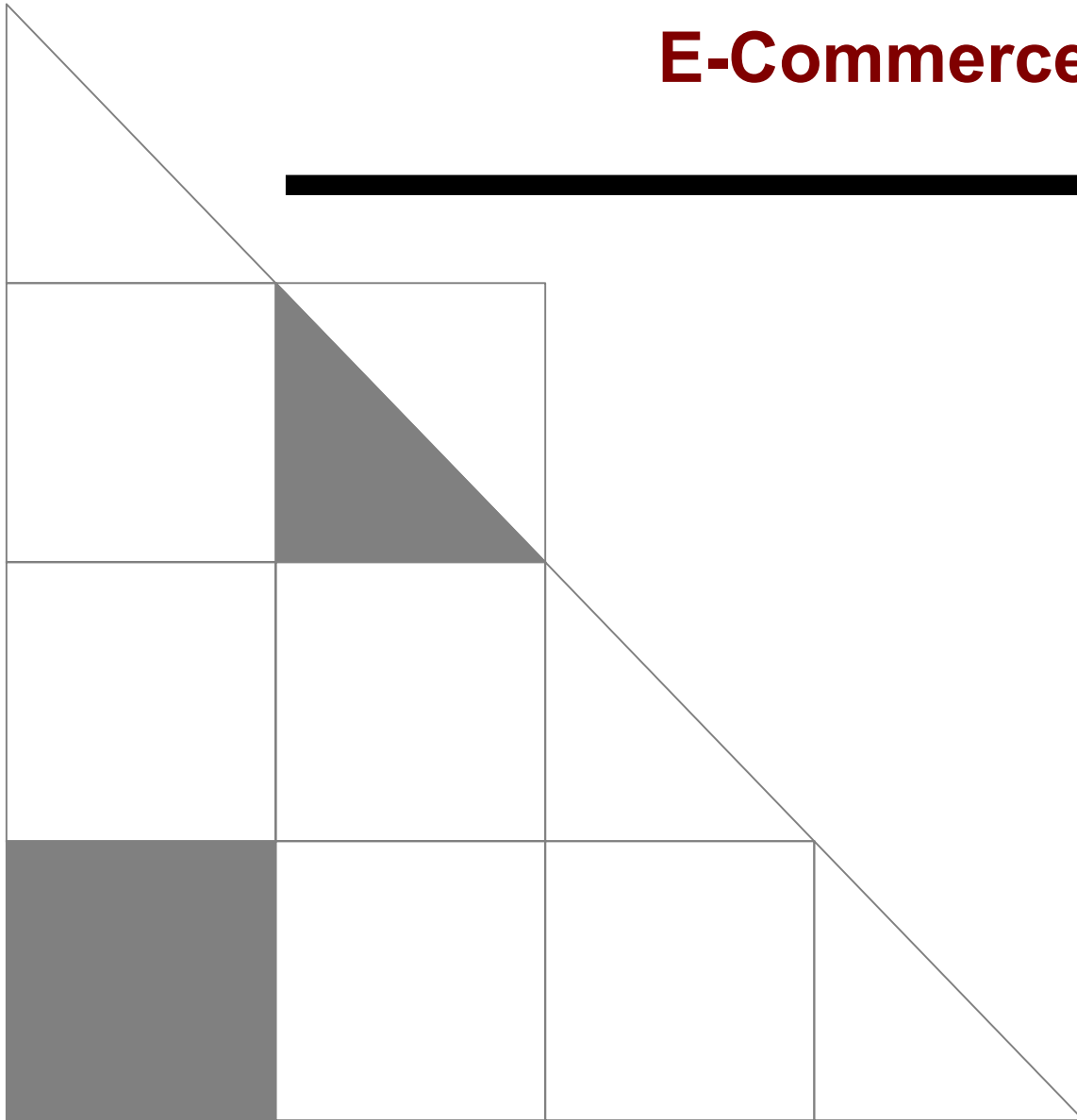


E-Commerce and the Marketing Mix

Dr. Tobias Engelsleben
tengelsleben@simon-kucher.com

SIMON ♦ KUCHER & PARTNERS
Strategy & Marketing Consultants
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Consulting in:

- Strategy
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- E-Commerce
- Economic M&A support
- Implementation

Industries:

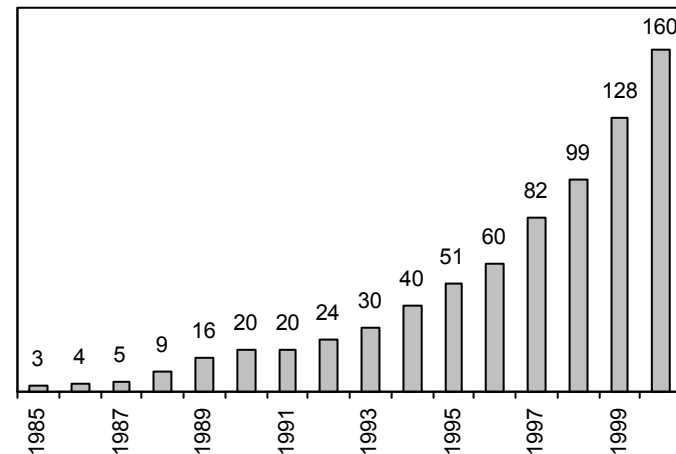
- Retail
- Telecommunications
- Automotive, Transport
- Chemicals
- Services/Finance
- Energy
- High Tech (Hardware/Software)
- Industrial goods / Mechanical engineering
- Consumer goods
- Pharmaceuticals

Regional:

Projects worldwide
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Size:

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Strategy & Marketing Consultants

Simon ♦ Kucher & Partners has a unique combination of skills and experience.

- Knowledge of numerous industries
- Marketing know-how combined with analytical expertise (value to customer, conjoint measurement, decision support model, ...)
- Far-sighted strategies
- Ability to translate technically complex solutions into viable market products
- Independent project work
- Closeness to the customer

