



## SUMMARY OF NEW MATERIAL FOR FINAL

### Product

**Products and Services.** Some marketing scholars and professionals tend to draw a strong distinction between conventional products and services, emphasizing service characteristics such as heterogeneity (variation in standards among providers, frequently even among different locations of the same firm), inseparability from consumption, intangibility, and, in some cases, perishability—the idea that a service cannot generally be created during times of slack and be “stored” for use later. However, almost all products have at least some service component—e.g., a warranty, documentation, and distribution—and this service component is an integral part of the product and its positioning. Thus, it may be more useful to look at the product-service continuum as one between very low and very high levels of tangibility of the service. Income tax preparation, for example, is almost entirely intangible—the client may receive a few printouts, but most of the value is in the service. On the other hand, a customer who picks up rocks for construction from a landowner gets a tangible product with very little value added for service. Firms that offer highly tangible products often seek to add an intangible component to improve perception. Conversely, adding a tangible element to a service—e.g., a binder with information—may address many consumers’ psychological need to get something to show for their money.

On the topic of services, cultural issues may be even more prominent than they are for tangible goods. There are large variations in willingness to pay for quality, and often very large differences in expectations. In some countries, it may be more difficult to entice employees to embrace a firm’s customer service philosophy. Labor regulations in some countries make it difficult to terminate employees whose treatment of customers is substandard. Speed of service is typically important in the U.S. and western countries but personal interaction may seem more important in other countries.

**Product Need Satisfaction.** We often take for granted the “obvious” need that products seem to fill in our own culture; however, functions served may be very different in others—for example, while cars have a large transportation role in the U.S., they are impractical to drive in Japan, and thus cars there serve more of a role of being a status symbol or providing for individual indulgence. In the U.S., fast food and instant drinks such as Tang are intended for convenience; elsewhere, they may represent more of a treat. Thus, it is important to examine through marketing research consumers’ true motives, desires, and expectations in buying a product.

**Approaches to Product Introduction.** Firms face a choice of alternatives in marketing their products across markets. An extreme strategy involves *customization*, whereby the firm introduces a unique product in each country, usually with the belief tastes differ so much between countries that it is necessary more or less to start from “scratch” in creating a product for each market. On the other extreme, *standardization* involves making one global product in the belief the same product can be sold across markets without significant modification—e.g., Intel microprocessors are the same regardless of the country in which they are sold. Finally, in most cases firms will resort to some kind of *adaptation*, whereby a common product is modified to some extent when moved between some markets—e.g., in the United States, where fuel is relatively less expensive, many cars have larger engines than their comparable models in Europe and Asia; however, much of the design is similar or identical, so some economies are achieved. Similarly, while Kentucky Fried Chicken serves much the same chicken with the eleven herbs and spices in Japan, a lesser amount of sugar is used in the potato salad, and fries are substituted for mashed potatoes.

There are certain benefits to standardization. Firms that produce a global product can obtain *economies of scale in manufacturing*, and higher quantities produced also lead to a *faster advancement along the experience curve*. Further, it is *more feasible to establish a global brand* as less confusion will occur when consumers travel across countries and see the same product. On the down side, there may be significant differences in desires between cultures and physical environments—e.g., software sold in the U.S. and Europe will often utter a “beep” to alert the user when a mistake has been made; however, in Asia, where office workers are often seated closely together, this could cause embarrassment.

Adaptations come in several forms. *Mandatory* adaptations involve changes that have to be made before the product can be used—e.g., appliances made for the U.S. and Europe must run on different voltages, and a major problem was experienced in the European Union when hoses for restaurant frying machines could not simultaneously meet the legal requirements of different countries. “*Discretionary*” changes are changes that do not have to be made before a product can be introduced (e.g., there is nothing to prevent an American firm from introducing an overly sweet soft drink into the Japanese market), although products may face poor sales if such changes are not made. Discretionary changes may also involve cultural adaptations—e.g., in *Sesame Street*, the Big Bird became the Big Camel in Saudi Arabia.

Another distinction involves *physical product vs. communication* adaptations. In order for gasoline to be effective in high altitude regions, its octane must be higher, but it can be promoted much the same way. On the other hand, while the same bicycle might be sold in China and the U.S., it might be positioned as a serious means of transportation in the former and as a recreational tool in the latter. In some cases, products may not need to be adapted in either way (e.g., industrial equipment), while in other cases, it might have to be adapted in both (e.g., greeting cards, where the both occasions, language, and motivations for sending differ). Finally, a market may exist abroad for a product which has no analogue at home—e.g., hand-powered washing machines.

