

The Extent to which E-Commerce will favor International Marketing and what Obstacles International Marketers may need to Overcome

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Abstract

The main purpose of this paper is to consider the dynamics of e-commerce and its implications on businesses. As e-commerce involves a different environment for international marketing, its effect on the marketing mix will be looked at. The focus will be on the extent to which e-commerce favours international marketing as well as the obstacles companies will face in the global environment, when utilising and managing e-commerce.

Introduction

Everyone will be touched by the information highway, and everyone ought to be able to understand its implications¹. Internet has evolved from a network created by the U.S. Defence Department during the 1960s, initially to link government labs, contractors and military installations.

According to Constantinides (2002) online strategic objectives do not necessarily differ from the traditional ones and can be enhancing profitability, improving the company image, raising revenue, reducing operational costs, expanding the customer base, increasing the customer retention or augmenting the product and brand awareness among new groups. It is very important for firms to define the objectives of e-commerce very early in the process, because the further operational activities should be based on the outlined objectives. An example of a short-term purpose of an online venture can be encouraging the visitor of the website to undertake a certain action, such as to contact the website by mail or telephone or to purchase the product directly. The website itself is the virtual product display, promotion material, price catalogue and sales and distribution point and the prime mission of the website is to attract traffic, establish contact with the online target markets and brand the online organization (Constantinides, 2002).

Furthermore, it is important to mention that start-up firms that engage in e-commerce have to differentiate between firm survival and firm performance. According to Stockdale and Standing (2002), SMEs can realize benefits but it may take time for them to be recognized within the company. A steep learning curve will precede any benefit gain for many companies

and it should not be expected that this can be achieved in the short-term. A longer, slower approach may be a more reliable way to achieve sustainable advantages from e-marketplace participation.

Internet usage worldwide is growing fast. However, its usage varies widely among the world's population. Figure 1 shows the top 20 countries with the highest number of internet users. More than 50% of users originate outside the United States.

The internet and World Wide Web makes e-commerce much more accessible. Countries worldwide are embracing e-commerce in an effort to gain its huge benefits. Nations, people and organisations are all linked by global e-commerce network.

“Electronic commerce is the sharing of business information, maintaining business relationships, and conducting business transactions by means of telecommunication networks”ⁱⁱⁱⁱⁱⁱ. This means that e-commerce includes buyer and seller relationships and transactions between businesses. Electronic markets are “market-spaces” in which sellers offer their products and services electronically, and buyers search for information, identify what they want, and place orders using a credit card or other means of electronic payment.

E-commerce grew at an exceptional rate and changed existing business boundaries. This online distribution system is all about speed, connectivity and exchanging goods, services and information. According to Forrester Research, US online retail sales will reach more than \$500 billion by 2020, up from \$373 billion in 2016, according to Forrester's latest e-commerce forecast. Drivers of this growth include better blocking and tackling by web merchants, more omnichannel efforts, an improved US economy, and more growth from Amazon. For example, Forrester estimates that Amazon captured \$23 billion more in US e-commerce sales in 2015 — around 60% of total online retail sales growth in the US.

It has been argued that to meet increased demands of customers and the ever-changing competitive business environment, traditional concept of marketing is no longer adequate. Companies, therefore, need to adopt new strategies to achieve competitive advantage, and one way of doing this is by exploiting the opportunities that the internet and e-commerce has to offer.

However, international marketers need to understand the challenges that they will face in a global environment selling through the internet. This is important to enable them to compete successfully. We will discuss the extent to which e-commerce will favour international marketing as well as the obstacles international marketers may need to overcome. Focus will be on Amazon.com, one of the most successful online businesses. Comparisons with other companies will also be made.

Amazon

“Amazon.com Inc is consistently ranked as one of the top retail sites on the web and one of the biggest players in the e-business revolution”. It is a customer-centric company based in Seattle that sells variety of products that it purchases from manufacturers and distributors at lowest possible prices. It has grown from a book seller to selling products as diverse as music CDs, kitchenware, baby care products, jewellery and hardware.

The first online book store was opened in July 1995. Jeff Bezos, the founder of the company, wanted to capitalise on the growth of the Web. Internet enables them to reach a maximum number of customers as well as provides access to a broad range of demographics segments^{iv}. Barriers due to geographical space and time zones are no longer relevant.