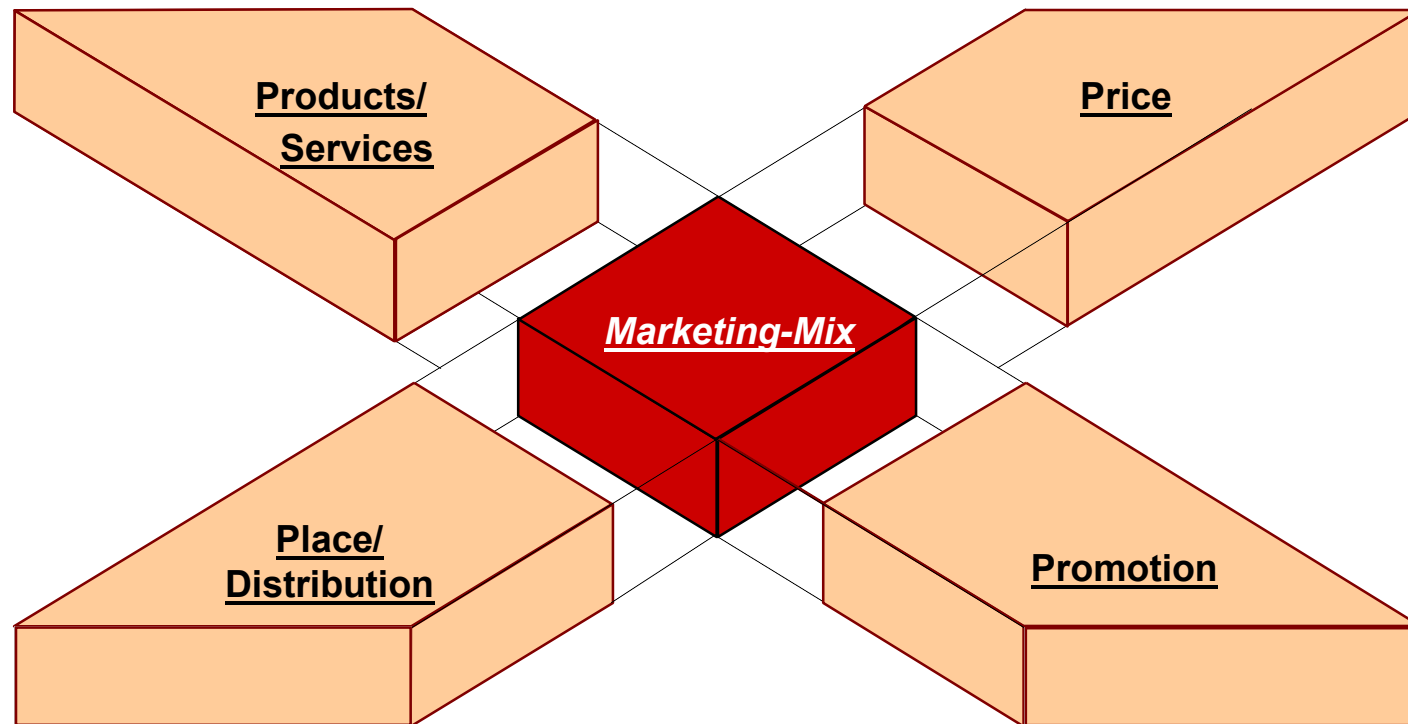


Project results characterised by:

- Concrete action recommendations
- Creative concepts
- Practical solutions
- ➔ can be directly implemented

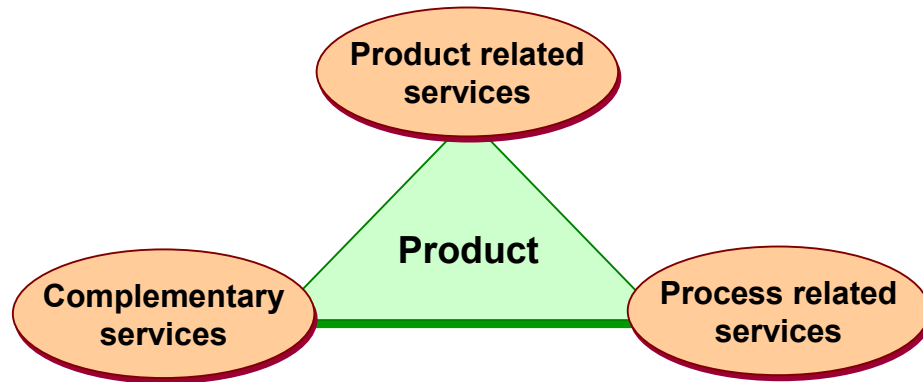
E-Commerce and Marketing-Mix

What is the impact of E-Commerce on the Marketing Mix?



Consistency within the mix is very important

Both the actual product offering and services related to it play a crucial role in Internet



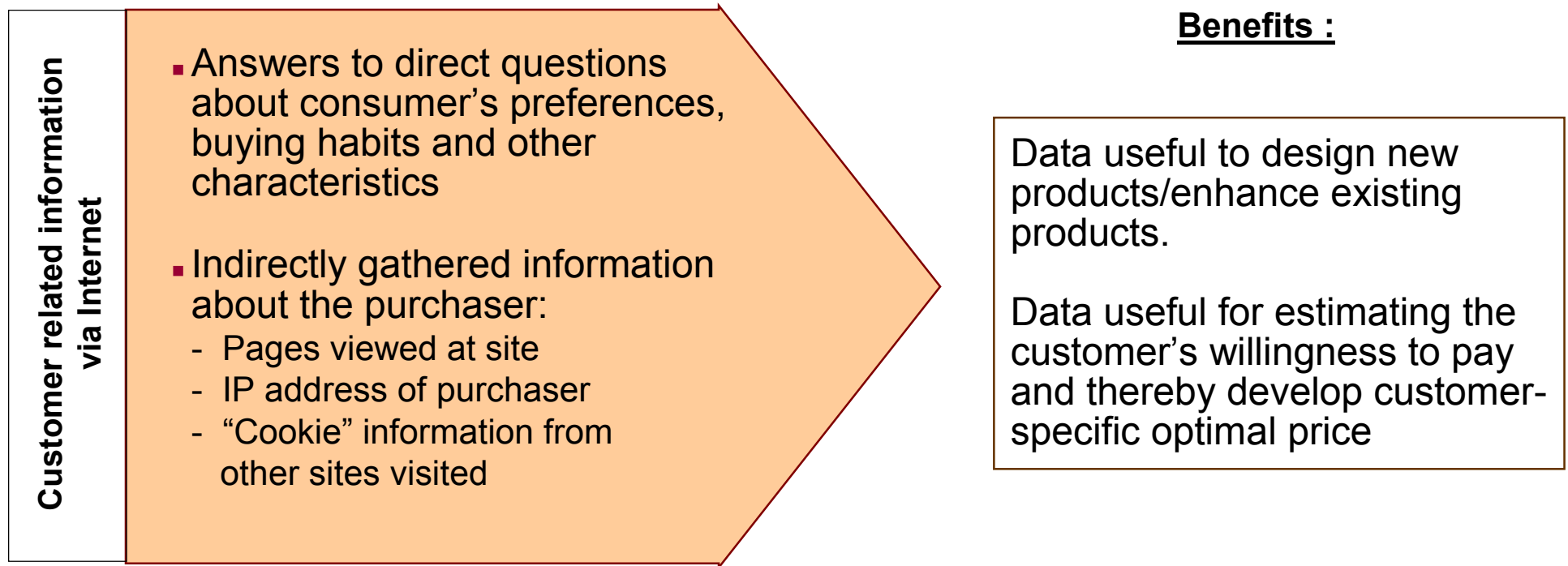
The Challenge

- The **product offering** is determined by the needs of the target group and by technical feasibility
- **Product related services** in the Internet differ fundamentally from bricks and mortar services. The critical factors are often logistics services and telephone support. Additional services can offer the customer additional value.
- **Process related services** must be conceived such that selection, ordering, payment and delivery are in accordance with the customer's wishes.
- **Complementary services** supplement the basic offering, thus providing customers with a simple solution to their problems.

- **Bricks and mortar concepts are not systematically transferable when implementing an Internet business strategy**
- **Products and services must be adapted to meet customers' expectations**
- **The value proposition or ROI of planned solutions must be evaluated**
- **On the Internet, partnerships are necessary in order to meet customer expectations**

Internet enables to develop customised products ... and prices

The Internet makes it easy for consumers to develop customised products such as made-to-order computers. It also opens the door, however, to pricing customised to the consumer's willingness to pay.



Example : McGraw-Hill.com - mass customisation

Netscape - [Santrock Psychology 5th ed. Custom Order Form]

File Edit View Go Bookmarks Options Directory Window Help

Psychology, 5th Edition by John Santrock

Table of Contents

[Visit the Santrock Psychology/5th Edition, Web Site](#)

Please indicate **numerically** the order in which you would like your selected chapters.