**Branding.** While Americans seem to be comfortable with category specific brands, this is not the case for Asian consumers. American firms observed that their products would be closely examined by Japanese consumers who could not find a major brand name on the packages, which was required as a sign of quality. Note that Japanese *keiretsus* span and use their brand name across multiple industries—e.g., Mitsubishi, among other things, sells food, automobiles, electronics, and heavy construction equipment.

**The International Product Life Cycle (PLC).** Consumers in different countries differ in the speed with which they adopt new products, in part for economic reasons (fewer Malaysian than American consumers can afford to buy VCRs) and in part because of attitudes toward

new products (pharmaceuticals upset the power afforded to traditional faith healers, for example). Thus, it may be possible, when one market has been saturated, to continue growth in another market—e.g., while somewhere between one third and one half of American homes now contain a computer, the corresponding figures for even Europe and Japan are much lower and thus, many computer manufacturers see greater growth potential there. Note that expensive capital equipment may also cycle between countries—e.g., airlines in economically developed countries will often buy the newest and most desired aircraft and sell off older ones to their counterparts in developing countries. While in developed countries, “three part” canning machines that solder on the bottom with lead are unacceptable for health reasons, they have found a market in developing countries.

**Diffusion of innovation.** Good new innovations often do not spread as quickly as one might expect—e.g., although the technology for microwave ovens has existed since the 1950s, they really did not take off in the United States until the late seventies or early eighties, and their penetration is much lower in most other countries. The typewriter, telephone answering machines, and cellular phones also existed for a long time before they were widely adopted.

Certain characteristics of products make them more or less likely to spread. One factor is *relative advantage*. While a computer offers a huge advantage over a typewriter, for example, the added gain from having an electric typewriter over a manual one was much smaller. Another issue is *compatibility*, both in the social and physical sense. A major problem with the personal computer was that it could not read the manual files that firms had maintained, and birth control programs are resisted in many countries due to conflicts with religious values. *Complexity* refers to how difficult a new product is to use—e.g., some people have resisted getting computers because learning to use them takes time. *Trialability* refers to the extent to which one can examine the merits of a new product without having to commit a huge financial or personal investment—e.g., it is relatively easy to try a restaurant with a new ethnic cuisine, but investing in a global positioning navigation system is riskier since this has to be bought and installed in one’s car before the consumer can determine whether it is worthwhile in practice. Finally, *observability* refers to the extent to which consumers can readily see others using the product—e.g., people who do not have ATM cards or cellular phones can easily see the convenience that other people experience using them; on the other hand, VCRs are mostly used in people’s homes, and thus only an owner’s close friends would be likely to see it.

At the societal level, several factors influence the spread of an innovation. Not surprisingly, *cosmopolitanism*, the extent to which a country is connected to other cultures, is useful. Innovations are more likely to spread where there is a higher percentage of women in the work force; these women both have more economic power and are able to see other people use the products and/or discuss them. *Modernity* refers to the extent to which a culture values “progress.” In the U.S., “new and improved” is considered highly attractive; in more traditional countries, their potential for disruption cause new products to be seen with more skepticism. Although U.S. consumers appear to adopt new products more quickly than those of other countries, we actually score lower on *homiphily*, the extent to which consumers are relatively similar to each other, and *physical distance*, where consumers who are more spread out are less likely to interact with other users of the product. Japan, which ranks second only to the U.S., on the other hand, scores very well on these latter two factors.

## Pricing

Price can best be defined in ratio terms, giving the equation

$$\text{price} = \frac{\text{resources given up}}{\text{goods received}}$$

This implies that there are several ways that the price can be changed:

- "Sticker" price changes—the most obvious way to change the price is the price tag— you get the same thing, but for a different (usually larger) amount of money.
- Change quantity. Often, consumers respond unfavorably to an increased sticker price, and changes in quantity are sometimes noticed less—e.g., in the 1970s, the wholesale cost of chocolate increased dramatically, and candy manufacturers responded by making smaller candy bars. Note that, for cash flow reasons, consumers in less affluent countries may need to buy smaller packages at any one time (e.g., forking out the money for a large tube of toothpaste is no big deal for most American families, but it introduces a greater strain on the budget of a family closer to the subsistence level).
- Change quality. Another way candy manufacturers have effectively increased prices is through a reduction in quality. In a candy bar, the "gooey" stuff is much cheaper than chocolate. It is frequently tempting for foreign licensees of a major brand name to use inferior ingredients.
- Change terms. In the old days, most software manufacturers provided free support for their programs—it used to be possible to call the WordPerfect Corporation on an 800 number to get free help. Nowadays, you either have to call a 900 number or have a credit card handy to get help from many software makers. Another way to change terms is to do away with favorable financing terms.

Reference Prices. Consumers often develop *internal reference prices*, or expectations about what something should cost, based mostly on their experience. Most drivers with long commutes develop a good feeling of what gasoline should cost, and can tell a bargain or a ripoff.