The World Wide Web offers fast, easy and inexpensive tool for advertising goods, taking and placing orders and communicating with customers worldwide. The cost of promoting and marketing on the internet are low compared to the traditional methods. For customers, online buying is convenient. They can compare products, prices and make orders 24 hours a day, 7 days a week with the click of a mouse from any location. Average online buy takes 3.67 minutes and 4.6 clicks.

Bezos wanted Amazon.com to get established first and build a brand name. He understood that his main competitor Barnes & Noble would turn to the internet eventually. There are currently six global Amazon websites: www.amazon.com, www.amazon.co.uk, www.amazon.de, www.amazon.fr, www.amazon.co.jp and www.amazon.ca. In the following section, we will consider how the use of the internet has facilitated Amazon's marketing mix dimensions:

Distribution

Some argue that e-commerce will get rid of or minimise the need for intermediaries thus lowering the cost of transactions and final price of products to customers. Elimination of intermediaries or disintermediation will therefore benefit producers and customers.

Bezos understood the nature of internet retailing and e-commerce. He stated that technology gets cheaper every year while real estate gets more expensive. This is one of the most important advantages of Amazon's online business model over traditional retailing model. In fact, real estate is the key cost of physical retailers^v. Significant investments in real estate, inventory and personnel have to be made by physical store-based retailers. Amazon, on the other hand, does not require expensive real estate of retail stores and its inventory burden is largely shifted to suppliers. However, click-and-mortar retailers like Wal-mart, are able to combine the advantages of having a website and having a physical presence^{vi}. They have a financial advantage and enjoy huge brand equity compared to most pure web retailers.

Amazon.com functions more like an intermediary, taking customers' requests over the internet and forwarding them electronically to distributors which fill these orders. Ordered books, for instance, are shipped by distributors within hours of receiving orders from Amazon.com. The largest US book wholesaler, Ingram Book Group, fulfils about 60% of Amazon's orders. Some books, however, are available in Amazon's warehouse in Seattle.

In one interview, Bezos stated that "There will always be products that require [our touching]. We will have a competence [in distribution] that will be hard to compete with... real competence from our distribution network".

Personalization

The internet offers Amazon the opportunities for customisation and personalisation. By launching a “Your Store” service, Amazon tries to “build the right store for every customer”, namely to recognise, remember and learn from every interaction with the customer^{vii}. Based on visitor feedback, browsing behaviour and historical buying patterns, valuable information about their website visitors can be gained. Therefore, customer data is another one of the key advantages of Amazon’s business model.

“Publishers and traditional book retailers, on the other hand, cannot easily obtain demographic and behavioural data about customers, limiting opportunities for direct marketing and personalized services”.

Amazon’s personalized web pages have “inline messages” that pops out in various events. For example, if the user had not purchased in a while, a message like, “Welcome Back, John, we’ve missed you!” will appear. Besides that, based on individual customer’s profile, it also sends personalised emails to notify customers about new titles or products that are likely to be of interest to them. E-mail allows them to communicate with their customers in an interactive manner.

Personalisation helps Amazon develop close relationships with its customers around the world. Customers are also more likely to purchase from a site that allows personalisation. It is therefore a key in gaining customer loyalty.

Product

As mentioned earlier, Amazon.com offers ‘Earth’s Biggest Selection’. The internet also offers great opportunities. Based on the close relationship and interaction explained earlier, Amazon can learn more about customers’ needs and wants. This could help them increase customer value and satisfaction through product or services refinements.

Talking about selection of books, Bezos explained that “Online, you can have this vast catalog of millions of titles, whereas in the physical world, the largest physical superstores are only about 175,000 titles, and there are only three that big”.

Pricing

Testing demand elasticity is an expensive and time-consuming task for brick-and mortar retailers. In contrast, web-based sellers like Amazon could carry out real-time price tests to measure customers’ immediate response.

One of the downside of the internet is that, it makes pricing decisions less flexible. Customers worldwide have access to price and other product-related information. It is reasonably easy to compare prices and attributes of the items sold by sellers. Consumers might therefore be more price conscious. Website like Britain’s shopguide.co.uk offer price comparisons of different shopping sites. Customers can also sample the price floor through various auction sites sponsored by firms such as eBay.com. This shows that e-commerce reduces the information advantage that the sellers usually have over buyers.

