factors.

It has been found in both U.S. and Asia that male consumers with high income and education level are more likely to purchase online, whereas age differences do not matter (Li, Kuo and Russell 1999; Sin and Tse 2002). Understanding which demographic segment is using the Internet is important in that online firms can design effective and proper marketing strategies for their target markets. However, as the rapid diffusion of the Internet as well as the social and economic changes, female, less educated and low income population may all have access to and be gradually familiar with the Internet. As a result, the demographic factors will play a less important role in determining consumers' Internet acceptance.

Research has shown that psychographic variables, such as novelty seeking, product involvement, need for social interaction and perceived behavioral control have an effect on consumers' decision on whether or not to purchase online (Kokkinaki 1999; Shim et. al 2001; Sin and Tse 2002). Specifically, taking both demographic and psychographic characteristics into account, Parasuraman and Colby (2001) identify five different types of new technology adopters: the optimistic and innovative explorers, the innovative yet cautious pioneers, the uncertain skeptics, the insecure paranoids, and the resistant laggards.

Consumers' attitudinal characteristics also influence their adoption of the Internet. Among factors under investigation, perceived convenience is the focal construct of researchers' interests (Li, Kuo and Russell 1999; Szymanski and Hise 2000). For example, Szymanski and Hise (2000) find that "convenience" is the most important predictor of e-satisfaction and measure it in terms of time and browsing ease.

It has long been argued that online security and privacy is of consumers' major concern when they decide whether or not to engage in electronic transactions (e.g., Hoffman, Novak and Peralta 1999; Stewart and Pavlou 2002; Zeithaml et al. 2002). For example, Bruskin/Goldberg Research reports that 75% of Internet shoppers consider credit-card security a primary concern (see Chain Store Age, 1999). Specifically, Hoffman, Novak and Peralta (1999) state that consumers' online information privacy is the primary barrier to the online shopping. When purchasing online, consumers fear that they have less environmental control and secondary use of information control. Environmental control is defined as the consumers' ability to control other parties' actions (e.g., credit-card information may be stolen by others), while secondary use of information control is defined as the consumers' ability to control the dissemination of their personal information (e.g., online firms may sell consumers' personal information to others without their permission) (Hoffman, Novak and Peralta 1999). However, in a survey of 220 online shoppers, Jarvenpaa and Todd (1997) find that the Internet security is not the main barrier to consumers' Internet adoption. Rather, consumers are more concerned about other factors, such as the ease of navigation, difficulty in finding a specific item, price, and customer service.

Studies on self-service technologies also identify some factors that may induce consumers' positive or negative reactions to the Internet shopping service. Meuter et al. (2000) find that their subjects are most satisfied with technologies that can save time (30%), work reliably (21%), be easy to use (16%), meet a salient need (11%), and offer greater control and access (8%), whereas subjects are not satisfied when technologies fail (43%), processes fail (17%), or services are poorly designed (17%).

Based on the previous discussion, it is clear that a number of factors influence consumers' likelihood to shop online and different consumers may value these factors (excluding demographic features) differently. Understanding these relations is important for companies who are planning to sell products online since it can help them segment and identify their target markets.

Given that consumers' Internet adoption rate continues to grow, online consumer behavior is another issue that attracts researchers' attention. Some researchers attempt to identify factors that may affect consumers' online behaviors, while others try to develop a theoretical model that explains and organizes consumers' online behaviors.

Research has found that consumers' knowledge about the Internet may affect their online behaviors. For example, Hammond, McWilliam and Narholz-Diaz (1998) find that as novices continue surfing the Internet and gain more experiences, their interests tend to be shifted from initial fun-seeking to information-seeking. Some specific online consumer behaviors are also of researchers' interests, including consumers' perception of online service quality (Zeithaml, Parasuraman, and Malhotra 2002), consumer perceptions of the Web (Geissler and Zinkhan 1998), online customer loyalty (Abbott et. al 2000; Srinivasan, Anderson and Ponnnavolu 2002), customer switching behavior in online services (Keaveney and Parthasarathy 2001), and the impact of shopbots on consumer behavior (Smith and Brynjolfsson 2001, Smith 2002).

