

*Relationship marketing
with IBM Net.Commerce*



Key Topics

The Internet is ideally suited to relationship marketing

Relationship marketing on the Web can help improve customer retention and increase sales

Customers can benefit from round-the-clock availability and Web-based self-service

IBM Net.Commerce delivers relationship marketing capabilities for your e-commerce site

Net.Commerce relationship marketing components include advertising, pricing and promotion and customer profiling



Abstract

The dynamic nature of the Internet has changed the playing field, reshaping how we market our products and services. Companies that didn't exist five years ago are now capturing not only customer attention and imagination but dollars from traditional merchants and channels with the promise of "...you can get it on the Web the way you want it, when you want it, quickly and easily." As boundaries between industries, channels, even buying and selling, are blurring, the earlier wait-and-see attitude by some direct marketers and brick-and-mortar retailers has now become a mandate to use the Internet to leverage the channels and brands they have worked long and hard to establish. The Internet challenge for merchants and businesses is to hold onto valued customers while creating new loyal ones. How do you do it? Through effective relationship marketing. Relationship marketing is the shift from a product-centric paradigm to a customer-centric one, earning customers' loyalty and selling them services and goods over a lifetime, maximizing revenue per customer. The approach is to provide customers with personalized, pleasant experiences: to make them feel special by anticipating and meeting their individual needs. For businesses in a customer-centric world, the Web is just one more channel to integrate into the other customer touch points in a comprehensive relationship marketing strategy. This white paper explores how relationship marketing, founded on the customer-centric paradigm, can help you better capitalize on e-commerce in both business-to-business and business-to-consumer environments.



Business environment

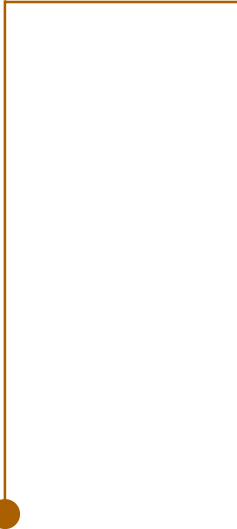
Since the advent of mass production, the focus of marketing and merchandising has been product-centric—to sell the same product to as many customers as possible. In the last two decades, as marketing has become increasingly more sophisticated, manufacturing more flexible, and competition global, the need for and possibility of a new customer-centric paradigm has emerged, making the goal of relationship marketing a reality.

Many factors contributed to the rise of relationship marketing. Marketers realized that selling many products over time to one customer yields savings on customer acquisition and recruitment costs. An individual's interests, attitudes and values (psychographics) provide important insights into whole new types of products and services that he might be interested in. For customers, an ongoing relationship with a supplier is convenient, saves time and money and provides value in having their needs anticipated. The bottom line for merchants is that relationship marketing helps to develop new sources of sales, increase customer loyalty and reduce cost of operations—all resulting in more revenue and profit.

While relationship marketing is often thought of as a business-to-consumer endeavor, in reality it has long been employed in the business-to-business world by sales representatives who monitored what their clients were doing and suggested appropriate products and services. This paper outlines traditional approaches as well as a new generation of smart marketing technologies, enabled through the Internet, that can bring such thoughtful selling to both Internet and traditional channels.

Relationship marketing is now being pursued by many kinds of organizations in business-to-business and business-to-consumer venues, including:

- Retailing sites from catalog merchants, store chains and manufacturers
- Wholesale reorder points from manufacturers and distributors
- Customer care centers from insurance, banking, financial and medical services companies.



Relationship marketing and the Internet

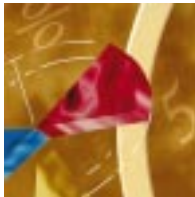
Relationship marketing embraces all the customer touch points and channels of a customer-centric business strategy, not just the Internet channel. However, with a relationship marketing strategy in place, you (and your customers) can exploit the Internet more deeply and derive a wider range of advantages than is possible through other channels.

The Internet is ideally suited to relationship marketing. You have a one-to-one connection to the buyer during an online session, and with some investments in processes and technology, that one-to-one connection can be extended across sessions to become a true relationship. Every action a buyer takes can be recorded and used to understand more about him. Web sites are inherently self-service, which means that the your cost of “running” the relationship can benefit from economies of scale. Because moment-by-moment interactions are computer mediated, you can implement a new promotion or incentive program in short order, without costly retraining of relationship managers or sales agents. Customers on the Internet get your information at the moment they need it, in a form that’s most appropriate and with little or no barrier to acting on it.