Besides that, the ability to compare prices would lead to increase price competition. Amazon.com and bol.com, the book-selling website launched by the German publisher

Bertelsmann, have been engaged in price wars in markets like Britain. Greater price transparency, therefore, reduces the ability to maintain high margins.

Promotion

There are several advantages that the internet offers to international advertisers. By using web advertisements, customers anywhere around the world can be targeted at. Besides that, information can be published on the internet without limit, unlike conventional media. This is because, space on the internet is infinite. In addition, advertisers advertising on the internet can assess whether an advertisement is working.

Well-designed websites provide an organisation with a leading edge in the global market. However, sites must also be updated. Information about prices and product specifications, for instance, has to be as current as possible. Customers are more likely to visit the sites they know rather than searching for unknown sites.

Amazon wanted to build a strong consumer brand, one which is synonymous with e-commerce and customer satisfaction. It has been willing to spend lots of money in building awareness of its site so that customers visit and use it. For instance, deals were made with web search provider like Yahoo!. In return for putting Amazon banner ads on Yahoo!, they will add book reviews to Yahoo!'s search results^{viii}. In October 2003, Amazon launched A9, its own internet search engine. In addition to searching for text on the web, A9 incorporates "Search Inside the Book" feature for users to search within the text of books.

To make its site a destination, Amazon offered an easy-to-use site that made it relatively trouble-free to search for products. For instance, books can be searched by author, title, subject or keyword. In addition, they supplement the searches with reviews by the authors of the books, Amazon's own customers and even professional reviewers.

In September 1997, Amazon launched an innovative "1-Click" ordering system. This system enables customers to make their purchases with just one click of a button, thus eliminating the need to re-enter personal and order data^{ix}. In addition to an easy-to-use site, Amazon is also keen in making sure that shopping at their site is fun by setting up entertaining contests.

Besides that, to attract customers, Amazon offers discounts and product bundling. They also decided to cut on their TV advertising and concentrate more on lowering prices, mainly in the form of free shipping for orders over \$25.

Even though e-commerce has benefited Amazon in many ways, they also face many obstacles. International presence creates new challenges and obstacles because the internet has expanded the company's business reach to several new potential markets worldwide, where cultural, legal and social systems differ from the ones the company is accustomed to^x. Apart from a few challenges mentioned in the discussion earlier, Amazon face other obstacles such as the following:

Cultural Barriers

Doing business on the internet is just like doing business in a foreign country. In order to be successful, a company needs to understand, appreciate, and honour the cultural protocol of the customer as well as the country with which the company is dealing. Cultural norms may

impede the spread of e-commerce. For instance, in many Asian countries, personal relationships and networking are important in doing business.

Besides that, there is also a lack of credit card culture in many countries. Credit card, one of the best instruments for international payments, may be limited to a specific segment of the international market. In addition, financial transaction's security is one of the main problems of online commerce. Online shoppers are reluctant to release their credit card information and other personal data. They would rather pay for their transactions offline, through fax or over the phone.

To overcome this, Amazon offered software encryption for creating encrypted message so that credit card numbers can be transmitted safely and transactions stayed private. They also offer an offline telephone or fax facility for customers concerned about credit card and personal data security over the internet.

Language Barriers

Since the internet has its root in the USA, much of its content is US focused. The Web has also been dominated by English language. A recent online survey conducted by IDC suggests that over 76 per cent of Chinese respondents prefer to browse the internet in their local language, and not in English. In addition, a study by Forrester research found that business users on the Web are 3 times more likely to purchase when the Web site is in their native language. Therefore, to communicate with target customers in their native language, websites may need to be localised. Amazon, for instance, launched websites in German, French, Japanese, Chinese and Spanish.

Information technology and telecommunications

In developing countries, information technology and telecommunication infrastructure are inadequate, thus limiting their involvement in e-commerce. On the other hand, in most industrialised countries like the USA, Canada, Japan, UK and Finland, the infrastructure for e-commerce is widely deployed. Computer and telecommunications infrastructures in developing countries are therefore an obstacle to gaining full benefits of e-commerce.

It could be less easy for Amazon to reach some markets because ownership of personal computers with internet connections is still very low. In many countries, the growth of internet has been constrained by the high price of PCs. Prices of PCs, however, are declining or for users without a PC, internet cybercafes are available.

