A breed apart

By Stephen F. Dull

New research shows that customer satisfaction with e-commerce—in both the B2B and B2C sectors—is remarkably low. How come? In their rush to establish a presence on the Web, most companies failed to build strong, distinctive online brands. Here's what you should do now.

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Fear distorts perspective. Wind gusts feel stronger, waves look higher and fog appears thicker when each seems an omen of something worse to come. So it should come as no surprise that so many of us were so wrong when e-commerce hit the business world of the 1990s like a storm threatening to blow away every long-held assumption about how business works and customers behave.

In the turbulent early days of the new economy, information was worse than incomplete—it was all but nonexistent. With the constant din of buzzwords—Internet-enabled! E-speed! Network effect! First-mover advantage!—and with the market moving so fast, decisions had to be made at a sprint, and often the justifications and rationales for those decisions were only thought through afterward. Many companies slapped together websites just to establish a presence on the e-frontier; others poured millions into flashy, interactive sites through which they either sold at a loss or gave away information and goods to millions of "markets of one."

Given all the press about the Internet putting power into customers' hands, it seems strange that so few companies bothered to ask customers what they really wanted from online commerce or gave so little thought to establishing strong online brands—that is, to creating satisfactory online experiences. But now, in a groundbreaking series of studies, Accenture has surveyed nearly 10,000 online consumers, as well as more than 800 business-to-business buyers, in an effort to gain a better understanding of e-branding.

The research identifies five distinct new market segments in each sector—B2B and B2C—and clearly shows what marketers need to do to build strong e-brands (see boxes). Even more important, perhaps, this research has revealed three surprising facts of online life—surprising insofar as they flatly contradict the conventional wisdom of the very recent past.

There is no new economy (at least not yet)

It turns out that in the new economy you don't spell "evolution" with an *R*. To be sure, the Internet and the Web will transform both business and consumer markets—eventually. But it hasn't happened yet, and it will not happen overnight. Traditional needs still matter, and the key to success in online business is not new technology but old-fashioned marketing.

But marketing doesn't mean pouring money into advertising. It means building brand equity by asking customers what they want and then delivering it—consistently.

This is precisely where most online businesses—both B2B and B2C—have gone wrong. According to our research, less than half of B2B buyers and just more than half of B2C buyers are "very satisfied" with their providers' brands. Such low levels of satisfaction are symptomatic of a failure of marketing—that is, a failure to identify and respond to the real demands of the market.

The cult of the new economy took it as a given that online competition would mainly be about price. But, in fact, neither business nor consumer buyers view price as the be-all and end-all. In the B2C market, competitive pricing accounts for no more than 13 percent of e-brand

value, even for the most price-conscious segment.

B2B buyers are even less price-sensitive. That's why the 4,000-plus B2B e-marketplaces were hard hit by the recent market meltdown; their strategies were based on attracting price-driven buyers, but most B2B buyers are not price-driven. (For a related article, see page 22.) Business buyers—especially global and multi-location companies—want the reliability, performance, service and other advantages of a respected brand, and they are willing to pay for them. On the whole, B2B buyers seem to believe that "you get what you pay for" and view low prices with caution.

Personalization also figured prominently in the early folklore of e-commerce. It was widely believed that businesses could woo and win buyers by using technology to get intimate with them. But while personalization is a necessary aspect of a successful online experience, it can't be expected to carry the site on its own. Not surprisingly, people don't want relationships with machines.

In general, B2C buyers rank site personalization second to last on their list of priorities. Across all segments, consumers express strong concerns about the privacy of personal information. In some consumer segments, businesses can build more brand value by collecting no information at all from their customers. And while B2B buyers are less sensitive about privacy, our research shows that personalization makes very little difference to business buyers in any segment.

Decision makers should therefore see a blinking yellow light when considering investments in personalization technology, which is only a small part of what the customer wants.

E-speed kills

Don't become too beguiled by "first-mover advantage." Take the time to do it right. Buyers in both the B2B and B2C markets told us that they were dissatisfied with the first-to-market entrants who seemed to throw something up on the Web just to beat the pack. Getting there first is meaningless unless you get there right. eBay not only got there first—it practically invented the online auction sector—it did it right.

Today 20 percent of businesses do 90 percent of online spending. Among consumers, meanwhile, 10 percent of the population does 70 percent of online buying. Dissatisfied or fence-sitting buyers thus represent a great opportunity for companies that really address their needs. Remember that haste makes waste—and that traditional values are vastly more important to most buyers than a whiz-bang online experience. The E-vanguard is there. It's just not that big yet (see box, page 11).