Reference prices are more likely to be more precise for frequently purchased and highly visible products. Therefore, retailers very often promote soft drinks, since consumers tend to have a good idea of prices and these products are quite visible. The trick, then, is to be more expensive on products where price expectations are muddier.

Marketers often try to influence people's price perceptions through the use of *external reference prices*—indicators given to the consumer as to how much something should cost. Examples include:

- Manufacturer's Suggested Retail Price (MSRP). This is often pure fiction. The suggested retail prices in certain categories are deliberately set so high that even full service retailers can sell at a "discount." Thus, although the consumer may contrast the offering price against the MSRP, this latter figure is quite misleading.
- "SALE! Now \$2.99; Regular Price \$5.00." For this strategy to be used legally in most countries, the claim must be true (consistency of enforcement in some countries is, of course, another matter). However, certain products are put on sale so frequently that the "regular" price is meaningless. In the early 1990s, Sears was reported to sell some 55% of its merchandise on sale.
- "WAS \$10.00, now \$6.99."
- "Sold elsewhere for \$150.00; our price: \$99.99."

Reference prices have significant international implications. While marketers may choose to introduce a product at a low price in order to induce trial, which is useful in a new market where the penetration of a product is low, this may have serious repercussions as consumers may develop a low reference price and may thus resist paying higher prices in the future.

Selected International Pricing Issues. In some cultures, particularly where retail stores are smaller and the buyer has the opportunity to interact with the owner, bargaining may be more common, and it may thus be more difficult for the manufacturer to influence retail level pricing.

Two phenomena may occur when products are sold in disparate markets. When a product is exported, price escalation, whereby the product dramatically increases in price in the export market, is likely to take place. This usually occurs because a longer distribution chain is necessary and because smaller quantities sold through this route will usually not allow for economies of scale. "Gray" markets occur when products are diverted from one market in which they are cheaper to another one where prices are higher—e.g., Luis Vuitton bags were significantly more expensive in Japan than in France, since the profit maximizing price in Japan was higher and thus bags would be bought in France and shipped to Japan for resale. The manufacturer therefore imposed quantity limits on buyers. Since these quantity limits were circumvented by enterprising exchange students who were recruited to buy their quota on a daily basis, prices eventually had to be lowered in Japan to make the practice of diversion unattractive. Where the local government imposes price controls, a firm may find the market profitable to enter nevertheless since revenues from the new market only have to cover marginal costs. However, products may then be attractive to divert to countries without such controls.

Transfer pricing involves what one subsidiary will charge another for products or components supplied for use in another country. Firms will often try to charge high prices to subsidiaries in countries with high taxes so that the income earned there will be minimized.

Antitrust laws are relevant in pricing decisions, and anti-dumping regulations are especially noteworthy. In general, it is illegal to sell a product below your cost of production, which may make a penetration pricing entry strategy infeasible. Japan has actively lobbied the World Trade Organization (WTO) to relax its regulations,

which generally require firms to price no lower than their average fully absorbed cost (which incorporates both variable and fixed costs).

Alternatives to "hard" currency deals. Buyers in some countries do not have ready access to convertible currency, and governments will often try limit firms' ability to spend money abroad. Thus, some firms have been forced into non-cash deals. In barter, the seller takes payment in some product produced in the buying country—e.g., Lockheed (back when it was an independent firm) took Spanish wine in return for aircraft, and sellers to Eastern Europe have taken their payment in ham. An offset contract is somewhat more flexible in that the buyer can get paid but instead has to buy, or cause others to buy, products for a certain value within a specified period of time.

Psychological issues: Most pricing research has been done on North Americans, and this raises serious problems of generalizability. Americans are used to sales, for example, while consumers in countries where goods are more scarce may attribute a sale to low quality rather than a desire to gain market share. There is some evidence that perceived price quality relationships are quite high in Britain and Japan (thus, discount stores have had difficulty there), while in developing countries, there is less trust in the market. Cultural differences may influence the extent of effort put into evaluating deals (potentially impacting the effectiveness of odd-even pricing and promotion signaling). The fact that consumers in some economies are usually paid weekly, as opposed to biweekly or monthly, may influence the effectiveness of framing attempts—"a dollar a day" is a much bigger chunk from a weekly than a monthly paycheck.