STANDARD TEXT CHAPTERS:	ALTERNATIVE CHAPTERS:	ENHANCEMENT CHAPTERS:
<input type="checkbox"/> What is Psychology? (w/o Methods)	<input type="checkbox"/> What is Psychology? (w/ Methods)	
<input type="checkbox"/> Methods		
<input type="checkbox"/> Biological Foundations and the Brain	<input type="checkbox"/> The Brain (w/o Heredity & Evolution) <input type="checkbox"/> Evolution	<input type="checkbox"/> Animal Behavior
<input type="checkbox"/> Sensation and Perception	<input type="checkbox"/> Sensation <input type="checkbox"/> Perception	
<input type="checkbox"/> States of Consciousness		
<input type="checkbox"/> Learning	<input type="checkbox"/> Learning and Memory	
<input type="checkbox"/> Memory		

Document: Done

Pricing complexity in the Internet

Five characteristics specific to the Internet are crucial to understanding the pricing opportunities offered by the Internet and to the selection of an Internet pricing strategy

1

The Internet dramatically reduces the cost of information and communication

- Price comparisons are simple
- The level of information available to customers and competitors is increasing

2

The Internet knows no geographical borders and will soon connect the entire developed world

- Traditional or regional price differentiation is very difficult
- Conflicts between distribution channels

3

Communication in the Internet can flow in both directions

- Interaction between manufacturer and customer is possible
- Bundling of demand

4

Web sites are easy to create and can be maintained at relatively low cost

- Rapid implementation of price changes
- Price control

5

The Internet is governed by a speed of events which vastly surpasses the speed of “everyday” life

- Possibility of realtime pricing

Internet enables price transparency for the Web shopper ...

The ease of information gathering on the Internet increases the power of consumers, making it difficult for sellers to maintain substantial price differences not related to product value.

Benefits for web shoppers:

- Quick access to price lists
- Information sharing among consumers in virtual communities
- Shop Bots
- Ease of finding alternative suppliers


Pricing problem for the seller

Price differences unrelated to value are considerably more difficult to sustain!

... and price transparency for curious competitors

The ease of information gathering on the Internet also increases the ability of competitors to keep tabs on your pricing.

Just as consumers can use the Internet to track your prices, so can the competition. If you lower your price to grab market share, the competition can react quickly and lower its price as well. This results in the paradox:



**The Internet makes the price a more effective
weapon**

(due to increased customer price sensitivity),

***but* the Internet also makes the price a less useful weapon.**

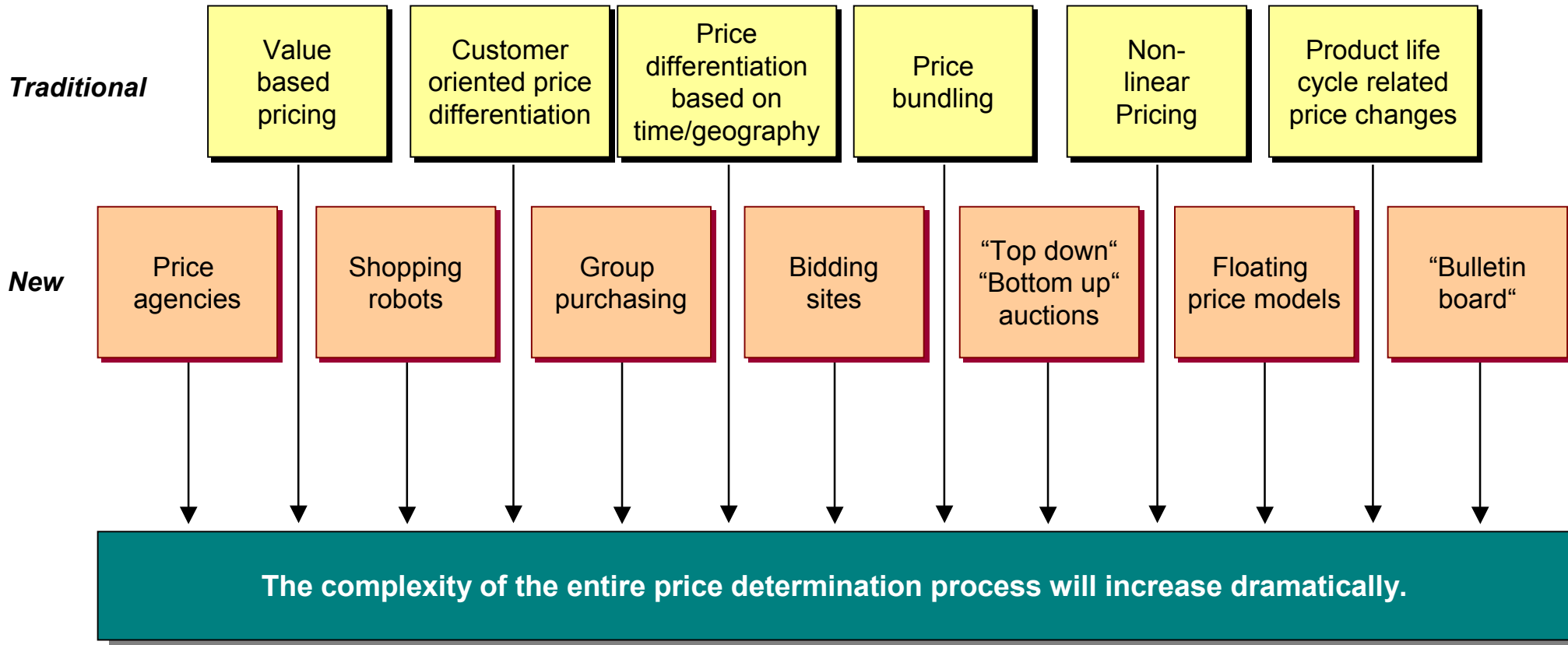
(due to decreased competitor reaction time).

If you have smart competitors the Internet can be a price stabiliser !

Characteristics of Internet pricing

- **Information/price transparency**
 - Asymmetric interests
 - not confined to price
- **Price clarity and timeliness** (e.g. Cisco)
- **Price differences will be more difficult to persist**
- **Customer-driven pricing** (Priceline.com):
 - Exploitation of individual willingness to pay
 - Total differentiation (one-to-one pricing)
 - Total intransparency
- **Segmentation according to history/behaviour**
- **Auctions: The eclipse of active pricing**

Successful pricing on Internet can be based on a number of new strategies



Virtual Shop/Catalogues are the classical E-Commerce sales platform

- Basically, they are **nothing more than an online version of a normal store or catalogue** (e.g. www.barnesandnoble.com, www.otto.de, www.gap.com)
- With virtual shops/catalogues, the **actual transaction forms can be either a „normal“ order or a combination of other forms, such as the ones described in this presentation** (e.g. auctions, group purchasing). **Shops that have a broad, diversified product offer are also similar to electronic shopping centers**
- **Electronic shopping centers** (“malls”) are nothing more than a **group of online shops that usually have no connection with one another except that they can be reached through a common website/portal**. The **target groups are usually small customers**, i.e. private customers, and small to mid-size companies. They can **find all the products they are interested in one shopping center at one central location**
- A **fixed price** is always characteristic of **electronic shopping centers**. There is **no dynamic pricing** (unless a company combines the shop with group purchase, for example)



“Classic“ Web Shop are mainly a new channel for acquisition with usually fixed prices and no dynamic/interactive pricing

Group purchasing / Power shopping

With group purchasing/power shopping, the marketplace bundles individual customers of a product together and is able to obtain attractive volume discounts for the group.

- Service providers present selected products (and possible discounts)
- Volume discounts are granted when a predefined number of customers is reached („Best Price“)
- Potential customers can place their demand for further products/auctions

MobShop: Cycle Page - Netscape

File Edit View Go Window Help

Autos
[Computer Hardware](#)
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[PDAs](#)
[Small Business](#)
[Sports and Fitness](#)

**"I would recommend, (and have recommended), this service to family and friends."
 -Dave Doran, Ohio**

Pocket PC

The Aero 1550 is designed for mobile professionals who keep a busy schedule, interface with many people, and are looking for an ultra-thin Pocket PC that is very convenient to carry and simple to use. People today are reacting faster to the ever-changing business environment and are looking for tools that provide them access to their critical information in the fastest possible manner.

