

advertisers are buying contact to broad or specific groups of media consumers, often seeking a feedback or a communication mechanism to consumers. The Free-TV business' main product is advertising contact and consumers are paying indirectly through receiving commercials. Online services have traditionally been sold through subscriptions (as Pay-TV channels) but increasingly forms of online advertising are tending to change this business model. The needs of both customer groups could conceivably be met through mixed models by bundling existing services or developing new ones. Internet service providers with personalized portal sites to the internet or services as "WebTV" have some of these attributes. Suppliers to converging industries can often increase their bargaining power as their services become important for meeting new customers' needs. The creative potential in the content providers' areas are increasingly demanded by both TV and online service providers. As two industries converge there is a threat of substitution as both services are increasingly competing for advertising services and budgets. Already some online services reach usage rates of relatively well viewed TV programs and their CPM is rated even higher than those of TV stations. Online services are seen primarily as complementary to TV programs, which can gauge viewer reactions and tie customers closer to their programs. Website addresses shown in TV programs can significantly drive online traffic and give advantage to cross-media provision. Complementary services may have a positive influence on rivalry and improve industry profitability. Adequately, depending on the type of convergence, different forms of new entries emerge. Firms with new technologies may seek to enter and take over existing markets (e.g. Microsoft's failed attempt to conquer the online services market by bundling its MSN service with Windows'95). In the other case, new entrants are interested in cooperating with current firms offering complementary products (e.g. Microsoft and NBC together created MSNBC). When

competitive convergence is the dominating paradigm, the number of competitors in the relevant market increases rivalry. Complementary convergence tends to lessen rivalry, and in extreme cases it may cease as it was anticipated by the European Commission for the German digital Pay-TV market by rejecting the plans of the only two players Premiere and DF 1 to join forces. Finally, convergence also changes the basis for competitive advantage and firms must adapt their strategies depending on the dimensions, basic forms and degree of convergence.

#### CONCLUSION

Do we expect a convergence of those markets? Will online services offered by TV stations be able to boost the TV industry or will TV programming integrated into online services be able to increase radically their growth? A need convergence is only occurring on a limited basis yet; the functions and use of the two media are (at least for now) too different. "A merged television-computer would include a number of compromises that would diminish its ability to fully function as a television or a computer" (Grant; Shamp 1997). Therefore, competitive convergence is likely to be limited to a few niches, e.g. computer-oriented TV viewers or TV advertisers with PC users as target groups. Complementary convergence is likely to be increasingly observed where TV programs and online services are linked together. The further television is moving away from mass communication to more user specific communication the more important will be the fulfillment of customer needs in terms of service design and quality. This is currently not possible with standard Free-TV broadcasting. The further online services are moving to mass communication aspects the more limiting will be factors like the type of device, performance of delivery platform, pricing models (e.g. connection fees), and user convenience.

It is probable that innovation in these directions will take place soon in the online services industry.

## THE THREE COMMERCIAL FUNCTIONS OF THE INTERNET

KLAUS VON VERSEN, RENAISSANCE, ENGLAND\*

### 1 INTRODUCTION

The growth of the internet is exponential. (<http://nw.com>.) Current and potential customers can communicate at any one time from any location with a company that provides information online. Hence, it is necessary that the internet presence of a company is organized in a professional way, for it to build long term competitive advantage. The key to competitive advantage is an integrated marketing approach.

Due to the idiosyncratic combination of hypermedial possibilities of the internet and the WWW, the hypothesis can be set up, that it fulfils three primary functions combining the characteristics of a medium and a market in a time. The systemic integration of these medial characteristics are unique, i. e. other medias like radio or television do not possess it.

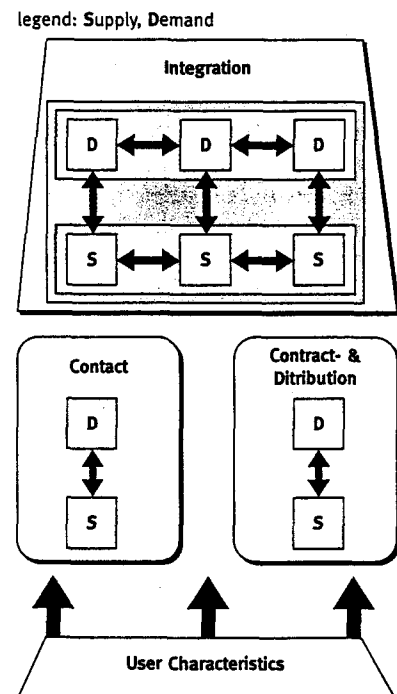


Exhibit 1

The three commercial functions of the internet

First, the function of contact, in which demanders and suppliers exchange information. Secondly, the internet is perceived as a global "shopping center", representing the function of contracting and distribution. Thirdly, the real future of the net of nets lies in its potential of integration. Suppliers can form virtual companies on the internet, while demanders socialise in virtual communities. Eventually, both of them will merge in internet conglomerates. Before discussing each of those functions in more detail, some characteristics of internet users are highlighted, which a company's internet presence should take into account.