## Promotion

**Promotional tools.** Numerous tools can be used to influence consumer purchases:

- *Advertising*—in or on newspapers, radio, television, billboards, busses, taxis, or the Internet.
- *Price promotions*—products are being made available temporarily as at a lower price, or some premium (e.g., toothbrush with a package of toothpaste) is being offered for free.
- *Sponsorships*
- *Point-of-purchase*—the manufacturer pays for extra display space in the store or puts a coupon right by the product
- *Other method of getting the consumer's attention*—all the Gap stores in France may benefit from the prominence of the new store located on the Champs-Élysées

**Promotional objectives.** Promotional objectives involve the question of what the firm hopes to achieve with a campaign—"increasing profits" is too vague an objective, since this has to be achieved through some intermediate outcome (such as increasing market share, which in turn is achieved by some change in consumers which cause them to buy more). Some common objectives that firms may hold:

- *Awareness.* Many French consumers do not know that the Gap even exists, so they cannot decide to go shopping there. This objective is often achieved through advertising, but could also be achieved through favorable point-of-purchase displays. Note that since advertising and promotional stimuli are often afforded

- very little attention by consumers, potential buyers may have to be exposed to the promotional stimulus numerous times before it “registers.”
- *Trial*. Even when consumers know that a product exists and could possibly satisfy some of their desires, it may take a while before they get around to trying the product—especially when there are so many other products that compete for their attention and wallets. Thus, the next step is often to try get consumer to try the product at least once, with the hope that they will make repeat purchases. Coupons are often an effective way of achieving trial, but these are illegal in some countries and in some others, the infrastructure to readily accept coupons (e.g., clearing houses) does not exist. Continued advertising and point-of-purchase displays may be effective. Although Coca Cola is widely known in China, a large part of the population has not yet tried the product.
  - *Attitude toward the product*. A high percentage of people in the U.S. and Europe has tried Coca Cola, so a more reasonable objective is to get people to believe positive things about the product—e.g., that it has a superior taste and is better than generics or store brands. This is often achieved through advertising.
  - *Temporary sales increases*. For mature products and categories, attitudes may be fairly well established and not subject to cost-effective change. Thus, it may be more useful to work on getting temporary increases in sales (which are likely to go away the incentives are removed). In the U.S. and Japan, for example, fast food restaurants may run temporary price promotions to get people to eat out more or switch from competitors, but when these promotions end, sales are likely to move back down again (in developing countries, in contrast, trial may be a more appropriate objective in this category).

Note that in new or emerging markets, the first objectives are more likely to be useful while, for established products, the latter objectives may be more useful in mature markets such as Japan, the U.S., and Western Europe.

**Constraints on Global Communications Strategies.** Although firms that seek standardized positions may seek globally unified campaigns, there are several constraints:

- *Language barriers*: The advertising will have to be translated, not just into the generic language category (e.g., Portuguese) but also into the specific version spoken in the region (e.g., Brazilian Portuguese). (Occasionally, foreign language ads are deliberately run to add mystique to a product, but this is the exception rather than the rule).
- *Cultural barriers*. Subtle cultural differences may make an ad that tested well in one country unsuitable in another—e.g., an ad that featured a man walking in to join his wife in the bathroom was considered an inappropriate invasion in Japan. Symbolism often differs between cultures, and humor, which is based on the contrast to people’s experiences, tends not to travel well. Values also tend to differ between cultures—in the U.S. and Australia, excelling above the group is often desirable, while in Japan, “The nail that sticks out gets hammered down.” In the U.S., “The early bird gets the worm” while in China “The first bird in the flock gets shot down.”
- *Local attitudes toward advertising*. People in some countries are more receptive to advertising than others. While advertising is accepted as a fact of life in the U.S., some Europeans find it too crass and commercial.
- *Media infrastructure*. Cable TV is not well developed in some countries and regions, and not all media in all countries accept advertising. Consumer media habits also differ dramatically; newspapers appear to have a higher reach than television and radio in parts of Latin America.

- *Advertising regulations.* Countries often have arbitrary rules on what can be advertised and what can be claimed. Comparative advertising is banned almost everywhere outside the U.S. Holland requires that a toothbrush be displayed in advertisements for sweets, and some countries require that advertising to be shown there be produced in the country.

#### Some cultural dimensions:

- *Directness vs. indirectness:* U.S. advertising tends to emphasize directly why someone would benefit from buying the product. This, however, is considered too pushy for Japanese consumers, where it is felt to be arrogant of the seller to presume to know what the consumer would like.
- *Comparison:* Comparative advertising is banned in most countries and would probably be very counterproductive, as an insulting instance of confrontation and bragging, in Asia even if it were allowed. In the U.S., comparison advertising has proven somewhat effective (although its implementation is tricky) as a way to persuade consumers what to buy.
- *Humor.* Although humor is a relatively universal phenomenon, what is considered funny between countries differs greatly, so pre-testing is essential.
- *Gender roles.* A study found that women in U.S. advertising tended to be shown in more traditional roles in the U.S. than in Europe or Australia. On the other hand, some countries are even more traditional—e.g., a Japanese ad that claimed a camera to be “so simple that even a woman can use it” was not found to be unusually insulting.
- *Explicitness.* Europeans tend to allow for considerably more explicit advertisements, often with sexual overtones, than Americans.
- *Sophistication.* Europeans, particularly the French, demand considerably more sophistication than Americans who may react more favorably to emotional appeals—e.g., an ad showing a mentally retarded young man succeeding in a job at McDonald’s was very favorably received in the U.S. but was booed at the Cannes film festival in France.
- *Popular vs. traditional culture.* U.S. ads tend to employ contemporary, popular culture, often including current music while those in more traditional cultures tend to refer more to classical culture.
- *Information content vs. fluff.* American ads contain a great deal of “puffery,” which was found to be very ineffective in Eastern European countries because it resembled communist propaganda too much. The Eastern European consumers instead wanted hard, cold facts.