The concept of "flow" and a process model of its antecedents and consequences (Hoffman and Novak 1996) is the first attempt to explain consumers' navigating

behavior on the Internet. Hoffman and Novak (1996) define the flow experience in a computer-mediated environment (e.g., Web) as the state that is “(1) characterized by a seamless sequence of responses facilitated by machine interactivity, (2) intrinsically enjoyable, (3) accompanied by a loss of self-consciousness, and (4) self-reinforcing.” When experiencing flow, consumers are so involved as to lose the sense of self and control of time. They indicate three types of antecedents of flow, namely, control characteristics which include an adequate level of skills and challenges and a perceived congruence between them as well as the presence of focused attention, content characteristics such as interactivity and vividness, and process characteristics such as motivation (extrinsic or intrinsic), involvement (situational or enduring), benefits (utilitarian or hedonic), and types of search (directed or nondirected). They further state that consumers experiencing the flow can achieve increased learning, greater perceived behavioral control, increased exploratory and participatory behavior, and positive subjective experience. In a subsequent research paper, Novak, Hoffman and Yung (2000) empirically test their model of flow using a structural modeling approach. By adding arousal and playfulness, they finally develop a model that has 12 constructs and three Web usage variables. Luna, Peracchio and de Juan (2002) also investigate the flow concept in a cross-cultural environment. One primary implication of their models is that marketers should create flow for consumers.

However, by questioning whether flow is a general enough concept to explain various aspects of consumer online behavior, Dholakia and Bagozzi (2001) suggest the concept of “mind-sets” and a model of mind-set formation and influence in digital environments. A mind-set is defined as a “specific cognitive orientation.” Each mind-set (deliberative, implemental, or exploratory) is associated with its own tasks and objectives and specific environment cues may cause consumers to switch between different mind-sets (Dholakia and Bagozzi 2001). For example, a consumer who starts surfing the Internet with a deliberative mind-set (e.g., searching health information) may end up with an exploratory hedonic mind-set (e.g., playing an online game) as a click on a pop-up window leads him or her to do so. Their model suggests that the formation of a mind-set depends on consumers’ goals, knowledge and experience, and emotions; consumers’ mind-sets also affect their navigating behaviors (e.g., where to visit and how long to stay); the consequences of mind-sets and navigation are evaluation of overall online experience, changed emotion and some specific evaluation (e.g., a particular website) which, in turn may result in modified goals and a changed mind-set.

4.2 Firm Side

Two kinds of companies are expected to be more successful on the Internet. One involves retailers that have strong national reputation for providing high-quality, unique merchandise, but that have only regional penetration (Alba et al. 1997). Such retailers can capitalize on the market-expanding feature of the Internet by attracting new customers without making significant investments in store locations. The Internet also is ideal for niche retailers that attempt to reach a widely distributed customer base (Quelch and Klein 1996). Similarly, Peterson, Balasubramanian and Bronnenberg (1997) indicate that the Internet seems to be especially suitable for targeting niche markets in which buyers and sellers are small and geographically dispersed, and the products or services are specialized or unique (e.g., rare collectibles). For example, Hothothot.com is a specialty store that offers more than 100 brands of hot sauce and salsa via the Internet, and ships merchandise to more than 43 countries. The Internet gives such firm international exposure without significant investments in advertising.

P 4.1: Among various kinds of companies on the Internet, the big companies with strong reputation and the small, specialized companies are more likely to succeed than other firms.

Adopting the Internet by retailers and manufacturers offers benefits as well as incurs costs. On the positive side, retailers, by providing online shopping can reduce operating costs (e.g., building one centralized warehouse instead of many individual stores), carry fewer inventories (e.g., shipping merchandise directly from manufacturers to customers), expand geographic penetration, and more effectively and efficiently communicate with consumers (e.g., Benjamin and Wigand 1995, Burke 1997, Quelch and Klein 1996). On the negative side, retailers may feel that establishing and maintaining a website as well as making it known by consumers requires a significant investment of time, money and skills (e.g., Burke 1997, Geyskens, Gielens, and Dekimpe 2002). Some retailers are also unwilling to post their prices on the Internet because they fear that doing so may increase market efficiency for consumers and competitors thus reducing their margins (e.g., Burke 1997, Degeratu, Rangaswamy, and Wu 2000).

For manufacturers, the Internet provides an inexpensive and effective way for them to interact with their customers thus facilitating the establishment of one-to-one marketing. In addition, the shift of channel power from manufacturers to retailers in recent years may motivate some manufacturers to engage in direct marketing such as the Internet selling in order to regain such power (Burke 1997). However, manufacturers are also reluctant to sell their products online for several reasons. First, manufacturers may face retaliation from their intermediaries. Second, most manufacturers only carry a narrow product line and they have to cooperate with certain retailer (Burke 1997). Third, the channel cannibalization may occur (consumers shifting from existing channels to the Internet channel) (Alba et al. 1997, Geyskens, Gielens, and Dekimpe 2002).