Advantages of relationship marketing on the Internet

Internet-related advantages of relationship marketing for sellers, suppliers and merchants include:

- Improved customer retention through better, more relevant and personalized service, which reduces turnover and ongoing investments in customer acquisition
- Increased “wallet share” by anticipating needs, recognizing and utilizing up- and cross-sell opportunities and presenting offers before competitors
- Reduced costs of doing business in two areas: offering online service and support in which customers can serve themselves for most of their needs (which reduces call center staff requirements) and improving the yield of promotional expenses through better targeting of prospective customers (which reduces the per-sale cost of promotion)
- Greater leverage of brick-and-mortar assets by increasing awareness and sales through the Internet channel without having to invest in additional retail or wholesale sales locations
- Ability to offer virtual hands-on and trial use of some products, which can then be ordered immediately or in the future
- Convenience in being able to accept orders for cumbersome products online and schedule their delivery directly to buyers without the added expense of shipping them to retail outlets.



Internet-related advantages of relationship marketing for customers include:

- Greater interest and excitement: when the real needs of individual customers are understood, the advertisements, recommendations and offers they see can be better designed and targeted, and the value propositions can be made more relevant to their individual circumstances—increasing the chances of acceptance
- Better service: the e-commerce and customer support sites can be open 24 hours a day, 7 days a week; customers can check order, shipping and payment statuses; customers can indicate their needs and preferences once, and not have to restate them in every contact with your staff
- More effective use of time: greater interest and better service help customers maximize the use of their time, which in many ways results in greater loyalty to your business.

What's different about relationship marketing on the Internet

Nothing and everything. The basic customer-centric principles remain the same. However, the Internet is a dynamic environment in which your e-commerce system can follow and interpret what customers are doing in realtime, compare it to what they and others have done in the past and immediately present relevant options such as up- or cross-sell offers, or supplies and accessories recommendations.

When planning a relationship marketing strategy that includes the Internet, it's important to know how the Internet impacts traditional marketing and sales processes. Here are some of the significant differences:

- Customers can get to your online store with a mouse click and leave just as easily. So, you need to capture their interest immediately with attractive, relevant content, giving them reasons to stay and return.
- You can recognize repeat visitors in various ways. Focusing on retention means customizing each "next" visit to meet their interests—through targeted and personalized product recommendations, promotions and information.
- You can monitor your customers and get immediate feedback about what's working and what's not.
- You can adjust the rules that determine the content and selection of offers displayed in different circumstances and tune promotions through the day or based on inventories.



- Going from customer awareness to an online sale can happen immediately. Product information, answers and offers should drive to complete the sale, and make the entire process as easy as possible.
- Service and support can be delivered faster and cheaper due to 24x7 availability and self-service capabilities. These properties can enable the Internet to become the central point of contact for increasing numbers of customers as Web usage grows. Your e-commerce site can also become a synchronization point for all of your service and support channels .

Preparing for relationship marketing

Putting it all together, relationship marketing on the Internet can increase brand value. However, relationship marketing entails reallocation of resources and changes in thinking. For example:

- Shifting marketing budgets from customer acquisition campaigns to customer retention capabilities—such as software and hardware assets to gather customer browsing and purchasing behavior—and learning how to analyze, interpret and apply the information
- Combining customer-related information from multiple channels, and leveraging this information across all the channels—call center, direct mail, Web, e-mail and sales force
- Finding ways to create special offers that will interest groups of customers or an individual and then using the Internet and other channels to notify them and enable them to buy immediately
- Allowing customers to help personalize their experiences with your organization through settings, interest keywords and preference indicators in their account profiles.

The balance of this report shows where Internet-mediated relationship marketing fits into the marketing process and describes some of the offerings available from IBM and its business partners.



The E-commerce Business Process Model and relationship marketing

The E-commerce Business Process Model, below, shows how the many relationship marketing components available from IBM and its partners (partner components marked with *) help increase sales and strengthen customer relationships, as explained in this section.



Personalization

Personalization means using knowledge about a customer to merchandise, present, modify and deliver the most appropriate information, products, services and advertisements to that individual at that moment.

Personalization techniques

Customization

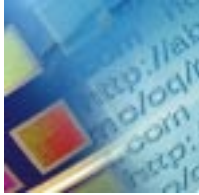
- Customer controlled page and site layout
- Customer/merchant controlled “feeds,” e.g., news, weather, stocks, etc.