**Advertising standardization.** Issues surrounding advertising standardization tend to parallel issues surrounding product and positioning standardization. On the plus side, *economies of scale* are achieved, a *consistent image* can be established across markets, *creative talent* can be utilized across markets, and *good ideas can be transplanted* from one market to others. On the down side, *cultural differences*, *peculiar country regulations*, and *differences in product life cycle stages* make this approach difficult. Further, *local advertising professionals may resist campaigns imposed from the outside*—sometimes with good reasons and sometimes merely to preserve their own creative autonomy.

**Legal issues.** Countries differ in their regulations of advertising, and some products are banned from advertising on certain media (large supermarket chains are not allowed to advertise on TV in France, for example). Other forms of promotion may also be banned or regulated. In some European countries, for example, it is illegal to price discriminate between consumers, and thus coupons are banned and in some, it is illegal to offer products on sale outside a very narrow seasonal and percentage range.

## Distribution

**The impact of geography.** Geography has a surprisingly large impact on distribution in many areas. While in the U.S., most communities are readily accessible through the Interstate freeway system (or at least from navigable roads that connect the freeways), many foreign areas are more difficult to reach. A large proportion of the population of Latin America, for example, is concentrated at coastal areas due to the inhospitable terrain that predominates the continent. In Europe, connections across mountains were achieved through aggressive tunneling, but this has not yet been affordable in most developing countries. In some areas, the only way to bring most materials in may be air cargo, which is expensive. Goods may be trucked to one relatively accessible retailer, which will then “re-wholesale” to one that can only be reached by jeep, which in turn will resell to a store that may only be reachable through pack animals. Note that, in addition to physical transportation, reliable communication (e.g., mail, phone, fax, Internet) is also essential to allow for the flow of goods.

**Evaluating modes of transportation.** Two main criteria in evaluating modes of transportation are *cost* and *speed*. Air travel does very poorly on the first and very well the second, in contrast to ocean shipping, where the performance is reversed. In general, with slower means of transportation, larger “buffer” stocks are required, and a greater risk of exchange rate fluctuations between the time of shipping and delivery is incurred. In some cases, different transportation venues are combined (*intermodal*), in which case cost is incurred and time spent in transferring the cargo.

**Channel formats:** Wholesalers differ significantly in the amount and quality of services they perform, and it should be noted that it is essential for the wholesaler to be able to appeal to the retailers targeted by, for example, allowing for some time to pay for the merchandise. Retail formats tend to differ somewhat between countries, sometimes because of legal constraints (e.g., until recently, only bookstores were allowed to sell hardcover books in Denmark). Some countries have laws that favor small businesses (e.g., by restricting operating hours or advertising of larger ones).

**Parallel distribution.** As we discussed in the pricing section, there is something a strong incentive to move a product from a market in which it is cheaper to one where it can be sold at a higher price. This *may compromise brand equity, draw strong pressure from authorized retailers* who now have to compete with the lower priced channels, and raise questions on *warranty service eligibility*. Manufacturers can attempt to limit this practice by steps such as (a) *creating visible differences between products and packaging between countries*, (b) *limiting the amount of merchandise* that distributors in low price markets can buy, or (c) *raising prices in the lower priced markets*, even though this will likely result in a severely diminished market share or size. Note that, in general, diversion is a fact of life where solutions (other than differentiating products between markets) tend to be worse than the problem. (In some cases, where products contain serial numbers, distributors that sell to unauthorized channels can be cut off, but this is feasible only for products valuable enough to warrant the cost of associating a serial number).

**Direct marketing.** Most of the World runs behind the U.S. in the area of direct marketing for several reasons. First, U.S. firms have been *quicker to adopt the information technology* necessary to compile effective lists. Secondly, *stringent privacy laws* in many countries inhibit compilations—for example, in some European countries, individuals must consent before they can be put even on a mailing list; collecting this consent is prohibitively expensive. Further, although some of the sources of names, such as vehicle registrations and magazine subscriptions might be available in principle, there is a bit of a “*chicken-and-egg*” paradox in that successful mailing lists are typically based on what people have bought

through the mail before—since mail order purchases have been fewer, people have less of a purchase history and thus, prospects are more difficult to identify.