**2 PROFILE OF INTERNET USER**

A common misperception of the internet user is, that he is 30 years of age and has achieved a relatively high level of education (<http://www.w3b.de> for more details.).

But this is merely a simplistic perspective based on the statistical average. (Riedl, 1998.) Furthermore, the profile of visitors to a particular Web site may be very different. Using typologies of users could resolve this complication. Several typologies have been developed to describe the netizens (net & citizen). To realize a web presence the dichotomy of information seeker and surfer is an interesting starting point. Surfers are keen on multimedial animations and games, whereas information seekers are interested in specific information. (Riedl/Busch, 1997: 14.)

**3 THE FIRST FUNCTION: CONTACT**

By this approach, the motive-orientated design of web pages can be the guiding principle within the first function of the internet. Users find their way through the web site, pursuing their proper motive (information seeker vs. surfer). They are supported by indications on the homepage which facilitate the effect of self selection. Besides the motives of the users, the product and its involvement can be another starting point for the Web presence. Low involvement products are enriched with an added value ("benefit"), whereas this approach is not indispensable for high

*\* Klaus von Versen  
([klaus\\_versen@hotmail.com](mailto:klaus_versen@hotmail.com))  
is consultant at the strategy consultancy Renaissance, London. Within his projects he has practical insights to direct marketing via the internet. He pursued his studies of business and administration at the universities of Bayreuth and Nantes.*

involvement products. (Bruhn, 1997: 857.) This benefitting approach can have really creative outcomes, as the following example shows. (Exhibit 2)

The multitude of possibilities of multimedia presentation for Web page design is seductive, alas, bandwidth limitations are omnipresent. A solution for big pictures is a small black & white format, which can be enlarged, if desired. A text-only version, available at the click of a button, without any multimedia gadgets could round off the web offer. (Lamprecht, 1996: 134.)

Even worse is the content limit of web sites. At first sight this may appear paradoxical, since there is no restriction to the amount of information provided on the internet. But the information subjectively desired by the user should be reached within several "clicks". Hence, the objec-

tively provided amount of information is a multiple of the actually, subjectively, wanted. Therefore, appropriate navigational mechanisms which show the structure of the web site should be used and/or the information should be customized.

There are two instruments of customization: the active registration on the web site and the passive installation of cookies. Through both tools mass customization of web pages is possible. In particular frequently changing Web sites use these to a large extent.

**4 THE SECOND FUNCTION: CONTRACT AND DISTRIBUTION**

The second function of the internet is of rising interest and will play a very important role in the future (<http://www.w3b.de>): internet shopping. The internet as a distributional channel can be used to reach new target groups of clients. For example, customers which are not very affected by mail order can be reached over the internet. (Pispers/Riehl (1997), p. 214.) Given that internet shopping is a great challenge for retailers, (Albers/Peters, 1997: 69.) the third function of the internet should be examined now.

**5 THE THIRD FUNCTION: INTEGRATION**

Integration on the supply side gives birth to virtual corporations and on the demand side virtual communities arise. Both of them flow into conglomerates.