[Learn About It!](#) [buy now](#) [click & tell](#)

Starting Price: \$299.99
 -Current Price: **\$274.95**
 Savings so far: **\$25.04**

each order saves \$25.04

BUYERS IN CYCLE	PRICE U.S. \$
MSRP	\$299.99
0-5	\$284.95
6-25	\$279.95
26-75	\$274.95

Closing Time: Thursday, 1:55 pm EDT

This cycle may close ***BEFORE*** the listed time if the maximum number of buyers has been reached.

This cycle will close in: **1 day 10 hours 1 minute**

closing soon

top sellers

- JORNADA 690 PALMTOP **\$874.95**
- Excitebike 64 **\$48.95**
- Kodak DC280 Digital Camera **\$509.95**
- 5 Disc Carousel Changer DVD/CD700 **\$295.95**
- Palmglove Neoprene Case - Royal Blue **\$19.95**
- SHARP MD-MT20S Portable/Recordable Minidisc Player **\$189.95**
- Compaq Aero 1550 GS Pocket PC **\$274.95**
- ELPH2 **\$229.00**
- Sound Blaster Live Platinum **\$179.95**
- 32 MB SmartMedia Card (SSFDC) **\$64.95**

Example

Document: Done



Risks : conflicts with manufacturers if maximum discount is too high

Price agencies/Shopping robots enable automated price comparison

- No real transaction, but excellent possibility for customers to collect information concerning prices and sellers/marketplaces
- Neutral service, enhancing customer information, help to decide where customers want to make their purchase
- The next generation of shopping robots will be able to take customer preferences and concrete product features into consideration.

Example

evenbetter.com, the Ultimate Comparison Shopping Engine: Price Comparison Results - Netscape

File Edit View Go Window Help

Search Progress **Your Settings:** **Your Selection:**

Location: USA, CA
 Currency: US\$
 Your results will be available 20 sec.

Book: Power Pricing:How Managing Price Transforms the Bottom Line by Dolan, Robert J. | Author: Simon, Hermann
 Publishing Date: 02/1997 | Publisher: Free Press, The
 Binding: Hardcover | ISBN: 068483443X
 List Price (shipping costs not included): US\$ 40.00

Scroll down to see all offers!

Click on one offer (1st column) to proceed to the respective shop!

Displaying Top Ten offers:

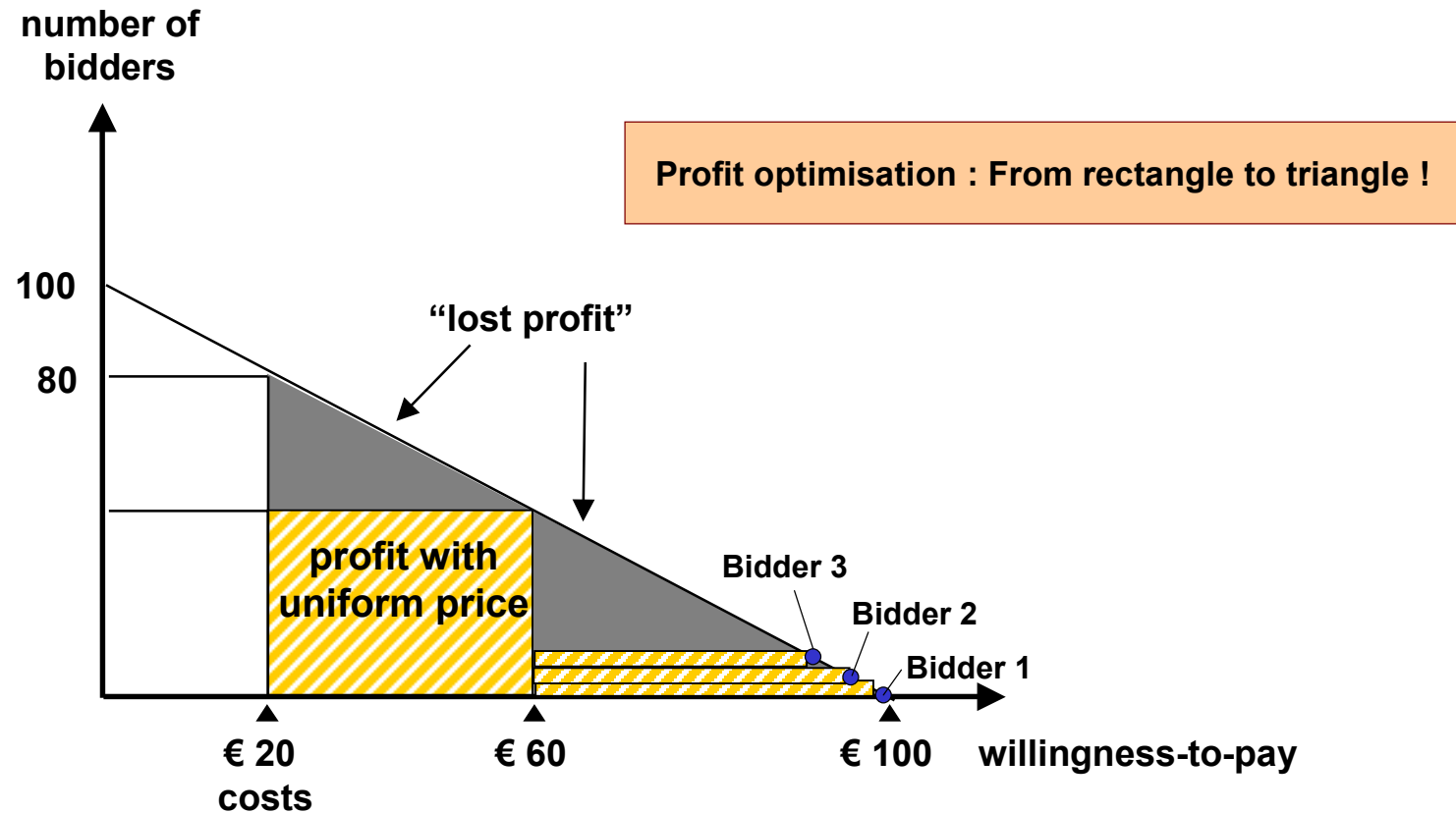
Total Price	Shop	Item Price	Discount	US Sales Tax	Shipping Costs	Shipping Time	Shipping Service	Delivery Time
US\$ 26.60	the BigStore.com, USA, CA	US\$ 24.80	38%	US\$ 1.80	US\$ 0.00	n/a	Ground	n/a
US\$ 30.95	A1 Books, USA, NJ	US\$ 27.00	32%	US\$ 0.00	US\$ 3.95	4-6 days	UPS Ground	9-11 days
US\$ 31.95	Amazon.com, USA, WA/NV	US\$ 28.00	30%	US\$ 0.00	US\$ 3.95	3-7 days	USPS Priority Mail	4-8 days
US\$ 31.95	Borders.com, USA, MI/TN	US\$ 28.00	30%	US\$ 0.00	US\$ 3.95	3-7 days	Standard	n/a
US\$ 31.99	barnesandnoble.com, USA, NJ/NY/VA	US\$ 28.00	30%	US\$ 0.00	US\$ 3.99	3-6 days	Standard Ground	4-7 days
US\$ 32.69	AlphaCraze.com, USA, NY/CA/IL	US\$ 26.80	33%	US\$ 1.94	US\$ 3.95	3-7 days	UPS Regular Mail	n/a
US\$ 32.90	Kingbooks.com, USA, WA	US\$ 30.40	24%	US\$ 0.00	US\$ 2.50	14 days	USPS Book Rate	16 days
US\$ 33.98	Fatbrain.com, USA, CA	US\$ 28.00	30%	US\$ 2.03	US\$ 3.95	3-7 days	UPS Ground	4-8 days
US\$ 34.35	Kingbooks.com, USA, WA	US\$ 30.40	24%	US\$ 0.00	US\$ 3.95	3-7 days	Standard Shipping	5-9 days
US\$ 34.98	Fatbrain.com, USA, CA	US\$ 28.00	30%	US\$ 2.03	US\$ 4.95	2-3 days	Standard	3-4 days