## Electronic Commerce

Online marketing can serve several purposes:

- *Actual sales of products*—e.g., Amazon.com.
- *Promotion/advertising*: Customers can be quite effectively target in many situations because of the context that they, themselves, have sought out. For example, when a consumer searches for a specific term in a search engine, a “banner” or link to a firm selling products in that area can be displayed. Print and television advertisements can also feature the firm’s web address, thus inexpensively drawing in those who would like additional information.
- *Customer service*: The site may contain information for those who no longer have their manuals handy and, for electronic products, provide updated drivers and software patches.
- *Market research*: Data can be collected relatively inexpensively on the Net. However, the response rates are likely to be very unrepresentative and recent research shows that it is very difficult to get consumers to read instructions. This is one of the reasons why the quality of data collected online is often suspect.

There are many obstacles to the growth of e-commerce:

- *Reach*: Although the majority of U.S. households now have computers connected to the Internet, a very large minority does not, and penetration rates are considerably lower in some countries. In foreign countries, even those households that have computers may be reluctant to spend time online due to the per minute charges, which discourage the more leisurely “browsing” American style.
- *Concerns about privacy*: A number of consumers are concerned about giving up information to marketers that can easily be collected electronically. Naturally, few consumers would like information about their medical status widely collected by firms, but many consumers are even reluctant to have marketers know the ages of their children and past book purchase records.
- *Reputational issues*: Although not as much as a problem before, firms operating online or through direct mail have often been viewed with suspicion since consumers may question whether they will be around if they do not deliver satisfactorily.
- *Costs*. During the “boom,” Internet firms were not expected to be efficient and thus developed bad habits. Although shipping and handling charges can help cover costs of shipping and administration, these often take away the attractiveness of Internet shopping. The most successful e-commerce firms turn out to be the ones that have been successful doing other kinds of direct marketing (e.g., catalog sales) before and have developed the discipline and efficiency required there. For products that have relatively high absolute margins—e.g., computers—there is more money to cover administrative costs.
- *Language*. Since the Internet reaches around the world, it is often difficult to match viewers with their preferred languages. Because U.S. firms and individuals tended to predominate among those first to occupy the Web, most sites are in U.S. English. British speakers of English generally do not perceive American English as American—they tend to perceive spelling such as “color” rather than their “colour” as misspellings. French consumers do not like to have to click to get from an English language to a French language site. It is estimated that by the year 2007, the majority of web surfers will not be comfortable in English and will want sites in

- their own languages.
- **Government regulations:** In the U.S., the government has tried to keep its hands off the Net as much as possible to foster its growth as a trade area, and a recently expired moratorium on new sales taxes was even instituted. However, governments in many other countries are more forceful in their regulations. In countries such as China, where sites can be used to spread “subversive” ideas, there is a great deal of government scrutiny and suspicion.
  - **Cultural obstacles** are often severe. The whole purpose of the web is to make information readily available. In countries where information is closely guarded, that is a frightening idea. There is often also a desire for personal interaction, which may be required to establish the trust needed to secure a deal.
  - **Payment issues.** U.S. consumers exposed to credit card fraud have very limited liabilities, but these protections do not exist to the same extent in Europe or Asia. In China, much of the purpose of the Internet is defeated with some 80% of transactions being completed off-line, usually with funding instruments other than credit cards.

**Determinants of product suitability for Internet sales.** A number of characteristics of products and the way in which they are bought appear to affect the suitability of the product for sale on the Internet:

- **Bulk-to-value ratio.** If a lot of value is condensed into a small product, it is more efficient to ship directly. Products such as jewelry and software may fit this description.
- **Absolute margins.** There is a significant amount of work involved in handling an order. Even at a low 5% margin, a \$1,000 computer still yields an absolute margin of \$50, which will pay for some work. On the other hand, 50% of \$20 book is only \$10 to cover both shipping and processing.
- **Ability of consumer to evaluate product.** Consumers may feel the need to closely inspect or “pet” certain products—especially clothing—in order to determine quality or suitability. In contrast, certain other products can be more easily evaluated through descriptions—e.g., computer equipment.
- **Impact of delay.** Consumers may shop for certain products well ahead of when they are needed—e.g., a computer. Other products—such as printer cartridges—may be needed immediately and it will be unattractive for the customer to wait for delivery.
- **Extent of customization needed:** Certain kinds of products need customization—e.g., airline tickets or personalized stationery and shirts. Here, it may actually be efficient for the customer to enter the information, saving the work of a clerk. Please note that customization in the sense of making a computer exactly to order (with exactly the features the customer wants) is less likely to be cost effective. It might be cheaper to produce a number of standard models that have a little bit more than the customer wants (e.g., a bigger hard drive).
- **Opportunities for collaborative filtering.** Certain online retailers are able to make recommendations on merchandise likely to be of interest to the customer based on past purchases and purchases by other customers who have bought a similar item. Amazon makes extensive recommendations based on this technology.
- **Dispersion of shoppers.** If shoppers for a specialty product are widely dispersed, it may be unattractive for ordinary stores to carry products. For example, bee keepers are spread over large areas with just a few living within reach of a particular store. Here, it is not particularly efficient to serve the customer, but it becomes less inefficient than retail stores.
- **Receptivity of targeted segments to online commerce.** Some segments may be more comfortable buying online. For example, men may feel more comfortable shopping for certain gifts that way.