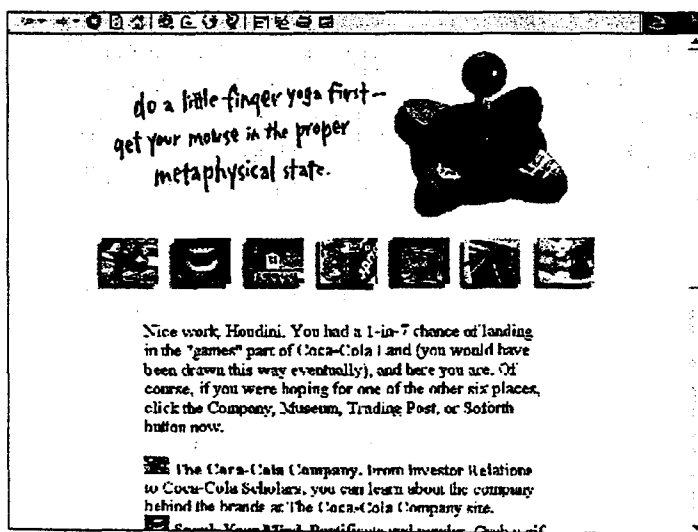


Exhibit 2  
Benefitting on  
the Coca Cola  
website

source:  
<http://www.cocacola.com/home.html>

## CASE STUDY

### 5.1 VIRTUAL CORPORATIONS

In comparison to other technologies, like electronic data interchange (EDI) and wide-area networks (WAN), the internet has open standards which make it a lot easier, in effect, to build virtual corporation on the internet. (Upton/McAfee, 1996: 123.) In this context, Fischer et al. examine the potential function of intelligent agents building up internet-based virtual corporation. (Fischer, 1996: 38.)

They assume that there will be information stock exchanges, in which core processes of virtual corporation are offered. Depending on the authentication of participants, they will admit a more restrictive or enhanced access to information. The creation of virtual corporations is segmented into four key phases: specification of the target, decomposition, allocation, synthesis of core processes.

Specification of the target, which includes the description of the whole process, is strongly related to the decomposition of the whole process in several sub-processes. Intelligent agents support the retrieval of relevant information and help to concretise the own bid at the information stock exchange. Responses to own bids are received and evaluated. The allocation of sub processes is accompanied by intelligent agents; they organize the (virtual) negotiation between the participants. Finally, the sub processes are synthesized.

However, the visionary thoughts of Fischer et al. can be questioned fundamentally: the presence at those information stock exchanges induce an enormous transparency in terms of performance and competition. It is not evident, that participation at those stock exchanges is desired. Therefore, a more restrictive behavior is probable. Basically, the aim of internet-based virtual corporations is to create an open company-environment-network, which core competence is its immanent dynamism and its customer orientation.

### 5.2 VIRTUAL COMMUNITIES

After highlighting the implications of integration on the supply side, the demand side should be examined now. The key characteristic of virtual communities are their common interests and needs, who meet in chatrooms, usegroups and mailing-lists. Four motives of joining virtual communities can be distinguished. (Armstrong/Hagel, 1995: 130.)

In communities of relationship, people interact regularly. They are conscious of the identity of their communication partners. Even very personal affairs, like addictions and illnesses are the topic of those virtual communities. Due to their very specific groupbound character they build up their own history and group identity.

For commercial use, communities of fantasy are of less importance. They prefer multi user dungeons (MUDs) or similar games.

In contrast to these, in communities of interests a limited amount of themes are discussed. They include neighbour nets and university alumni communities. Social and experience interests are predominant.

Finally, communities of transaction æ in which commerce is realized æ communication is reduced to the minimum.

Consequently, loyalty depends upon the type of virtual community. Certainly, in communities of relationship and interest, loyalty is very high. Within communities of transaction it is quite limited, due to the dominant price-performance-comparison.

A very interesting platform can be visited at Procter & Gamble. (Exhibit 3) There, several motives can be satisfied within one website. A mixture of a community of relationship and interest is visualized on the following web page, which can be reached directly from the P&G website. Very discrete problems with babies are discussed with experts of Pampers. By the way, the proper product solutions are only a few "mouse clicks" away. These approaches will generate a high loyalty between the company and its customers.

Beyond these motives to enter virtual communities, product specific characteristics should be taken into account. High involvement products, induce a very intense information exchange; for example, opinions of users facing several product alternatives are exchanged. Though, this involvement dependency can be eliminated for low involvement products by adding values, like chats with famous people.

Concerning the content of discussions within virtual communities, they represent an ideal platform to generate ideas for new products or to modify existing products.

Ask Our Experts  
Answering Parents' Questions

Welcome to Ask Our Experts, where Pampers Experts answer the questions of parenthood. All questions have been submitted by parents or parents-to-be just like yourself. If you have a question you need answered, please submit it below. Answers to frequently asked questions are posted often, so check back frequently for this helpful information.

**Development** My baby hasn't lifted his head yet. Is something wrong? Ask us.

**Behavior** Why won't my baby stop crying? How do you toilet train? Why won't my 3 year old share with his younger brother? Ask us.

**Sleep** How long should my baby sleep? How to get him to sleep? Ask us.

Skim milk or whole? When do I go

Exhibit 3  
The pampers  
community  
platform

source:  
<http://www.pampers.com/askourexperts/index.htm>

Here, beyond the eyes of critical users, products of the company and its competitors are compared. The casual interaction between the participants can be an enormous advantage for the company through mouth-to-mouth-propaganda:

"They [virtual communities] allow a company to leverage its most effective salesforce: its own customers." (Hagel/Armstrong, 1997: 146.)

