Transformative Power of e-Business Over Consumer Brands

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Christian Dussart

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CHRISTIAN DUSSART, MIT Sloan School of Management, and ESCP-EAP European School of Management, Paris

Should we consider e-Business a threat or an opportunity for consumer brands? Responses differ between mass and selective brands, between services and products. Customer involvement and trust are key moderators. But other new, and sometimes scheming, paradigms appear among consumer online and offline behaviors. Multiplication of loyalties and increased mobility drive new buying criteria, possibly diluting the role of brand. Obviously, consequences on branding policy are important. The stake is high. A strategic analysis of new business models and resulting market behaviors is essential. A first set of reflection tracks, ideas and tentative positions are advanced. © 2001 Elsevier Science Ltd. All rights reserved.

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Following the severe backlash comes the learning. In the case of the actual Internet business crash, many explanations could be put forward: backbone limitations, supply chain failures, non-responsive Web sites, IT limitations, lack of co-ordination of the Web channel with other channels and business processes, non-profitable business models — these are among many others.

The Internet alone (often limited to online commerce) has been seen for too long as a universal panacea with an unlimited capacity to revolutionize every aspect of the business world: we now discover that it is not. In the middle of the storm affecting the new economy, others depict it as a fallacy: it is neither. Moving from one extreme to another is certainly not an appropriate reaction. With a market this big waiting to be tapped, perhaps a little turbulence is in order.

The Internet, as a business tool, is here to stay and develop. Obviously, this is not necessarily a blessing (Porter, 2001). As with every tool, it has its strengths, limits and weaknesses that business people should be aware of. They have not changed so much since its early conception and are closely linked to the very nature of such a breakthrough, with both potentially positive or negative consequences: networking, communication, information, multiplicity and ... self-regeneration. The major problem is that, during a collective burst of enthusiasm, we have suffered from strong myopia and confusion. A large part of that confusion stems from the widespread misconception that the practice of e-Business simply means buying and selling products or services over the Internet. On the contrary, e-Business entails the strategic use of information and communication technology (including but not just limited to the Internet) to interact with customers and partners through multiple communication and distribution channels.

By providing the ability to both capture and manage information from these multi-channel activities, e-Business can be seen as either an opportunity or a threat. As an opportunity, well-managed e-Business activities enable organizations to derive maximum value from every interaction and to continuously improve the quality of customer experiences. As a threat, it mounts enormous pressure on producers, reconfiguring deeply competitive structures, reshaping previous business models without always providing reliable replacement solutions, and deeply transforming the nature and role of some key dimensions around which many business processes and decisions are made. Among these numerous dimensions, e-Business experts (both academicians and practitioners together) now realize that the brand itself (and consequently the marketing function which is in charge of its management) may be under serious attack. The question here is not how to develop and correctly manage newly-introduced e-
brands (as has already been treated in some recent books and publications), but to size up what the impact of e-Business on existing brands will be, and how much (and why) this impact may differ among product categories and between business sectors. Obviously, pressure on producers to compete on prices makes service-based differentiation all the more important, but conditions vary a lot from one sector to another.

For this key strategic issue that potentially affects companies’ marketing goodwill, we will discuss and develop several major ideas: (1) the overall risk that e-Business may increase brand ‘commoditization’; (2) on the offer side, e-Business transformative power will change among product categories or between product and service sectors depending on its proneness to act as an accelerant in the multiplication of infinite options; (3) on the demand side, the customer’s involvement (as the customer’s willingness to engage in an online commercial relationship) and trust (as a barrier of inconvenience to prevent the customer switching to another manufacturer, service provider or distributor) are powerful moderators to take into consideration; (4) and finally, as a general and e-Business derived activity, feasibility of P2P practice will be significantly correlated to brand commoditization. Here, we will limit ourselves to consumer brands only. Despite the transferability of most ideas to be developed further, the uniqueness and complexity of B2B plainly justify a separate analysis, even if we keep in mind that the importance of the subject matter remains the same.