That said, however, our research shows that broadband has a dramatic effect on both B2B and B2C buying patterns. A faster connection reduces frustration and increases the likelihood that customers can find what they want. As a result, broadband raises satisfaction.

B2B buyers with broadband do more online buying than the narrowband set, and those who have access to broadband at work buy even more heavily from online B2B suppliers. Among B2C buyers, those who have access to broadband both at home and at work spend disproportionately more money online than dial-up users. Obvious? Maybe. But our study actually showed that companies could profit from subsidizing their customers' broadband access.

Our research shows conclusively that the most avid online consumers are the least likely to be paying attention to price.

E-commerce is stalled

In the United States, B2B buyers make only 3 percent to 4 percent of their purchases online. This doesn't mean that business customers don't want to make transactions over the Web; in fact, most B2B buyers say they want to transact business at some level through this channel. And our research shows business purchasing growing dramatically as buyers get more comfortable with the Web.

But only 18 percent of B2B websites offer purchase capability. The overwhelming majority are information-only sites, and many of these, unfortunately, don't provide information that is organized and delivered in a way that encourages customers to make purchases. Instead of building brand value, such sites erode it. This is a huge and obvious barrier to the spread of B2B e-commerce.

B2C sites fare little better. Guided by the myths of online brand value, many companies have invested heavily in initiatives that deliver the wrong experiences to the wrong consumers—if, indeed, they deliver anything at all.

Brandwise.com, OnePriceCDs.com, Buy.com and ValueAmerica.com, to name a few, bled red ink as they strove to build market share by, among other things, offering extremely low-priced—or even free—merchandise. Yet our research shows conclusively that the most avid online consumers are the least likely to be paying attention to price, and that price is a minor consideration in most online purchases.

Value through segmentation

A sound strategy of segmentation is the prudent approach to building e-brand value. Business strategies for the online market should offer experiences designed to meet the real needs and preferences of real online customer segments.

One size does not fit all—one product or one experience will not satisfy all segments. Thus, companies seeking to build brand value online have three options: develop one brand and target one segment; target several segments and develop a different brand for each one; or take one of three routes to offer different experiences under the umbrella of a single brand.

For example, Wal-Mart's site offers a broad selection of reputable brands across a wide spectrum of product categories, and at attractive prices, if not the lowest. By contrast, Federated Department Stores targets multiple customer segments by offering different Web experiences for each of its branded outlets, including Macy's and Bloomingdale's.

The third strategic option is visible, at least in its embryonic stage, in E-Trade's market segmentation strategy. The most profitable segment of the online brokerage market is active traders—who may trade once every three or four days or dozens of times every day. Active traders demand faster executions and more timely information than occasional investors do; Power E-Trade offers services tailored to their exacting demands.

This is not simply a matter of offering better prices to big spenders; active traders get a distinctive package of services and benefits not available to—and probably not of interest to—less avid market players.

Another way to offer a different experience under the same brand is to use technology to customize the branded Web experience while the consumer is actually using the site so that it more closely meets that consumer's specific

needs. We can imagine, for example, an online bookseller offering each needs-based segment a different online experience. The home page for bargain hunters, for instance, might include a list of value-priced bestsellers, periodic promotions and a full menu of categories. The home page for more time-sensitive consumers might center on a powerful search function and might be more streamlined to feature favorite categories and enable faster page loads.

Finally, consumers should be able to choose the Web experience they want for any particular occasion. Again using our imaginary bookseller as an example, new customers (whose online behavior is not yet established) can select to have a bargain-hunting or time-saving experience. Also, this approach can enable multi-category e-brands (for example, Amazon.com or Priceline.com) to better satisfy individual customers across a variety of purchase categories.

Succeeding at online commerce demands not only technical savvy but also market knowledge. Buyers have a surprisingly broad spectrum of intensity in their preferences.

B2B needs-based segments: From Traditionalists to the E-vanguard

Accenture research has identified five distinct online B2B needs-based segments. In general, business buyers have three priorities: brand reputation, familiarity and tenure; customer service; and price level and type.

B2B buyers often move from segment to segment, depending on what they're buying. For example, the same buyer who values site functionality very highly when purchasing asset management services may care more about brand familiarity when purchasing computer hardware. Because preferences differ according to the product or service purchased, the same buyer, when faced with five different purchasing decisions, may behave in any of five different ways.

- With 28 percent of buyers, *Traditionalists* make up the single largest B2B needs-based segment. They are so brand-sensitive that brand reputation, familiarity and tenure overwhelm any other factor in their scale of values, accounting for almost one-third of the segment's total e-brand value.

- *E-service Seekers* constitute 23 percent of online business buyers. Customer service is the single most important value factor for this group. They are the least price-sensitive B2B buyers identified in our research, and they rank price level dead last in importance, behind all other factors. However, they do want price policies—volume discounts, for example—that treat different types of buyers differently.