Legal Constraints and Government Regulations

Different countries have different regulations on issues such as privacy, intellectual property rights, taxation, security, customs and import duties. In terms of privacy, there are regulations on the collection, processing, storage, and re-use of personal data. There are also restrictions on the content of information that can be distributed internationally. In addition, several countries have regulations on advertising.

Patents about web technology or functionality held by one organisation can impact other websites. Amazon has obtained a patent for its "1-Click" business method, under the title "Method and system for placing a purchase order via a communications network". It then

used the patent against Barnesandnoble.com to stop them using a similar single step purchase system.

Competition

It has been argued that with e-commerce, small and large firms are on an equal footing in terms on global competition. Nevertheless, small companies may not have the money to buy the latest technology and to hire the best talent to create and maintain their websites.

It is difficult to identify Amazon's competitors because of its diverse set of products and services. Amazon was not the first-mover in most of its product categories apart from books, thus exposing itself to high levels of competition. Besides that, established brick and mortar players have also gone online, increasing Amazon's vulnerability.

In April 2001, Borders Books decided to close its online channel and partnered with Amazon. In addition, Amazon also partnered with Toys 'R' Us to sell toys online. One of its main competitors in the books, music and video categories is Barnes and Nobles. EBay is also starting to compete with Amazon by expanding into retail. Amazon did try to overthrow them by introducing Amazon.com Auctions but the venture was hardly successful and eBay continues to dominate auctions.

Conclusion

Despite the strong competition, obstacles and challenges, Amazon is still one of internet's leading retailers. The e-retail giant has grown from a seller of books, music and video to an online department store offering diverse range of products. It also has strength in technology, as evidence by the remarkable array of technologies on its website.

In conclusion, Amazon has been successful in popularizing online shopping and introducing new ways to enhance shopping experience. We are yet to see if the company will continue its international expansion in the future. If it does, it sure has to be sensitive to local norms and cultures.

TOP 20 COUNTRIES WITH HIGHEST NUMBER OF INTERNET USERS - MARCH 31, 2017						
#	Country or Region	Population, 2017 Est.	Internet Users 31 Mar 2017	Internet Penetration	Growth (*) 2000 - 2017	Facebook 30 June 2016
1	China	1,388,232,693	731,434,547	52.7 %	3,150.8 %	1,800,000
2	India	1,342,512,706	462,124,989	34.4 %	9,142.5 %	157,000,000
3	United States	326,474,013	286,942,362	87.9 %	200.9 %	201,000,000
4	Brazil	211,243,220	139,111,185	65.9 %	2,682.2 %	111,000,000
5	Indonesia	263,510,146	132,700,000	50.4 %	6,535.0 %	88,000,000
6	Japan	126,045,211	118,453,595	94.0 %	151.6 %	26,000,000
7	Russia	143,375,006	104,553,691	72.9 %	3,272.7 %	12,000,000
8	Nigeria	191,835,936	93,591,174	48.8 %	46,695.6 %	16,000,000
9	Germany	80,636,124	71,727,551	89.0 %	198.9 %	31,000,000
10	Mexico	130,222,815	69,915,219	53.7 %	2,477.6 %	69,000,000
11	Bangladesh	164,827,718	66,965,000	40.6 %	66,865.0 %	21,000,000
12	United Kingdom	65,511,098	60,273,385	92.0 %	291.4 %	39,000,000
13	Iran	80,945,718	56,700,000	70.0 %	22,580.0 %	17,200,000
14	France	64,938,716	56,367,330	86.8 %	563.1 %	33,000,000
15	Philippines	103,796,832	54,000,000	52.0 %	2,600.0 %	54,000,000
16	Italy	59,797,978	51,836,798	86.7 %	292.7 %	30,000,000
17	Vietnam	95,414,640	49,741,762	52.1 %	24,770.9 %	40,000,000
18	Turkey	80,417,526	46,196,720	57.4 %	2,209.8 %	46,000,000
19	Korea, South	50,704,971	45,314,248	89.4 %	138.0 %	17,000,000
20	Thailand	68,297,547	41,000,000	60.0 %	1,682.6 %	41,000,000
TOP 20 Countries		5,038,740,614	2,738,949,556	54.4 %	914.7 %	1,051,000,000
Rest of the World		2,480,288,356	993,023,867	40.0 %	990.6 %	628,433,530
Total World Users		7,519,028,970	3,731,973,423	49.6 %	933.8 %	1,679,433,530

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Figure 1

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