The Multiplication of Brand Loyalties

Since the beginning of the 80s, commercial loyalties has been slipping down along the distribution channel, shifting from manufacturers to mass distributors, and now to final customers. Customer, may the force be with you! Some people have claimed victory, arguing that the power is truly in the customer’s hands at last, and confirming the marketing philosophy that the customer should be at the center of any business activity. They were, in fact, reacting a little too quickly! Once again, after some first negative experiences, they revised their initial position. Customers are more empowered than ever: they write the rules. This is a primary force in producing a new competitive reality and obviously e-Business can accelerate customer empowerment even more. We now discover that this new situation could represent a significant threat for marketing practice in general and particularly for branding. The ‘customer as the boss’ is a sound paradigm as long as he or she remains under some form of control. If the brand (as a criterion) is no longer determinant in the buying decision process, if it is moving even further away from manufacturer control, and, worse still, if brand loyalty is being diluted, then we may, as marketing experts, be in serious trouble. We probably already are.

Obviously, the strategic consequences of such a radical shift of power should be looked at very carefully (Table 1). As long as the power was fully in manufacturers’ hands, their own brands were fully dominant. The direct consequence of such a dominant position was that brand choice was mostly made before entering the store. Later, the power shifted progressively into the hands of mass distributors. The next strategic consequence was a rise in power of distributor brands (both banner and private labels). For many consumer goods, brand choice was large at the beginning — in a majority of cases for some specific product categories — to be made in-store, and no longer before entering the store. This tendency appeared to be significant, expanding throughout the world and product categories. Later, customers quickly learnt to make their choice of one brand among a set of acceptable ones, endorsing the two related notions of evoked set (as a concept) and share of customer (as a measure). This was the full recognition of new buying behaviors being driven over time by an overall attitude of ‘shared loyalty’. With e-Business, things are going even further: the final customer, in full possession of his or her means, can surf from one Web site to another, use the services of a search engine and scan a multitude of options, jump from one channel to another, from one database to another, benefit from full online transparency between offers, and even launch a reverse auction. There is an infinite multiplication of choices, and, inevitably, some form of brand dilution, especially among mass brands. We are now moving into a period characterized by an increased mobility of customer buying behaviors.

It is then possible, using a simple mathematical equation, to speak about the multiplication of brand loyalty. If ‘Bi’ represents the evoked set resulting from the multiplication of customer interest (extended from basic needs products to financial activities, leisure, high-tech, and so on...); if ‘Ei’ stands for the multiplication of distribution sites (online and offline); ‘Ec’ appears for the number of network connections between competitive channels belonging to the same company or to different companies; and if ‘Eb’ stands for the increasing magnitude in the number of brands in reference (or evoked) by consumers, then we have as a mega final result: Ec x Eb x Ec x Eb x Eb x Eb... Such a formula underlines the infinite multiplication of choices, and the resulting problem in brand and marketing management. It should be noted that the lowest contribution to the overall multiplicative effect probably comes from ‘EB’, underlying the fact
that it is mainly e-Business which creates infinite choices and new resulting behaviors such as buying mobility.

The Demise of Marketing, the End of Branding

Very recently (end of 2000), Regis McKenna spoke about the demise of marketing (at least with a mass-market mindset). He also put forward some extreme ideas on the end of branding which, without any doubt, will generate strong debate within both the academic and business communities (Kuchinskas, 2000). According to McKenna, branding has no hold on loyalty in the high tech world. Choice is a higher preference among customers than brand. This applies also for price, because products are moving towards parity. Consumers have many ways to access what they are looking for and, as such, companies’ technology and business approaches will have to be more versatile. Consumers have become very accustomed to constantly changing what they purchase, who they do business with — and this tendency will stay and even be reinforced over time: the wireless world is going to be based on the ‘nomadic’ market in the future. Presence and access will continue to replace broadcast.

The fundamentals of McKenna’s logic are perfectly complementary to the previous idea of increased behavioral mobility, infinite choices and multiplication of loyalties. If we look objectively over the worldwide market, many venerable super-brands are in a bind. Many household names have been drifting for years, and are taking a cue from or through high techs. In its 2000 analysis of most valuable global brands, Interbrand (www.interbrand.com) showed that four of the top five are technology names. Obviously, customers’ interest no longer lies in consumer goods; this time is over. Marketing has to adapt: traditional mass approaches that propelled these brands into the first ranks are unable to do so again (or even sometimes to sustain them). But one question remains: does such a strong phenomenon result mainly from customers’ rising interest in high-tech business activities? Or is it due to the impact and transforming effect of e-Business itself? We believe both hypotheses are true, but the most important impact obviously belongs to e-Business. The rising interest in high tech names has resulted in a drastic re-classification of most valuable world brands. The Fortune 100 classification pictures the same effect over the last ten years. The changes are unquestionable. Nevertheless, e-Business appears to be an even more powerful brand commoditization tool for reasons previously explained.