Targeting

- Explicit buyer groups
- Rules

Prediction

- Based on group behavior and/or individual behavior



Functional Components

- User Profile developed from multiple sources, including registration, self profiling, current activity and data mining
- Content selection from a range of internal and external information sources
- Rules applied to achieve marketing, sales and business optimization objectives
- Business analysis of Web site statistics and traditional customer data sources

Business intelligence

Business intelligence closes the marketing loop by helping you understand the customer and gauge the effectiveness of campaigns. These systems can find patterns in customer purchasing so you can tune your marketing campaigns for maximum effectiveness or enhance up- and cross-selling opportunities. Business intelligence components for Net.Commerce include:

- Crystal Reports*—Net.Commerce-specific reports available for fast startup and early discovery of what's happening on your site.
- IBM Surfaid—an IBM service that provides analysis on the effectiveness of your site and site design, ads and promotions.
- net. Genesis*—helps perform Web site analysis using Web site-specific data. It enables powerful, flexible analysis and reporting, collection and interpretation of visitor behavior information and correlation of this behavioral data with business and customer information.

Business integration

Business integration ties various channel transaction and support systems together, sharing information and relaying transactions, if appropriate. Business integration components for Net.Commerce include:

- IBM Commerce Integrator, optional Net.Commerce software and tools, which provide open, intelligent ways to connect business processes within your company or between your company and your business-to-business customers, suppliers and trading partners. With Commerce Integrator, you can establish system-to-system links between EDI, ERP, supply chain and customer relationship management applications in a fraction of the time required with other integration tools. This is because knowledge of many common business processes, document formats, transactions and transport methods is built in.



- Net.Commerce Business Integration Framework, which offers configurable business processes for e-commerce, from catalog maintenance and browsing, to product selection, selling, transaction processing and payment.
- Net.Commerce Application Programming Interfaces (APIs) provide low-level access to Net.Commerce Business Integration Framework processing for special requirements.

Marketing: advertising

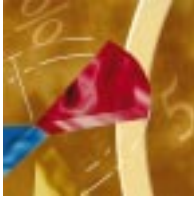
Advertisements are designed to capture the customer's attention, but their objectives for e-commerce include driving traffic to the site, generating immediate sales through the ad and gaining market and mind share. Exciting ads that deliver business results must be dynamic, placed in the right place at the right time, enable click-through and buy-now actions. Advertising components for Net.Commerce include:

- IBM Hot Media, which provides a rich medium in which a buyer can pick up, rotate or zoom in on virtual products. It brings the Web shopping experience one step closer to an in-person experience without restricting download performance.
- The Banner Ads reference application, which selectively displays advertising or messages based on shopper ID or rotational basis and can link out to other locations.
- net.Gravity*, which provides comprehensive online marketing management solutions that give organizations direct marketing techniques, targeted advertising, ability to drive customers to destination sites, scalability to start small and grow big (even across a network of sites) and the flexibility to integrate with other packages or systems.

Marketing: catalog navigation

Respecting individual needs and preferences in the catalog browsing and searching processes can go a long way toward building customer loyalty. Corporate buyers want direct entry of product numbers. Consumers want to browse, compare items side-by-side and may need sales assistance. Knowledgeable buyers prefer searching by specific features or specifications. Catalog browsing and searching components available for Net.Commerce include:

- Electronic catalog capabilities in Net.Commerce that support browsing, search, multiple classification methods and the direct entry of product numbers.
- Product Advisor (in Net.Commerce PRO), which provides an architecture and toolkit using industry-standard Java™ server pages to build custom shopping metaphors. Product Advisor includes three, prebuilt metaphors that can be highly customized:



— Product Exploration is a parametric search engine that allows users who are familiar with a category of products to search on the features that are most important to them.

— Sales Assistant is a decision guide that captures the knowledge of your best sales people and presents it in a Question & Answer format for customers who don't know a lot about a category of products. Each question they answer narrows down the selection of appropriate products.

— Sales Comparison is a tool that enables customers to collect and compare products side-by-side in comparison tables so that they can quickly compare features and functions.

- Linguistic Technology*, which supports natural language searches.
- Cornerstone*, which provides an online gift registry.