Besides the aforementioned advantages of virtual communities, there are, of course, downsides as well.

Competitors can "listen" in chat rooms. (Werner/Stephan, 1997: 102.) Consequently, it is not the availability of this predominantly qualitative information, but its analysis, which generates longterm strategic advantage.

Furthermore, virtual communities are not static, but dynamic. Within very large virtual communities one runs the risk of there being spin-offs and other e. g. usegroups come up. (Armstrong/Hagel, 1995: 137.) Basically, it is the number of active participants æ who generate articles æ which one should focus on.

The screening of those discussion forums is an ideal basis to listen to the market. Right here, a critical and not always objective dialogue beyond customers and between companies and customers takes place. The enormous potential of receiving ideas for new products or for product modifications should be seized. In particular, in communities of interests - in which participants have distinctive knowledge or experience - this source can have tremendous value.

Companies can seize these opportunities in two ways: First, by passively "listening" and secondly, by actively "moderating" these communities. By managing communities, the content and process of discussion can be influenced. But there can be a really short way from management to manipulation. Any oppression

## REFERENCES

Albers, S./Peters, K. (1997): *Die Wertschöpfungskette des Handels im Zeitalter des Electronic Commerce*, in: *Marketing in: Marketing ZFP, Heft 2, (1997), S. 69-80.*

Armstrong, A./Hagel, J. (1995): *Real Profits From Virtual Communities*, in: *The McKinsey Quarterly, (1995), Nr. 3, S. 127-141.*

Bruhn, M. (1997): *Kommunikationspolitik, München 1997.*

Fischer, K u. a. (1996): *Intelligente Agenten für das Management virtueller Unternehmen*, in: *Information Management, (1996), Nr. 1, S. 38-45.*

Hagel, J./Armstrong, A.G. (1997): *Net Gain*, in: *The McKinsey Quarterly, (1997), Nr. 1, S. 141-153.*

Hagel, J./Sacconaghi Jr., A.M. (1996): *Who will benefit from virtual information*, in: *The McKinsey Quarterly, (1996), Nr. 3, S. 22-37.*

<http://mw.com>, 12/1998.

<http://www.cocacola.com/home.html>, 12/1998.

<http://www.microsoft.com/isapi/referral>, 12/1998.

<http://www.pampers.com/askourexperts/index.htm>, 12/1998.

<http://www.traxx.de>, 12/1998.

<http://www.w3b.de>, 12/1998.

Lamprecht, S. (1996): *Marketing im Internet, Freiburg 1996.*

Pispers, R./Riehl, S. (1997): *Digital Marketing, Bonn 1997.*

Porter, M.E. (1985): *Competitive Advantage, Boston 1985.*

Rayport, J.F./Sviokla, J.J. (1995): *Exploiting the Virtual Value Chain*, in: *Harvard Business Review, (1995), November-December, S. 75-85.*

realized within a community will be "punished" immediately due to the very fast mouth-to-mouth-propaganda on the internet; spin-offs or community migration will be the consequence. Therefore, a constructive dialogue between the company and the customer is the key objective.

Finally, getting customer information in virtual communities is really important. Analysing this data and using it for marketing mix activities can form the basis for internet conglomerates.

## 5.3 CONGLOMERATES

Conglomerates are the synergetical outcome of internet-based virtual coporations and virtual communities. By customer profiles gained within internet communities and visits on the web site, it is possible to customize products and services. In particular, modular and digital products will be most appropriate. Furthermore, e. g. by e-mail, new products will be announced in advance.

The existence of such conglomerates depends upon the trust in the internet and the supplier hubs. Emerging encryption technology and secure cyber-cash will augment the confidence in the internet in the long run.

Trust in suppliers is indispensable, because the customer creates a profile transparency of his wishes and interests. Therefore, organizations that incorporate a strong confidence position will have a competitive advantage, if they seize the opportunity to transfer it to the internet. Given that the beginning of conglomerates are virtual communities, those (e. g. ffly.com) can lever customer information into conglomerates; the basis of confidence already exists in this case. Retail banks - taken into account their strong confidence position - can use their very detailed customer profiles to run their internet presence as well. (Hagel/Sacconaghi, 1996: 26.) The key objective is to generate very well-known web-sites which are highly frequented.