C2B e-Marketplaces and Potential Brand Dilution

As we have already said, e-Business has not only given the power to the final customer, it has also made the reshaping of traditional business models possible through IT network connections and the gathering of information and communication. The major impact in this matter has been the complete reversal of the traditional B2C transactional, or even relational, marketing models, into C2B models. These new models are conceived around the basic generic notion of online auction, declined into different types
of specific models: 'name your price', 'reverse auction' and 'group buying' are among the most important (see Figure 1). All of them result in the creation of electronic market places at the customer's level and more or less generate brand dilution, not only among manufacturer brands, but also among distributor brands and banner, depending upon their architectural configuration. Through search engines or portals, the customer can easily browse through manufacturer brands, and also search for a specific brand, among an infinite number of distributors. If the net effect of each of these reversed models on brand dilution remains hard to measure, they share a common driver: the systematic search for a good price and this is an obvious source of commoditization and deflation. The distributor's name may eventually act as an incentive to pay a premium for guaranteeing quality service (e.g. payment security and prompt delivery). Nevertheless, even in such a case, the differentiation remains quite relative as long as e-Business provides the final customer with access to a wide selection of distributors' names offering the required product or service at a discount price, with the same importance attached to both satisfaction on the quality of service and full screen transparency. Online transparency is then in action for the full benefit of the final customer.

**Brand Future in the e-Business World**

Moving on in our intellectual process, another fundamental question arises: is e-Business transformative power the same both among product categories and sectors? Our position is that the situation differs drastically among product categories (mass versus selective) and also between product and service sectors. Two different and complementary analytical perspectives are necessary here: the offer and the demand.

From an offer perspective, it appears that the impact of e-Business depends on its ability to act as an accelerator in the multiplication of customer options. We may postulate that the higher the number of options available, the higher the risk of some brand dilution as a direct consequence of a lack of control over

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**Figure 1 C2B Reversed Business Models**
branding and marketing policies. Using the previous multiplicative formula, it is possible to compare the potential of e-Business impact on brands among product categories, and between products and services. The focus is mainly on the formula’s three last variables (Ed, Eb and Ec), the number of centers of interest (Ed) remaining stable here by definition (Table 2). We can then discover why services are strongly subject to e-Business transformative power on brand. Their intangibility lies with a greater offer’s malleability. In banking, for example, customers want the option of going into a nearby branch to discuss high value-added financial services in person with an expert, calling a customer service line to inquire about credit, using an ATM from any bank to get cash, or going online to check their account balance and statement. Every single major bank must offer all these offline and online channels (as part of their distribution or access policy) if it is to compete for today’s demanding customers. It is a prerequisite to support the brand name. But this may no longer be quite so discriminating, not only because this set of channels is now universally available, but also because it will no longer prevent customers belonging to one bank moving freely on the network of another, or even using and visiting other types of financial institutions. Network connectivity as a dimension of e-Business plays a key role (Figure 2). If connections are no longer proprietary, but fully open, customers could have access to any of, or all their accounts from one specific network entry point, for all financial institutions with which they are in business, which may, in the long term, dilute traditional brand loyalty to a specific institution. This same effect can be reinforced by new portals specialized in financial services which provide complete directories of banks and other financial institutions on a worldwide basis.

From a demand perspective now, it is necessary to refer to a conceptual framework regrouping the basic platform itself (the Internet) and its integration within the other distribution channels (electronic or traditional), the specific type of marketing e-Business promotes (e-CRM with customized e-Service), and the necessary vital influx to make everything work (information and database technology) (Figure 3). As a managerial tool, the Internet (as a part of e-Business) is the ideal platform for practising relationship marketing, even if some limits still (and will) continue to exist for engaging companies in individual online relationships with thousands of (or even more) customers: a fairly potential paradox of e-CRM. More practically, and not quite so well conceived, a ‘one-to-one’ Web site may result in a ‘one-to-none’. The problem is that the feasibility of relationship marketing relies on strong involvement and trust shared by both sides: the company and its customers. On the company side, it is a matter of internal culture, of permanently championing the customer throughout the entire organization. On the demand side (which is our concern here), we are mainly speaking about customer involvement in the product and in the brand. As already mentioned in the specialized literature, not all consumers are willing to engage themselves in a relationship with a company that only leaves room for a transactional approach. Customer involvement is clearly related to their willingness for self-communication. The degree of involvement is significantly higher for selective brands than for mass brands, and especially true for those brands related to products directly in close, possibly physical, contact with the final customer. As such, and contrary to what has been said by some experts, e-Business represents more of an opportunity to selective brands and, inversely, a threat to mass brands. As selective brands appear to stand
apart, it seems important to pursue the analysis in this area. This time, we will proceed by focusing and capitalizing on a specific example: deluxe cosmetics.