Document: Done

Auctions are driven by two main factors : a supplier who wants to achieve the highest possible price and a customer who wants to pay the lowest possible price

- **Internet** has turned **auctions into a form of trading for the masses** since everyone around the world with Internet access can participate (ex.: ebay.com or iBazar.fr). **Costs are sharply reduced for both the supplier and customer**
- **Auctions** are becoming more **popular in both the B2C and B2B sectors** (according to some estimations, there are a couple thousand auction sites on the Internet).
- **Auctions are very flexible** and can award **contracts in different ways** :
 - Not the **highest**, but the **second highest bidder** wins the tender
 - Not only the **highest, but also the 10 (12, 15 etc.) highest bidders each win a tender** (if greater quantities of a product are auctioned off and a sufficient number of bidders is on hand)
 - In total, there are a few **dozen different kinds of auctions**
- **Auctions** are ideal for **efficiently distributing limited resources**, thereby obtaining **prices that reflect the scarcity of the product**
- **Auctions** are also effective **PR instruments**. Only a **limited number of products are auctioned off**. Auctions are not so much used as a real sales form, but, more than anything, to **gain attention on a broad level** (ex.: airlines auctioning off cheap tickets to popular destinations).

Auctions are an ideal strategy for exhausting the maximum willingness to pay of the customers



➔ Advantage for the seller when multiple buyer/ single seller situation : competition among potential buyers leads to higher prices
Disadvantage for the seller when single buyer/ multiple seller situation : competition among potential sellers leads to lower prices

Dutch auctions allow the supplier to set a starting price that is reduced little by little until a customer buys

Dutch auctions are the exact opposite of normal auctions. As with normal auctions, Dutch auctions are a very good instrument for exhausting the individual willingness-to-pay of the customers.



Example : www.sixt.com



▶ **Advantage for the seller: high pressure on customers**
Usually they pay more than they wanted to

Reverse auctions enable companies to bid on jobs/projects that have been put out for tender

They can improve on these bids depending on the amount the competition offers. This method also allows for dynamic pricing.

Typical Course of a Reverse Auction with a Request for Bids

- 1 Company X calls for bids in marketplace Y.
- 2 Y pre-selects potential contractors that are then allowed to make a bid.
- 3 During a pre-set time span (usually only 2-3 hours), X and the potential contractors go online and „meet one another“ at Y.
- 4 The potential contractors anonymously make their offers. All other participants are able to see all other (anonymous) bids.
- 5 A potential contractor's own offer can be “improved on” depending on amount and structure of the competitors' offers.
- 6 When the time deadline has run out, X decides on one of the bids. It does not necessarily have select the cheapest, but can take other factors such as delivery time etc. into consideration.

Bidding /RFQ* /Bid request sites

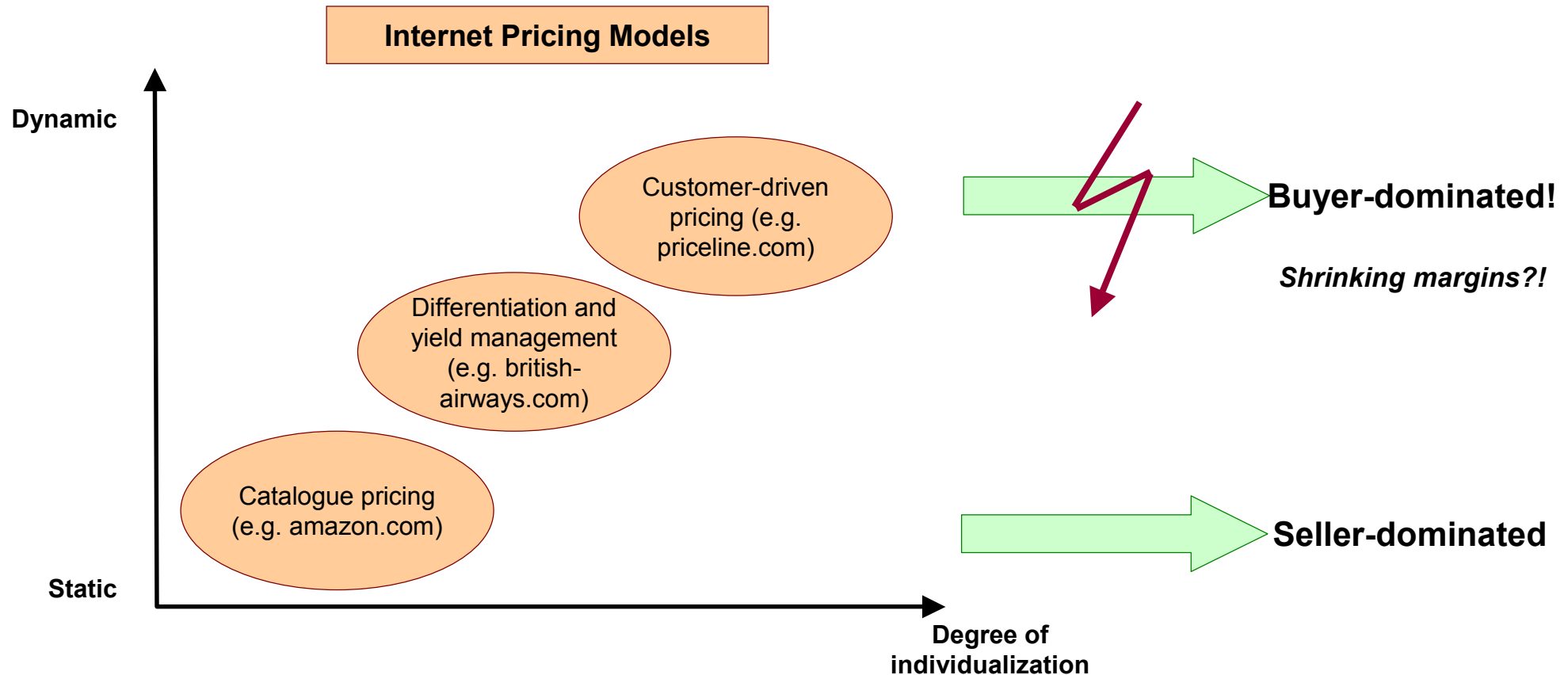
These kinds of sites allow customers to describe their need for a certain product or service in the form of a bid request. Interested parties may then make a bid. If only one party shows interest, this can be a very static process. That is why the reverse auction is often used as a form of transaction. In reality, these two forms of trade are very difficult to separate.

Client	Contractor/Bidder
<ul style="list-style-type: none">+ High price-cutting potential+ Very reasonably priced bid process+ Process not time consuming+ Very transparent	<ul style="list-style-type: none">+ Access to more bids/customers+ Better chance to exhaust cost advantages+ Due to the pre-selection of contractors through the marketplace operator, no resources are wasted on bid requests that don't stand a chance+ Process not too time consuming

* Request for Quote

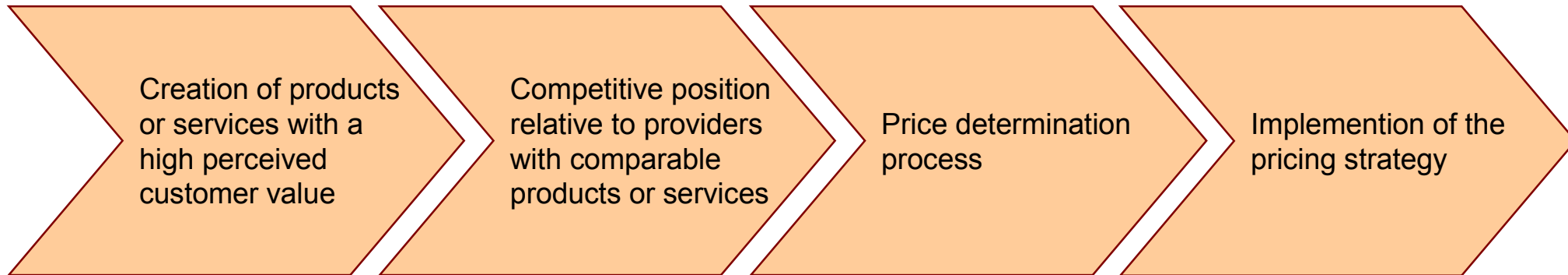
Customer - driven pricing

In contrast to the usual procedure, customer-driven pricing allows the customer to determine how much he/she is willing to pay for a product. The company must then decide if it is willing to sell at that price.