- **Level of convenience to shopper.** It may be more convenient for consumers to buy certain product online, and they may be willing to pay a premium for this privilege. For example, it may be easier for a customer to rent a movie by mail than to have to pick it up and later return it.

“Collaborative filtering” involves using information about purchases by a specific consumer and others in order to make recommendations for the respective consumer. For example, if a person has consistently bought books by a particular author, the database can recommend a new book by that author when it becomes available. It is also possible to examine what others who bought a particular item bought by the consumer also bought. For example, if a consumer has bought a book about advertising and others who bought that book have been likely to buy a book about career advancement, this book can be recommended.

Dynamic pricing involves using information about past purchases and behavior in order to set a profit-maximizing price for each customer. For example, if a consumer has tended to buy only items on sale in the past, it may be advantageous to offer special deals to this consumer but not to someone who has bought most of his or her merchandise at the regular price. Another common practice involves offering low prices to first time customers to encourage them to buy and then charge higher prices to existing customers. This practice is controversial and may involve certain legal problems.

There are a number of economic realities of online competition:

- As discussed, costs of handling online orders is often higher than that of distributing through traditional stores.
- Even if online selling is more cost effective in some situations, a firm selling online will, in the long run, be competing with other online merchants—not just against traditional “brick-and-mortar” stores. By the forces of supply and demand, online prices will then be driven down so that the profit from selling online will be no greater than that from traditional retailing. Any reduced costs would then be expected to go to customers.
- Competition will be greater for products that have large markets than for those where markets are smaller and more specialized. Amazon.com, for example, has found it necessary to discount best selling books deeply. Higher prices—closer to the list price—can be charged for specialty books, but for a large part of the market, competition will be intense.
- A new online merchant will face competition from established traditional merchants. These will often have the cash reserves to stay in business for a long time even with temporary competition. The online merchant, if it has no cash reserves other than stockholders’ investment, may run out of cash before it can become profitable.

There are a number of problems in running and developing web sites. First of all, the desired domain name may not be available—e.g., American Airlines could not get “American.com” and had to settle for “AmericanAir.com.” There is also a question having your site identified to potential users. Research has found that most search engines have a great deal of “false hits” (sites irrelevant that are identified in a search—e.g., information about computer languages when the user searches for foreign language instruction) and “misses” (sites that would have been relevant but are not identified). It is crucial for a firm to have its site indexed favorably in major search engines such as Yahoo, AOLFind, and Google. However, there is often a constant struggle between web site operators and the search engines to outguess each other, with the web promoters trying to “spam” the search engines with repeated usage of terms and “meta tags.” The fact that many computer users employ different web browsers raises questions about compatibility. A major problem is that many of the more recent, fancier web sites rely on “java script” to provide animation and various other impressive features. These animations have proven very unreliable. Sites may “crash”

on the user or prove unreliable, and many consumers have found themselves unable to complete their transactions.

**Web site design.** The web designer must make various issues into consideration:

- **Speed vs. aesthetics:** As we saw, some of the fancier sites have serious problems functioning practically. Consumers may be impressed by a fancy site, or may lack confidence in a firm that offers a simple one. Yet, fancier sites with extensive graphics take time to download—particularly for users dialing in with a modem as opposed to being “hard” wired—and may result in site crashes.
- **Keeping users on the site:** A large number of “baskets” are abandoned online as consumers fail to complete the “check-out” process for the products they have selected. One problem here is that many consumers are drawn away from a site and then are unlikely to come back. A large number of links may be desirable to consumers, but they tend to draw people away. Taking banner advertisers on your site from other sites may be profitable, but it may result in customers lost.
- **Information collection:** An increasing number of consumers resist collection of information about them, and a number of consumers have set up their browsers to disallow “cookies,” files that contain information about their computers and shopping habits.