Marketing: pricing/promotions

Pricing and promotions play critical roles in attracting traffic to your site and in improving conversion rates. Then, in trying to maximize profit from your e-commerce site, you need to select from a range of price policies, sometimes even while the customer is online, browsing the catalog. Pricing and promotion components for Net.Commerce include:

- Time-based prices, which simplify price administration by providing start and end effective dates for the advance scheduling of pricing changes.
- Flexible discounting options which can:
 - offer discounts at a product, sub-order, or order level
 - offer discounts to all buyers or restrict them to members of shopper groups
 - be calculated based on total order value, unit value or percentage.
- Priority pricing, which enables you to prioritize different prices to temporarily override regular prices for special occasions.
- Euro-currency conversion, which translates prices into euros for international coverage.
- On-site coupons creation, enabled by the e-coupon reference application, which can be stored by individuals in a coupon caddy and applied against future purchases.



Marketing: merchandising

The goal of merchandising is to maximize your share of the customer's wallet share. While the range of merchandising strategies is limited only by one's imagination, some typical strategies include: up-selling (to sell a more feature-rich and profitable item), cross-selling (to sell an additional, related item), accessorization (to sell add-ons) and substitution (to offer an in-stock item in place of an out-of-stock item the customer may have requested). Merchandising components for Net.Commerce include:

- The Accessorizer reference application, a tool for Net.Commerce to associate products and their accessories. It alerts customers about additional items to consider purchasing when they place an item in the shopping cart.
- Net Perceptions*, a "learning" system that provides dynamic product recommendations (see also *personalization* section).

Marketing: loyalty programs

Loyalty programs seek to enhance customer retention through the creation and administration of incentives. Successful loyalty programs help convert a visitor or new customer into a regular and loyal customer. The incentives can be internally created (for example, every tenth video rental is free) or third-party created (for example, credit card purchases earn frequent flyer miles). Loyalty program components for Net.Commerce include:

- The Shopper Points, a reference application that allows customers to earn points based on dollar purchases, which can be applied to future purchases
- Netcentives*, a third-party service that you can sign up to reward your customers with frequent flyer miles and other bonus options.

Customer: service and support

Service and support programs are a critical part of relationship marketing because they demonstrate interest in the customer's well-being. With Web self-service features, these programs can reduce support costs while improving customer satisfaction. Examples of service and support strategies include: support (help customers get the most out of their purchases), service (help customers with any difficulties they may have), reminders (about sales, specials and holidays), information (orders, shipping, new products and upgrades) and cross-channel (Web/ Internet, call center, retail point-of-service, e-mail, print and direct mail). Service and support components for Net.Commerce include:

- Online status checking of orders, shipments and payments by linking Net.Commerce to the company's existing order-tracking applications or to external shippers' (such as United Parcel Service) inquiry systems.





- IBM Corepoint, a suite of products that can work in conjunction with Net.Commerce to provide multiple avenues and means of service and support for customers, including:
 - E-mail support using Mail Analyzer
 - Web-based customer support and self-service problem determination
 - Web-based collaboration based on voice over IP
 - Web-enabled sales force automation.
- Business Evolution*, which offers Web-based customer assistance through e-mail, i-mail (live messaging), chat and call-back.
- Sideware*, which enables customer service representatives to answer questions, send out Web catalog pages to the customer, synchronize browsers and update the customer's buying history.

Customer: profile

Customer profiles capture and retain information about customers and process it to yield actionable marketing knowledge. Information may be explicit (factual details, such as demographics, supplied by the customers or third-parties) or implicit (derived from analysis of buyer behavior at the site: pages viewed, products added to shopping cart and site linked from). The profile enables you to understand and anticipate customer needs, likes and dislikes, and provides the foundation for relationship marketing. Customer profile components for Net.Commerce include:

- The ability to capture explicit information about the customer, either through registration forms or question & answer processes
- Extension of logs to capture customer click path, product and purchase information
- Commerce Integrator, which can link to legacy or third-party systems to leverage past purchase history
- net.Genesis*, which helps perform Web site analysis (also see *Business intelligence* section).

Benefits of relationship marketing with IBM Net.Commerce

IBM and its business partners provide relationship marketing solutions for every channel, not just e-commerce. There are solutions for call centers, point-of-sale equipment and applications, business intelligence and data mining, direct marketing and direct mail, e-mail, sales force automation and customer care. The reality is that customers can and do interact with your business in any and all of these channels, as well as with the Internet.



Net.Commerce, the award winning e-commerce server, has the flexibility to exchange customer relationship marketing information with the systems that support any of the other channels, and can play an important role in pulling all the information together for your marketing and customer support staff (working in a call center, for example), as well as Web-savvy end customers wanting to check the status of all their transactions.