Some researchers empirically investigate factors that may affect firms' willingness to participate in electronic markets and their subsequent performance. For example, Grewal, Comer and Mehta (2001) find that efficiency motivation and IT capacity are important determinants of firms' participation in B2B electronic markets among jewelry traders. Geyskens, Gielens and Dekimpe (2002) investigate how the Internet channel addition affects a newspaper firm's financial performance. They find that firms with less direct channel experience and more channel power outperform those with more direct channel experience and less channel power in the stock market.

In order for the Internet to be successful as a new marketing medium, it must be simultaneously adopted by both firms and consumers (Gupta and Chatterjee 1997). In fact, the Internet adoption by each group is interdependent. A consumer is more willing to use the Internet if there are a large number of online companies, while a firm is more likely to create its Web presence if there are a large number of potential online consumers (Gupta and Chatterjee 1997). This phenomenon is so-called "network effects" – the value of a product or technology (e.g., Internet access, telephones, fax machines, and e-mail) increases as the number of users increases (Shapiro and Varian 1999). Based on this notion and the potential high costs for consumers switching from one site to another, some researchers suggest the first-mover advantage for firms wishing to engage in electronic market exchange (Shapiro and Varian 1999; Varadarajan and Yadav 2002). Though the first-mover advantage has been proven for some websites (e.g., Yahoo.com and eBay.com), it may not be true for every sites particularly those retailing sites because of the ease of switching (Reibstein 2002). Specifically, Geyskens, Gielens and Dekimpe (2002) find that early followers have a better performance on stock market than both pioneers and late followers in a newspaper industry.

As more and more firms establish their Internet channels, many retailers find themselves in multiple channels, maintaining their physical stores while also creating a web presence. As a result, some questions need to be answered; for example, does this marketing strategy increase a retailer's total sales? If not, how these channels interact with each other and what role, if any, does cannibalization play in multiple channels? What marketing strategy can retailers adopt to integrate its multiple channels? Should retailers implement different marketing mix in different channels? Under what circumstances and to what degree should retailers facilitate consumers' attempts to coordinate their behavior across channels?

5. The Effects of Internet on the Traditional Markets

The Internet is an important focus for marketers, as indicated by Hoffman and Novak (1996), for several reasons. First, consumers and firms are conducting a substantial and rapidly increasing amount of business on the Internet. Second, the market prefers the decentralized, many-to-many Web for electronic commerce to the centralized, closed-access environments provided by the online services. Third, the WWW represents the broader context within which other hypermedia CMEs (Computer-mediated Environments) exist. Fourth, the Web provides an efficient channel for advertising, marketing, and even distribution of certain goods and information services. It is already clear that the Internet is changing the rules by which marketing is conducted and evaluated, and new consumer market structures will emerge as a consequence of the Internet (Peterson, Balasubramanian and Bronnenberg 1997). Levy (1996) believes the Internet would ultimately become "the medium by which we keep in constant contact with our families, watch television, dash off a note to a friend, check the traffic, read the new paper, prepare a report for work, make a phone call, buy a book."

The volume and tendency of the Internet transactions reflect a more and more important role the Internet is playing. According to Cyberatlas.com (2001c), consumers spent \$59.7 billion online in 2000, compared to \$30.1 billion in 1999, a 98 percent increase. eMarketer projects B2C global e-commerce revenues will reach \$101 billion by year-end 2001, rising to \$167 billion in 2002 and \$250 billion by 2003. According to Gartner, Inc, the value of worldwide B2B Internet commerce sales transactions surpassed \$433 billion in 2000, a 189 percent increase over 1999 sales transactions. Worldwide B2B Internet commerce is projected to reach \$919 billion in 2001, followed by \$1.9 trillion in 2002. In 2003, the market will increase to \$3.6 trillion, and at the end of 2004, worldwide B2B Internet sales transactions are forecast to reach \$6 trillion (Cyberatlas.com 2001d).