**Cyber-consumer behavior.** In principle, it is fairly easy to search and compare online, and it was feared that this might wipe out all margins online. More recent research suggests that consumers in fact do not tend to search very intently and that large price differences between sites persist. We saw above the problem of keeping consumers from prematurely departing from one’s site.

**Dynamic pricing.** By having a record of a consumer’s past purchases, a merchant may be able to fine tune the prices charged—e.g., a consumer who has not bought for sometime may be tempted with a discount while loyal customers are willing to order at full price.

**Online market research.** Online surveys provide an opportunity to collect data from individuals. Often, individuals can be persuaded to fill out a questionnaire in return for some reward (e.g., some personals sites offer an “enhanced” listing in return for participation). An advantage of online surveys is that it is possible to tailor questions to a respondent’s earlier answers—e.g., if the person answers “no” to a question about having shopped for a car during the last six months, he or she is not asked how many dealers were visited. There are, however, some drawbacks to online surveys. One is that people typically are only willing to answer a few questions. Since turnover is quick, it is difficult to administer follow-up surveys to the same people. Also, respondents tend to be unwilling to read and follow instructions. Data mining involves looking for patterns in large amounts of data. For example, it was found that online daters in Portland were more receptive to heavy potential partners than were those in Miami. Some of these relationships, if not hypothesized in advance, may be the results of chance.

**Search Engine Optimization.** There are several search engines available to web surfers and these tend to use different criteria in ranking the order in which sites will be listed.

Google.com, which is reported to have a market share of about 50%, tends to rely very heavily on how many times key words are used in the text. Thus, it is useful to have long pages with lots of information using the appropriate keywords. Search engines tend to have some safe guards against attempts to “spam” them by deliberately repeating the words, so the text must be legitimate information. Since algorithms differ between search engines, it may be useful to have several “gateway” sites that lead the surfer to the main site.

**International Web Strategy Issues.** As is the case with products and promotion in general, firms need to make choices as to how much they should customize web sites to work across

various cultures. A recent study found that consumers in Italy, India, the Netherlands, Switzerland, and Spain showed a more favorable attitude toward web sites that had been adapted for the local culture. Generally, these consumers also reported higher likelihood of purchase, although the magnitude of this effect varied considerably among countries.

Levels of commitment and approaches to international web site presence varies (Siegel 2004). Some firms choose to maintain an exclusively domestic presence. These firms may feel that the work associated with branching out to other countries is not worth the potential returns. If customers in other countries are well served and geographical closeness to the customer is important, it may not be worthwhile to enter into other countries. There may also be considerable paperwork involved in obtaining licenses and other approvals to export and/or to serve customers in different customers. If a physical item is shipped, each individual shipment may also involve a greater deal of paperwork. Some firms choose to operate “passively” on the international scene—they may take orders from foreign countries but will not actively seek them out. On the continuum between customization and standardization, “glocals” fall toward the customization side. These firms optimize sites for the local situation. “Globals,” in contrast, seek standardization. In practice, most firms need to strike a balance between the two. Singh and Pereira (2005—see also <http://theculturallycustomizedwebsite.com/>) offer suggestions for appropriate adaptations based on cultural characteristics.

**Regional Internet readiness assessment.** It is well known that Internet access is better in some areas of the world than in others. There are, however, large variations within countries in terms of their Internet readiness. Some areas of Brazil and Mexico, for example, tend to offer poor access while other regions in those countries are better connected.

Assessing Internet readiness is not a simple task. One variable, of course, is the proportion of the population that has access. However, the quality of this access is also important, particularly in terms of speed and reliability. The cost of service—and particularly the marginal cost—is also important in encouraging use. In areas where access is unlimited, consumers are more likely to browse and seek useful information. In areas where access is either metered or where there is a per-minute charge for local telephone connections, the resulting costs can greatly discourage use. Note that, if access costs the equivalent of three cents per minute, a daily one hour connection will cost \$1.80, amounting to more than \$50 per month in addition to the cost of the Internet service itself.

**Language issues.** It is estimated that in 2000, individuals with English as a first language ceased to be a majority on the Internet. One estimate holds that only 42% of Internet users speak English even to some extent. (Siegel 2006). Note that around the world, British, as opposed to American, English is usually considered the standard.

**Language display.** On most desktop computer systems today, Latin-based alphabets are displayed based on one “byte” of information—a series of eight binary numbers allowing for 256 possibilities. This is not enough to display Cyrillic, Arabic, Chinese, and Japanese characters. If appropriate adapters are not used, browsers such as Internet Explorer may not be able to correctly display these characters.

**Web site customization:** Please see *The Culturally Customized Web Site*.

References:

Carolyn Siegel (2006), *Internet Marketing: Foundations and Applications*, Houghton-Mifflin.

Nitish Singh & Arun Pereira (2005), *The Culturally Customized Web Site*, Elsevier.