With Net.Commerce, you can start simply, and over time extend the relationship marketing capabilities of your e-commerce site to include all the capabilities mentioned above and many more.

So, no matter what business processes participate in relationship marketing in your organization, IBM Net.Commerce can create the "single view" that is so critical to making good marketing judgements in structuring relationship marketing plans. IBM Net.Commerce can help deliver important benefits to end customers as well sellers, suppliers and merchants.

Your benefits

Relationship marketing with Net.Commerce yields important business benefits:

Enhanced customer acquisition. Relationship marketing provides sophisticated new ways to develop ongoing relationships with visitors, so you can turn them into regular customers, and reduce per-customer acquisition costs.

Improved customer retention. Relationship marketing presupposes integration of customer service functions and information. One-click or one-call customer service increases customer loyalty and retention.

Higher profitability. Relationship marketing helps maximize revenue and reduces costs. Per-customer revenue can be enhanced by increasing repeat buying by existing customers and generating new demand through up- and cross-selling, which increases order size. Costs can be reduced by enabling customers to serve themselves and through better targeting, reducing the promotional expenses per sale.

Deeper market insight. Relationship marketing captures knowledge about customers so you can provide better service, devise more effective up- and cross-sell techniques, target your marketing strategies more accurately, predict campaign results in greater detail and align future product and service offerings more closely to customer needs.

End-customer benefits

End-customer benefits of relationship marketing can pay dividends of increased loyalty and lifetime revenue to your business. Some key customer benefits include:

Higher utility. Personalized offers based on understood customer needs can meet a higher share of those real needs, and so represent higher utility to customers. You then have the opportunity to convert that utility into higher value and loyalty.

Greater convenience. As the site delivers greater accessibility, more comprehensive customer support and service, and anticipates more needs of the buyer, the level of convenience increases, which encourages buyers to keep visiting your site.

More confidence. As your products and services become more highly tailored to the buyer's needs, the buyer's confidence in the site increases, which erects a barrier to their exploration of competitive services.

Customer example: Sears appliances

Sears, a leading retail supplier of home appliances, wanted to become the premier source of information for appliances on the Web. The retailer chose a Net.Commerce PRO solution to achieve its goal, leveraging the unique combination of core e-commerce capabilities and support for a wide range of relationship marketing techniques in Net.Commerce.

Sears' plan was to assist customers in making knowledgeable appliance purchases and enable them to quickly research and compare the product(s) they'd like to purchase through the largest selection of appliances on the Web. The Sears Web site offers feature-based search and selection of products and side-by-side product comparison. Customers can educate themselves about appliances at their own pace. At the same time, Sears can guide customers to the right appliance to meet their needs.

The business value experienced by Sears includes increased sales and increased customer loyalty. Customers are spending more time than before learning about the appliances Sears has to offer.





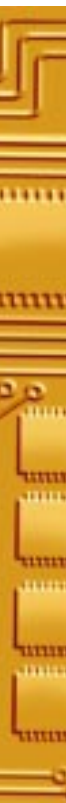
Future directions in relationship marketing

Today's Net.Commerce provides the openness and flexibility that enable you to integrate your e-commerce site with the relationship marketing, customer relationship management and other business systems you already have in place. Net.Commerce is built on IBM DB2® Universal Database™, known for scalability, robustness and functionality. Net.Commerce has many integration points so that you can pursue relationship marketing incrementally, or in large steps, with the confidence that you can achieve your goals.

Over time, IBM's relationship marketing offerings will become even more capable. These tools will leverage some of the more specialized data mining and analysis technologies being developed by IBM and others.

You will also have more ways to leverage the entire customer relationship management infrastructure and take a cross-channel approach to relationship marketing. Today, there are "islands of automation" in systems for customer relationship management. IBM today has the breadth and depth to offer products at all your customer touch points (not just the web) and we are building the bridges between these products, finding common repositories, processing services and other synergies. This will result in your business being able to see the whole picture of a customer relationship whatever the channel or channels the customer chooses to use.

IBM and its business partners already offer the widest range of relationship marketing solutions—across multiple channels and customer touch points—including call centers, retail point-of-sale systems, e-mail, print and direct mail and Web solutions. With IBM, you can select best-of-breed components with the confidence that they'll work with Net.Commerce e-commerce sites, and provide the scalability needed to deal with success.





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U.S.A.

Produced in the United States of America
8-99

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