**An Illustrative Case Study: Selective Brands of Cosmetics Going Online**

Worldwide studies on cosmetics (mostly unpublished) show that three major factors explain perceptual discrimination among selective brands. Firstly, personal proximity versus distance: this means customer perception of the distance between personal needs and the concern expressed by companies. It is a concept very similar to that of customer intimacy. Secondly, technology, efficiency and innovation as opposed to overall dream and, thirdly, the perceived type of customer targeted: this dimension correlates more or less with an intense perception of fashion orientation and the age of the average user. In many countries, the two major factors are, in order of discriminating power, innovation versus dream followed by proximity versus distance. As indicated in Figure 4, based on the first dimension, the market is highly segmented; for the second one, it is less so: brand proximity is something a large majority of people are looking for. Customers are highly involved. They want to discuss skin care products. They look for advice directly from the company as a source of expertise. It is a matter of trust. They are also very responsive, facilitating two-way communication between themselves and the manufacturer or selective distributor.

By adopting an online relationship marketing approach (e-CRM), selective brands of cosmetics can position or reposition themselves in the right direction, in search of high ratings for brand proximity. As such, the successful opening of selective Web sites in the selective cosmetics area is not at all surprising, as long as things are correctly managed. They must be considered as a complementary distribution channel in order to be properly integrated into the classical distribution channel network, in search of synergies and complementarities (and this can, in fact, work). Selective companies notice that their consumers tell them more online than they do offline. A very large majority of those visiting Web sites also visit traditional points of purchase shortly afterwards. Things can even go further by developing stores within stores, establishing direct connections between distributors’ sites and the manufacturer’s...
master site. Last but not least, the average age is much lower for online buyers than for traditional buyers: a strategic approach to strive against brand ageing.

**Strategic Consequences: Mass Versus Selective Brands and e-Business**

Selling mass brands by e-Business is not a guaranteed source of added value for manufacturers. e-Business will not solve their problem of dependence on mass distributors. Their only expectation is to reinforce their virtual market share, that is to say their presence on distributors' Web sites, especially on mass distributors sites, to expand their coverage. This reinforces the usual problems of co-branding between manufacturers and distributors. Their strategy is also to develop passive, i.e. non-selling Web sites (mixed with e-mails or other communication supports). These sites will play the role of window frontages to inform visiting customers on product characteristics and communicate at the corporate level.

On the other hand, in the case of selective brands, e-Business is an opportunity. It is a way to ‘disintermediate’ from classical distributors and to reconnect the company with the final customer (as long as disintermediation is the final strategic purpose). By gathering and processing information, companies can build proprietary databases or even data-warehouses, and fully benefit from data-mining. Such a reconnection means more brand power by ‘owning’ information on customers. The development of pro-active strategies, as opposed to reactive ones only, becomes easier. Potential conflicts with traditional bricks and mortar distributors could be avoided by looking for synergies (for example in terms of cross-selling) and by avoiding heterogeneous pricing strategies in distribution channels. A full integration within distribution channels in search of a win – win cooperation is preferable and feasible. Manufacturers of selective brands should fully play the e-CRM card by promoting a Web site with a strong interactive approach. A massive investment in e-service is fundamental too. Online customer services should be consolidated by a traditional and professional call center for questions and problems that the Web architecture and navigation process may be unable to deal with. These companies should quickly develop a global approach, preserving the local touch through a network of local Web sites. Finally, they should keep complete control of management of their Web site, and remain selective-only in the ‘marketospace’, as they are in the traditional marketplace. Any fusion with portals or other forms of Web site should be looked at very carefully and possibly avoided.