5.1 The Internet and Competition

The emergence of the Internet changes the nature and intensity of competition. The Internet may change the way how existing retail stores compete (Balasubramanian 1998). In the situation in which consumers' knowledge about products is high, each retailer competes against its direct Internet channel rather than against the neighboring retailer (Balasubramanian 1998). The crucial point here is that consumers' choosing between channels is different from consumers' choosing between retailers. Regarding the traditional view that the Internet has the potential to increase competition due to the easier price search online, opposite results have been found in recent studies. Lynch and Ariely (2000) find that for differentiated products like wines, lowering the cost of search for quality information reduced price sensitivity, which makes it easy for consumers to compare across stores and need not intensify price competition. Specifically, Lal and Sarvary (1999) find that the Internet is likely to decrease the level

of price competition when the Internet users reach a high percentage of the whole population, when non-digital attributes are relevant but not dominating, when consumers previously hold a more favorable attitudes toward their currently owned brands, and when the purchase situation can be characterized by “destination shopping” (i.e. the cost of visiting an additional store is lower than that of undertaking the shopping trip). Similarly, Zettelmeyer (2000) argues that a rise in the reach of the electronic channel relieves some of the competitive pressure by reducing firms’ total cost of providing information to consumers.

Research on online price dispersion also supports the view that the Internet does not necessarily increase the competition. If the Internet markets are more competitive than conventional markets, price dispersion in the online markets would be expected to be narrower than in comparable offline markets. However, Brynjolfsson and Smith (2000), Clemons, Hann and Hitt (2002), and Pan, Ratchford and Shankar (2002) have all found that price dispersion in fact substantially exists in the Internet markets and is no lower than in traditional markets. A primary implication of these studies is that the Internet may not be as an efficient information source as we expected. Though findings in those studies are same, authors interpret their findings differently. For example, Brynjolfsson and Smith (2000) attribute the existence of online price dispersion to such factors as market immaturity and retailer heterogeneity (e.g., trust and awareness), whereas Pan, Ratchford and Shankar (2002) argue that retailer heterogeneity only explains a small portion of price dispersion and the remaining portion is accounted for by the type of online retailers (Internet-only vs. bricks-and-clicks retailers).

Research pertaining to whether prices on the Internet are lower than those in conventional channels is mixed. Arguments for both sides exist in the literature. Brynjolfsson and Smith (2000) compare prices for books and CDs across the Internet and traditional channels and find that the prices on the Internet are 9-16% lower than in conventional channels, depending on whether other costs related to taxes, shipping and handling have been accounted for. On the other hand, some researchers show that under certain circumstances, higher prices are expected to be charged on the Internet. Alba et al. (1997) indicate that consumers’ price sensitivity on the Internet would be lower than in other traditional channels when the nonprice attributes (e.g., quality, service) are of great importance. In other words, an online firm can differentiate its products from the competitors’ products through nonprice attribute information providing and service offerings thus decreasing consumers’ price sensitivity and making higher online prices possible. As discussed previously, Lal and Sarvary (1999) also show that the Internet may provide opportunities for firms to charge high prices (e.g., the reach of Internet is sufficiently high). Though there are arguments for both higher and lower prices on the Internet compared to other channels, price is still the dominant factor that attracts consumers to a specific online retailer (Reibstein 2002).

Peterson, Balasubramanian and Bronnenberg (1997) make an assumption that use of the Internet for marketing purposes will not increase overall consumer spending. They argue that there is no intuitive reason why the Internet will cause consumers to spend more. Rather, use of the Internet in marketing to consumers will more likely result in a redistribution of revenues among channels or among members within a channel. This implies two kinds of new competitions that result from the emergence of the Internet. One is the competition between the Internet and other channels. The other is the competition among Internet vendors.

Some researchers investigate how the Internet may influence firms’ competitive marketing strategy. For example, Varadarajan and Yadav (2002) indicate that the Internet has the potential to enhance the effectiveness and the efficiency of all marketing mix elements (e.g., 4P) except the actual distribution of nondigital products.

However, Varadarajan and Yadav's (2002) focus is on the shift of the traditional physical marketplace to the hybrid one that encompass both physical and electronic marketplace. They do not consider the competitive strategy of pure-Internet firms. Kalyananam and McIntyre (2002) present the e-marketing mix as compared to the conventional marketing mix. Besides traditional 4Ps – product, price, promotion and place, their e-marketing mix contains seven extra elements thought to be essential for e-marketing, including personalization, privacy, customer service, community, site, security, and sales promotion. They conclude that e-marketing mix has more overlapping elements and the integration of those elements is more common as compared to the traditional one.

The Internet also diversifies the pricing mechanism. Such pricing strategies as forward auctions, reverse auctions, dynamic pricing, and “name your own price” that seem unfeasible traditionally can be effectively implemented on the Internet (Kalyananam and McIntyre 2002).