All the pricing process is impacted by Internet

Effective pricing primarily consists of four separate processes and interactions between the manufacturer and the customer. All four processes are affected by developments on the Internet.



Effects of the Internet

- Higher market transparency
- Better segmentation possibilities
- Customised production of products
- Reduced transportation costs
- Rapid gathering of competitive information
- Increased importance of competitive advantages (value proposition)
- Increased importance of establishing a brand
- Dynamic process (real time pricing)
- High level of price flexibility
- Constant monitoring and adjustment
- More complex and better price strategies possible

E-Logistics issues are often underestimated in E-commerce activities

Physical distribution problems :

Customers order within seconds...

BUT:

When will I deliver?



Key Success Factor and Limit Factor Logistics: "Promise to delivery!"

- **Christmas orders 1998 : 60% of orders were delivered in January !**
- **Every additional hour of delivery time worsens the number of undeliverable (not accepted etc.) shipments**



**Inefficient logistics systems turn E-Commerce visions into nightmares.
*Exploding Costs of delivery ↔ insufficient delivery services.***

Successful E-Commerce-Suppliers need fully integrated Front-End-Back-End-Systems

Front-End-System



- „Catalogue on the Web“, product offerings
- Customer Choice
- Order

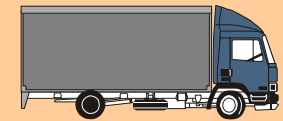
Online-Ordering



Insufficient match between front-end, materials management, and e fulfillment

Back-End-System

A	B	C
x	y	z



Integration between front-end and back end?

- online stock control
- automated replenishment
- inventory management
- commissioning
- expedition/dispatch, check of delivery addresses and credit-worthiness.

Too much emphasis on product presentation

Key lessons for E-Commerce distribution

- **Never start your web shop without thinking about fulfilment of orders/logistics**
- **Implement an efficient logistics information system**
- **Integrate Front-End and Back-End-Systems**
- **Make sure that customer orders can be delivered within 48 hours (maximum). The solution for the „last mile“ is key : time windows of one hour (within 24 hours) will become necessary**
- **Check your competencies! Make use of specialised intermediaries, e.g., logistics service providers, to keep track with high demanding customer wishes and logistics costs**
- **Face the opportunities of “digital distribution” (MP3, Video, Tickets, Insurances, ...)**

Channel implementation

Your online presence can very well complement what traditional retailers can/want to offer.

Use your direct online channels to :

- Sell hard-to-find items that few stores keep in stock, special-order products and discontinued merchandise (i.e. cobraelectronics.com or salton-maxim.com (home products))
- Address low value customers

pcZone the next generation of **Zone**

Over 14" Active Matrix Display!
IBM ThinkPad 1552
• 266MHz Intel® Mobile Celeron processor
• 4.8GB hard drive
• 64MB SDRAM
• 2x4.75" variable speed CD-ROM
• ergonomic 56K V.90 modem

FREE Carrying Case
Microsoft Office 2000 Small Business Editions

\$1649
Item #1C7257

Super Low Price!
3Com Palm V™
• Compact Attached multi-task case
• J2734 Input - 4x3
• Color screen
• Lithium Ion battery
• Instant access to your calendar, e-mail, to-do lists and more
• Advanced LCD display
• HotSync™ technology

FREE Cover!
Item #1C0D85

\$289.98
Item #1C0D85

10% OFF Online Orders at Zones.com! *Act Now! Limited Time Offer!*
*Maximum savings up to \$100. Not valid in conjunction with any other offer. See Zones.com for details.

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Kodak DC 215 Zoom
Millennium 2000 Digital Camera
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Hard Drive
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Business 2.0
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Buy Package at Zones.com you will receive a FREE catalog! Call for details.

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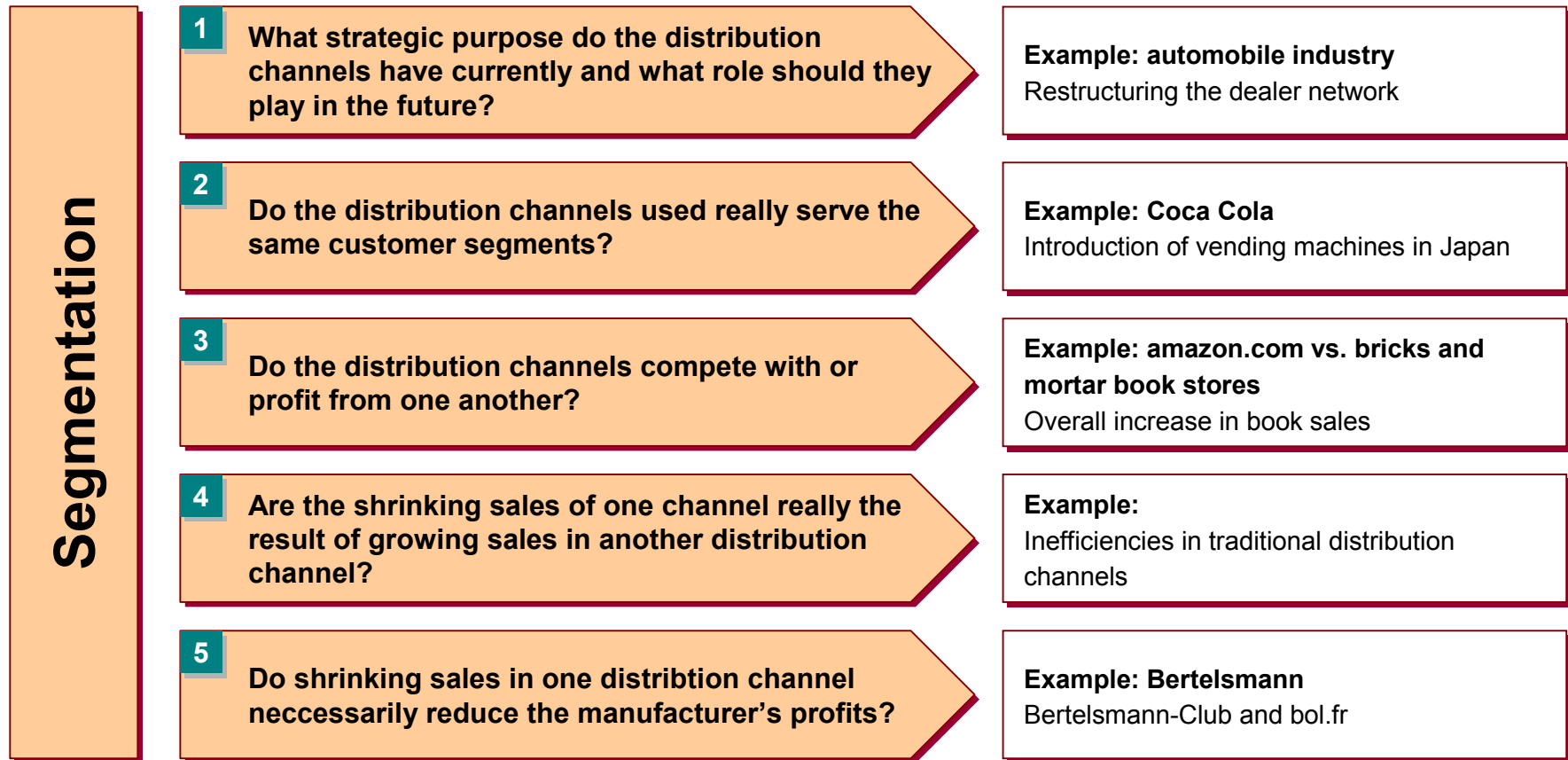
Distribution-related risks and opportunities

Deciding on a distribution approach requires a sound evaluation of opportunities and risks.