**Reversing Negative Effects on Brands: What About Online Promotions?**

An extremely important question on branding policy remains unanswered: is it possible to reverse some of the negative effects of e-Business over consumer brands into positive ones? Can we possibly use e-Business, and the Internet, to recreate added value among brands which have been weakened for many reasons including lack of focus, and innovation, outdatedness, slow management and...e-Business commoditization? Many manufacturers are trying this experience through the development of online promotions such as quizzes, games, contests, member-
ship to online clubs or communities, and so on. The primary objective is to trigger the number of visits to a specific Web site. This is followed by product information, loyalty development, and developing platforms encouraging the practice of permission marketing. Our position is that online promotion will remain a short-term practice in the same way as offline. We do not believe it is possible to inflate brand involvement by using a tool like e-Business. Even a high degree of customer involvement in e-Business will not automatically be transferred into long-term brand involvement. Online promotion is a tactic; it is not a strategy. Worse still, customers may eventually become loyal to online promotions only, and not to the brand itself.

**P2P Stands for Brand Perishing Power and It Is Viral**

We cannot close our discussion on e-Business and consumer brands without referring to a natural activity directly generated by e-Business as a powerful communication enabler. We have moved from traditional B2C business models, to reversed C2B business models, and now to C2C or P2P exchange community models. P2P is nothing more than the ancestral barter economy propelled to its paroxysm into a file-sharing economy, better known under the Napster effect. It takes the form of viral marketing, transforming an economy into a cause. Such a market phenomenon may be seen as both an invisible invasion and an expression of freedom through spontaneous connections among customers. From a first global look, brand dilution has followed the sequence (as described in Figure 5). A closer look at P2P sharing models clearly shows that a complete disintermediation of both manufacturers and distributors is in effect for the pure decentralized model (without any central server) (Figure 6). This means an even larger radical eradication of their brands than is already the case, in a model with a customer server architecture where a minimum of centralization remains. More precisely, and under strict application of a pure P2P
business model, both manufacturer and distributor brand names are disintermediated and placed out of control over their branding and marketing activities. For example, by sharing digital music under an MP3 format, customers are mainly focusing on songs, and no longer on musical majors’ brands or mass distributors’ banners: the commoditization process of CDs as well as games, videos, software and other types of products or services which intrinsic nature predisposes to file sharing is well advanced. Another interesting fact concerning the implementation of a P2P business model is that, for the first time, manufacturer and distributor brands are really ‘bundled’, disintermediated and set out of control. If the situation evolves and the P2P is eliminated, then the manufacturer may use new IT technology for his/her own purpose, reconnect to the final customer, retrieve total brand power by disintermediating former distributors and, of course, generate strong vertical channel conflict with them.

Conclusion: The Crucial Role of Perceived Commoditization

Among the ideas we have developed, it appears that the degree of perceived commoditization of products or services by consumers plays a critical role as a moderator on the transformative power of e-Business over consumer brands. Obviously, e-Business is the ideal platform for multiplying choice options in customer behavior and decision process. Only in the case of high customer involvement and high heterogeneity of offers, can such an insidious commoditization effect be strongly restrained, and price, as the only market regulator, be subjugated. Some manufacturers, along with certain service providers, are offering more, delivering an added value and investing in their brand equity. On the other hand, manufacturers may also push for commoditization through business practices not uniquely limited to e-Business, mainly by offering more products based on a common and shared set of intrinsic characteristics. This is so far car models of different competitive brands sharing the same platform. e-Business may then develop the transparency of such approaches, increasing perceived parity and decreasing brand differentiation altogether. The problem is that the barrier is high and pressure is on the manufacturer’s shoulders. An increased multiplicity of available choices in terms of products, brands and distributors has always increased expectations and bargaining behaviors. This is not a new economic behavior at all. The challenge is that e-Business acts as a powerful accelerator in this matter — and things are expected to speed up with the implementation of common IT languages such as XML, conceived to facilitate even more connectivity. Branding must permanently re-invent itself faster than ever: it is already and will remain a major stake for marketing experts.

References


CHRISTIAN DUSSART,
MIT/Sloan, Memorial Drive, E60-365, Cambridge MA 02142, USA.
E-mail: christian_dussart@hotmail.com

Christian Dussart is Senior Lecturer at MIT Sloan School of Management and Professor at ESCP-EAP European School of Management, Paris. He has published research on consumer behavior and marketing strategy. His present research interests are in e-business strategy, new business models and practices, integrated click and mortar distribution policies and the management of services on the Internet, with a specific focus on e-CRM.