## CASE STUDY

It should be underlined once again, that the offered information is initiator and accelerator of conglomerates. The customer will realize the real added value of his customized product immediately after using it. Later on, he will provide further relevant information to the conglomerate. A spirale of loyalty between the conglomerate and the customer will be initiated.

However æ the enormous profit of conglomerates on the internet in sight æ many companies will try to build them up. A la longue, premium conglomerates will emerge, which will pass their critical mass rapidly. They will be able to compare many customers to one another and identify unmet needs.<sup>1</sup>

Of course, the described conglomerates don't exist these days, due to the insufficient IT-basis. In particular, the purest form of virtual companies cannot be realized within the next few years. But one can observe some tendencies these days: embryonic conglomerates. They evolve gradually and, finally, will represent the basis for conglomerates. These days, software companies – which have an enormous affinity to the medium – are the "first-movers" to the internet; they will try to build up a trust relationship with its visitors and customers. Microsoft is an interesting example, because it has a strong strategic intent to built up a so-called internet portal.

Microsoft provides on this webpage a list of several resellers (supply side) and a overview of events, e. g. seminars online. The latter represents a virtual (training) community. The platform -provided by microsoft - can fulfil the two patterns of a community of interest and transaction. Hence, it is a good starting point for a strong long term customer loyalty. This loyalty will be driven be several offered products, which complement each others in terms of their use. Conglomerates with enormous potential influence will try to build up communities of relationship as well, which can not be perceived in this example. But - as aforementioned - this interesting approach is definitively not the end, but the beginning of conglomerates ...

Riedl, J. (1998): *Die Notwendigkeit der Zielgruppenanalyse für die Online-Kommunikation*, in: *Wirtschaftswissenschaftliches Studium (WiSt)*, 1998.

Riedl, J./ Busch, M. (1997): *Marketing-Kommunikation in Online-Medien: Anwendungsbedingungen, Vorteile und Restriktionen*, Working Paper 1/1997, Universität Bayreuth, Lehrstuhl Marketing, Bayreuth 1997.

Upton, D.M./ McAfee, A. (1996): *The Real Virtual Factory*, in: *Harvard Business Review*, july-august, (1996), S. 123-133.

Werner, A./ Stephan, R. (1997): *Marketing-Instrument Internet*, Heidelberg 1997.

## 6 CONCLUSION

However, the three functions of the internet (contact, contract & distribution, integration) can develop their huge potential only if the real and the virtual value chain are managed in a symbiotic way.

The physical value chain is indepthly described by Porter. (Porter, 1985). He distinguishes between primary (inbound logistics, operations, outbound logistics, marketing & sales, service) and secondary (corporate infrastructure, recruitment, research & development, procurement) activities.

The virtual value chain, however, concentrates upon the gathering, organization, selection, synthesis and distribution of information. (Rayport/Sviokla, 1995: 75.) The funnel of data (gathering, organization, selection) leads to the synthesis of information which is distributed afterwards within the organization and, of course, the conglomerate. The real and virtual value chains of the participants of the conglomerate should finally by harmonized and should have customer-orientated focus.

Information represents only a supporting element for the physical value chain. In contrast, within the virtual value chain information is a source of value. The development of prototypes e. g. was realized the other day by real models; nowadays those goods are reproduced only virtually within applications like computer aided design (CAD). Finally, the virtual and the physical value chain are linked and interact with each other. However, only the virtual value chain and the internet can be connected directly.

Only by seizing the three functions of the internet within an integrated marketing approach æ taken into account the management of the virtual and the real value chain æ, strategic competitive advantage will be achieved.

<sup>1</sup> This process is facilitated by data mining.

Exhibit 4  
Embryonic conglomerates

source:  
[http://www.microsoft.com/  
isapi/referral/](http://www.microsoft.com/isapi/referral/)

The following resellers are authorized to sell products online. To purchase from one of these resellers, click the company name.

You can also view a list of [local resellers](#) or [mail-order resellers](#).

Store / Reseller
<a href="#">Micro Warehouse</a> *
<a href="#">Beyond.com</a> *
<a href="#">Creative Computers Inc.</a> *
<a href="#">CDW</a> *
<a href="#">PC Connection</a> *
<a href="#">Multiple Zones International</a> *
<a href="#">Programmers Paradise, Inc.</a> *

Navigation menu: Home, Training & Testnet Centers, Industry Applications, Independent Software Vendors, Streaming Media Development Services, Microsoft SQL Server 7.0 Service Providers, About Events, Events & Seminars, Seminar Online