	Alternative distribution approach	Single distribution channel for new products	Single distribution channel for all products
Definition:	The Internet is used as an alternative or selective distribution channel for existing and new products .	The Internet is used as a distribution channel exclusively for new products .	Traditional distribution channels are given up entirely. All Products are sold exclusively via the Internet.
Opportunities:	<ul style="list-style-type: none"> + Expansion of market + Reduction of transaction costs + Management of retail network + Product differentiation 	<ul style="list-style-type: none"> + Low transaction costs + Control over the distribution channel + Flexibility (Price/Product/etc.) 	<ul style="list-style-type: none"> + Reduction in transaction costs + Control over the distribution channel + Flexibility (Price/Product/etc.)
Risks:	<ul style="list-style-type: none"> - Possible conflicts between distribution channels - Cannibalisation effects - Complexity 	<ul style="list-style-type: none"> - Limited product offering - Limited Market (on-line-customers) - No personal (customer) relationship - Conflict with retailers 	<ul style="list-style-type: none"> - Limited product offering - Limited market (on-line-customers) - No personal customer relationship

Channel evaluation and management

The basis for effective channel management is thorough segmentation. The following questions should be posed with respect to the ensuing channel evaluation.



Scope of communication needs to be broadened

Internet is full of relatively unknown products and services. The increasing transparency facilitated by the Internet makes customer retention as important as generating first-time buyers

Phase 1: New Customer Acquisition

Media

- Mass media (e.g. television)
- Established distribution channels
- Internet

Communication content

- Basic information regarding product/service
- Product/service USP

Communication goals

- Create awareness of product among identified target groups
- Generate traffic
- Reduce fear of contact

Methods

- Mass communication
- Consultation

Phase 2: Customisation/Customer Retention

Media

- Internet (email, newsletters, chat-room)

Communication content

- Customer preferences
- Selected product offering
- Customer loyalty
- Personalised communication

Communication goals

- Increase value to customer

Methods

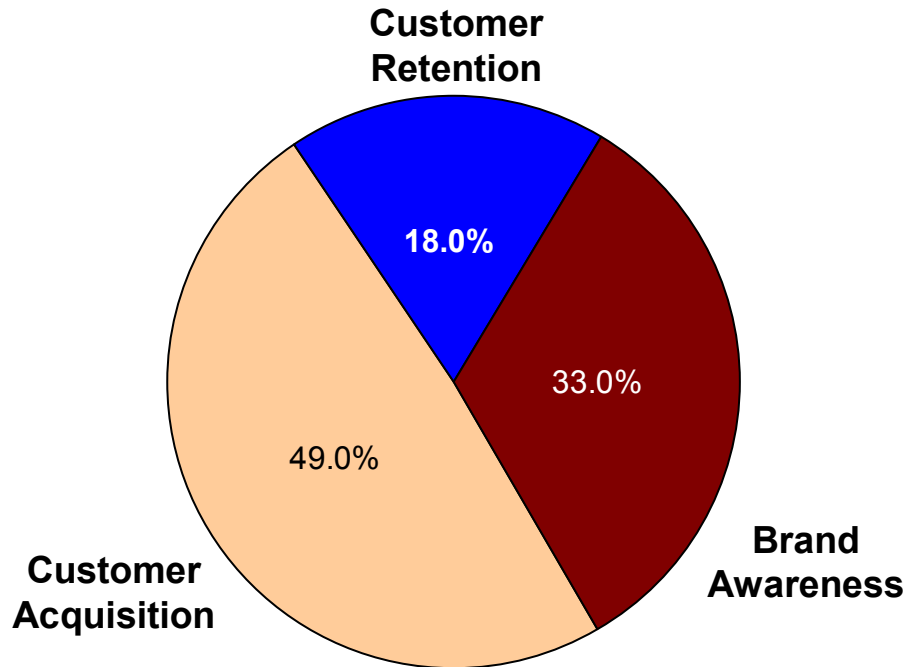
- Database marketing
- Introduction of a CRM system
- One-to-one marketing
- Customer loyalty program
- Virtual communities

Communication is needed not only in acquisition phases, but equally in retention phases

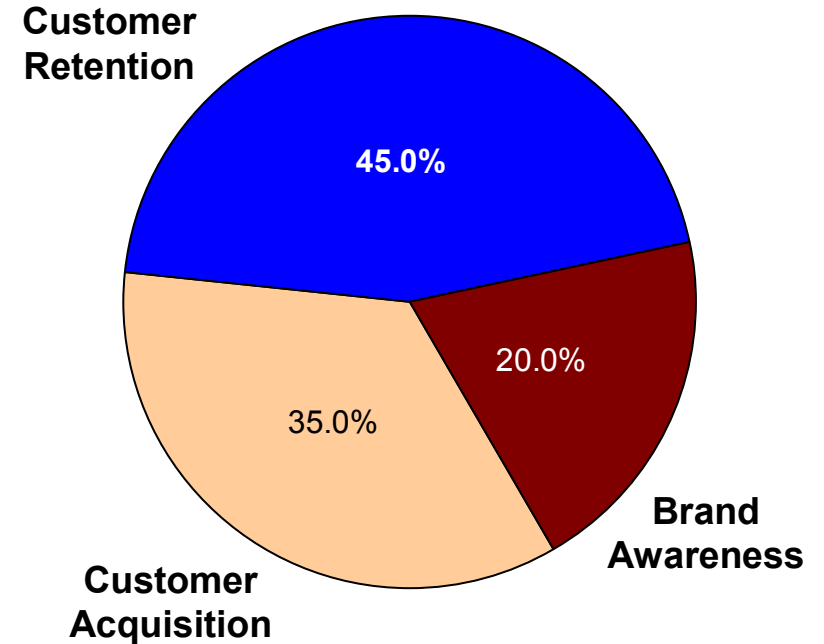
Customer retention is becoming more important

As e-retailing moves through the retail life cycle, marketing activities must shift from the current focus on customer acquisition and brand awareness to customer retention.