5.2 The Internet and Intermediaries

Some researchers have examined the effect of the Internet on traditional intermediaries. Peterson, Balasubramanian and Bronnenberg (1997) indicate how the Internet might affect three types of channel intermediaries, namely, distribution channels, transaction channels, and communication channels. They argue that the potential that the Internet offers for efficiency improvements in channel functions will obviously vary across the three types of intermediaries. Specifically, the logistic functions of distribution intermediaries are probably least dependent on the existence of the Internet except for information goods such as software that can be distributed via the Internet; transaction channel intermediaries will probably be more affected by the existence of the Internet because it will be possible for sellers to efficiently interact with individual buyers and potential buyers; communication channel intermediaries will probably be the most affected by the existence of the Internet. Benjamin and Wigand (1995) maintain that the Internet has the capacity to “eliminate retailers and wholesalers entirely.” Although under certain conditions the Internet will probably cause some degree of disintermediation because of the distribution, transaction, and communication functions it can facilitate for some products and services, on the other hand, the Internet may also lead to more channel intermediaries, such as rating services, automated ordering services, and order consolidation services (Peterson, Balasubramanian and Bronnenberg 1997). Similarly, Sarkar, Bulter and Steinfield (1998) also emphasize the importance of intermediaries in the Internet-based markets. They state that cybermediaries, such as gateways, directories, search services, online retailers, and online publishers, can serve as an efficient mechanism for supporting the diversified commercial exchanges on the Internet.

5.3 The Internet and Customer Relationship Management (CRM)

The Internet and its associated communications technology have dramatically enhanced the ability of firms to interact, thereby better serving their consumers as well as other relational partners. Peppers and Rogers (1999) state that “relationship marketing has only recently become practical and cost-efficient on a large scale because of database technology and the Internet” (p. 122). The Internet has the ability to profile customer relationships and develop customized offerings due to Internet-based applications, thus making certain customer relationship management strategy possible (Sawhney and Zabin 2002). Online firms can not only sell different product packages to different customer segments, but also provide product offerings individually as some commercial sites have allowed customers to configure their own products (e.g., Dell Incorporation). Based on customers' preferences and the Internet-based interactions between firms and

consumers, firms can then improve their product and service offerings and thus deepen their relationships with the customers. Along with this process of personalization and customization, customer loyalty will also increase (Srinivason, Anderson and Ponnaolu 2002).

Sawhney and Zabin (2002) indicate that the Internet can be served as the platform that enables relationship management. In other words, the Internet provides firms with an efficient and effective tool for CRM. Traditional relationship management applications have two problems – sequential information flows and lack of application integration that may lead to delayed and inconsistent information delivery. Such problems can be well solved in the Internet-based environment in which all relationship partners can be interconnected and information can be disseminated synchronously (Sawhney and Zabin 2002). The Internet, Intranet and Extranet, albeit dealing with different relationship partners, consist of a unified enterprise relationship management infrastructure (Sawhney and Zabin 2002).

Some research questions within this topic are presented below for future research directions.

- To what degree can manufacturers bypass the retailers and sell directly to consumers on the Internet? How does disintermediation work in terms of different product categories and marketing segments?
- Competition among Internet vendors is unavoidable. What marketing strategies could be effective, product differentiating, price discriminating, and/or marketing segmenting? How can these strategies be implemented?
- Building an effective firm-customer relationship requires both parties to make relationship-specific investments (Williamson 1975). As these investments increase, the relationship will be strengthened and customers will face increased costs if they attempt to switch to another relationship. One research issue is to determine how firms can make customers invest more into the relationship in the context of the Internet. What incentives and offering packages can be provided by firms to attract and retain customers to learn more about those firms as well as their products and eventually make repeated purchases?

6. Conclusions

More than ten Years of Internet marketing research have yielded a set of important findings. Based on our review of these findings, it is clear that the Internet is playing a more and more important role in the field of marketing.

Understanding Internet marketing will continue to be significant for at least three reasons. From an academician's perspective, it not only helps gain new ideas about the Internet, but also enhances our understanding as to whether existing marketing theories can be applied to this new phenomenon. From a practitioner's perspective, Internet marketing research provides knowledge about the online consumer's beliefs and behaviors, thus enhancing the online firm's opportunities to succeed. From a public policy maker's perspective, there are a number of topics that need to be addressed, such as security, consumer protection, and tax. Future investigations can be targeted at each of these three perspectives.

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