Allocation of E-retailers' Ad/Marketing/PR Budget 2000



Allocation of E-retailers' Ad/Marketing/PR Budget 2003

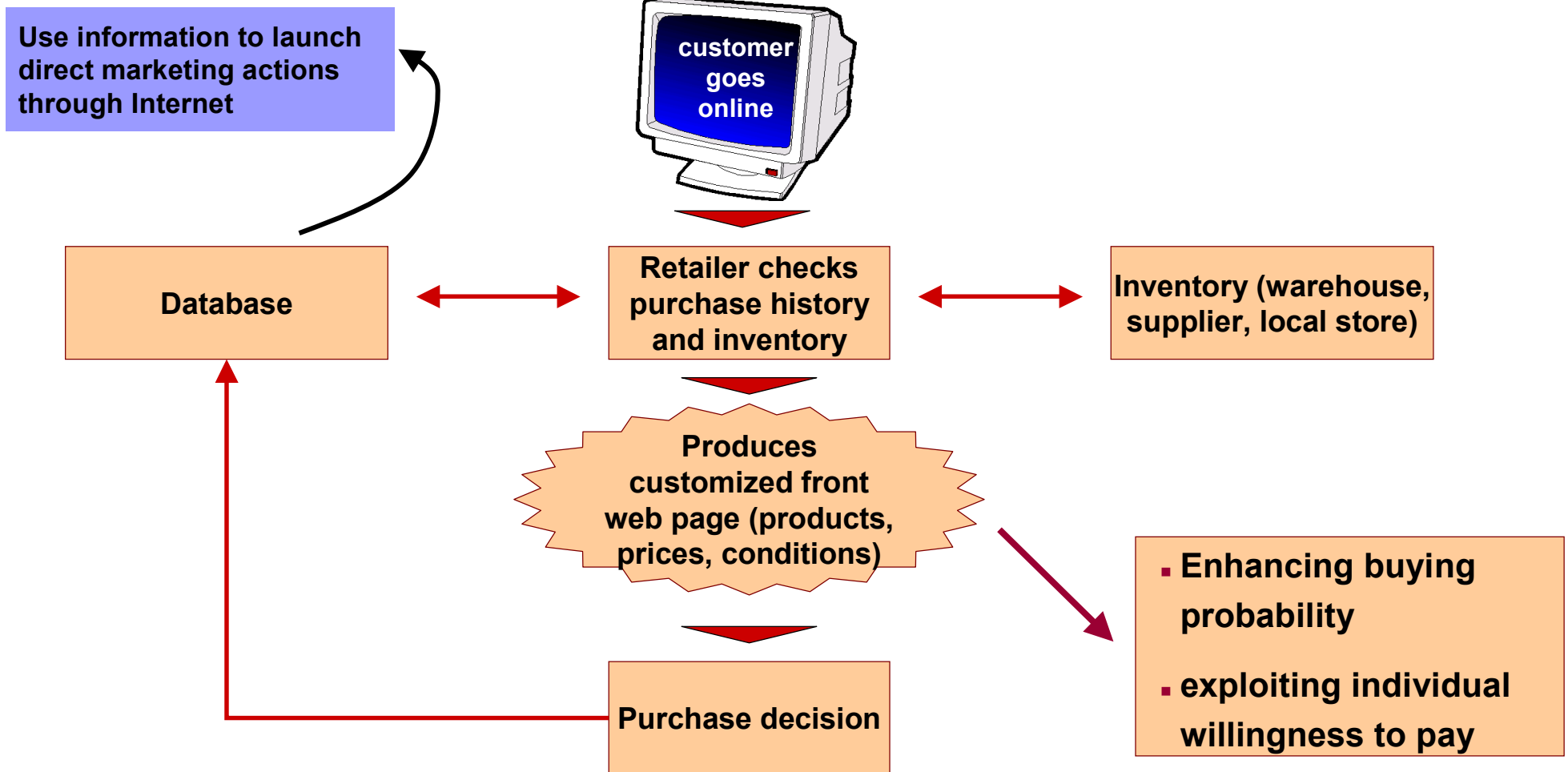


Source: PriceWaterhouseCoopers

Source: SKP Estimation

One-on-One communication opportunities

The Internet offers the possibility to make use of highly individualized/customized communication.



Example : Mazda.com - Learning about your customer

The screenshot shows a Netscape browser window with the title "[Mazda > Millenia > BYOM]". The browser's menu bar includes File, Edit, View, Go, Bookmarks, Options, Directory, Window, and Help. The website header is yellow with the Mazda logo and navigation links: showroom, company headquarters, acquiring a Mazda, and site map. A dark banner features a red 1998 Mazda Millenia with the text "1998 Millenia" and a list of links: Interior/Exterior, Safety/Engineering, Vehicle Specs, Build Your Own, Comparisons, Dealer Locator, and Order a Brochure.

If you've done your homework and you already know which Millenia is right for you, select the model below to begin building your Millenia of choice.

Model Lineup

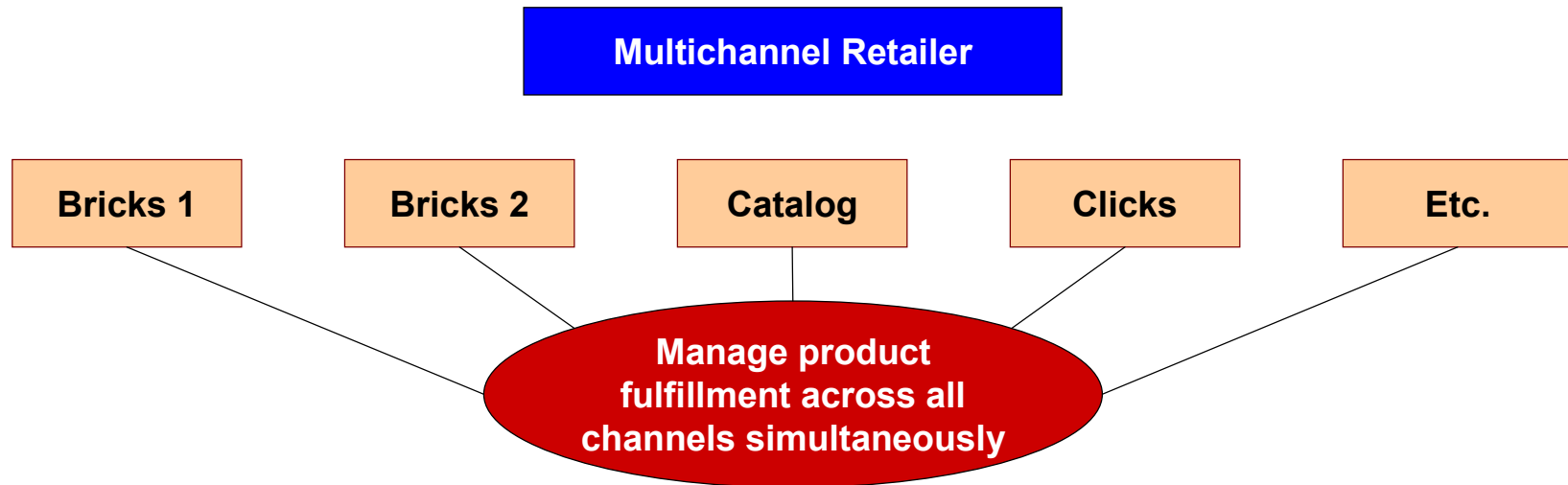
If you're still not sure, let us help you find the Millenia that's right for you. Please rate on a scale of 1 - 3, how important the following features are:

	3 Very Important	2 Somewhat Important	1 Not Very Important
Mechanical			
• Electronic Traction Control (p)	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
• 210hp Miller-Cycle V6 (Standard on Millenia S)	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
External Features			
• 16-inch aluminum alloy wheels (p)	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
Interior Features			
• Power Passenger's seat w/ 8 way adjustment (p)	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
• Leather-trimmed upholstery (p)	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>

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Summary I: accept the challenges for your business

In the new economy the traditional rules still apply : price, availability, product quality and service remain the mileposts.



Try to make use of...

- **Pricing differentials and promotions** (e.g. direct customers to lower cost channels)
- **Segment-specific delivery times and methods** (e.g. ship or order & pick up)
- **Customer differentiation** (e.g. who gets priority shipment?)
- **Databases for all channels**
- **Systems integration**

Summary II : E-Commerce and marketing mix

- E-Commerce has a strong impact on the marketing mix
- All elements of the mix have to face considerable new challenges but also : expanding possibilities

Product	Growing complexity caused by built-to-order, better opportunities to meet market demands
Price	Extremely demanding challenges for pricing policy Not all possibilities/pricing mechanisms will lead to growing profits Price transparency for customers and competition
Place / Distribution	Identify the adequate channel strategy Logistics system need highest efficiency and have to meet growing customer needs. Think about outsourcing
Promotion	The Web offers great opportunities to exploit all possibilities of one-to-one-marketing and databased marketing Make use of the information the customer gives to you