- *Price Sensitives*, as the name suggests, derive more value from price than from any other single factor, and they place less importance on customer service than do members of any other segment. Price level and pricing type, respectively their first and fourth most important factors, account for more than 20 percent of what the Price Sensitives value in a B2B e-brand. Brand reputation, at 9.8 percent, is an important but far from overwhelming consideration, ranking this group's value scale just ahead of information privacy issues. The Price Sensitives represent 21 percent of B2B purchasers.

- *E-skeptics* contradict the old saying that "familiarity breeds contempt." Most B2B purchasers don't care how long a brand has been around, as long as it's reputable and somewhat familiar. But for E-skeptics, brand tenure is the single most important factor, and brand familiarity is a close second. Combined, these two factors account for 22 percent of the total value E-skeptics derive from a B2B brand.

  Information privacy ranks next for this segment, with brand reputation fourth. Of all online B2B buyers, E-skeptics care the least about variety—specifically, range of suppliers and vertical marketplaces—and site functionality. E-skeptics account for approximately 17 percent of the online market.

- The *E-vanguard* values the Internet's single greatest benefit: its variety. These are the comparison buyers. In fact, supplier variety and category selection combined account for almost 20 percent of their value set. Customer service is the second most important factor for this segment, but site functionality ranks near the top, at 9.5 percent. Indeed, those in the E-vanguard care about this type of experience so much that they rank these needs over price, brand reputation and customer information privacy. This is a small segment, only about 11 percent of the market, but it is particularly important in the cash management and healthcare industries.

Although price is a relatively unimportant factor for most B2B buyers, for example, it is the most important consideration for one segment of the business sector (see box, preceding page).

The same B2B buyers may have different preferences depending on the types of products they are buying. Even company size matters. Buyers for large companies are much more brand-sensitive than those at small companies, and the more experience buyers have with online commerce, the more brand-sensitive they become.

Similarly, B2C buyers report that companies active in multiple product categories do not achieve uniformly high levels of customer satisfaction. For example, the retailer Target has high customer satisfaction scores in apparel but relatively low scores in toys.

Such complexity can be navigated successfully, but not without a map. Here are four strategy fundamentals that every company should keep in

B2C needs-based segments: From Cherry Pickers to Netizens

Accenture research has identified five new online needs-based segments in the B2C sector. Three factors—price, brand selection and site functionality—are critical to the differentiation among those segments. Interestingly, competitive pricing is the overwhelming consideration in only one of these segments, and even in that segment it accounts for less than 13 percent of total e-brand value.

- Twenty-six percent of online B2C buyers are what we call *Cherry Pickers,* and they constitute the largest segment of this sector. They are bargain hunters, but they also want a wide selection of brands and a diversity of products to choose from. Price accounts for 12.8 percent of e-brand value for this segment, but brand selection, category breadth and brand reputation combined account for nearly 30 percent.

  Cherry Pickers, like the other B2C segments, are not a distinctive demographic group. They have little in common besides their buying preferences, though the segment tilts somewhat toward the young and educated.

- *Brand Reliants* make up 22 percent of online consumers. They value competitive pricing, but they value brand reputation and privacy of personal information just as much.

- Twenty-one percent of online consumers are *Time Savers*. Although price is the most important single factor in their value set, a good price accounts for only about 10 percent of what they look for in a brand. They value speed and convenience even more. These shoppers don't want to wait while webpages load, and they do want functional sites; for these consumers, speed, functionality and ease of use combined are almost three times as important as price. Convenience is more important than brand reputation or product selection.

- *Variety Seekers* are the shoppers and browsers of the online B2C marketplace. They want a comprehensive selection of reputable brands across a broad category of products, and they want it fast. Site speed is far more important than price to this group; they rank speed fourth in order of importance, but competitive pricing does not even make their top-10 list. Variety Seekers make up 16 percent of the consumer market.

- *Netizens* are at home on the Internet but are aware of the risks that surround them. Thus, their single most important value is the security of their personal information. One of the surest ways to destroy brand value with this group is to share their personal information with third parties. Site speed, a rich interactive experience and site personalization run almost neck and neck for second place. Although price is among this segment's top-10 concerns, it ranks only eighth in importance. Netizens make up about 15 percent of the consumer market.

In addition to these needs-based groups, we also looked at *Heavy Spenders*—those who spend more than $100 online every month. The proportion of Heavy Spenders in each segment ranges from 18 percent to 24 percent, and *Very Heavy Spenders* (online spending of more than $250 per month) constitute between 5 percent and 8 percent of each segment.

Heavy Spenders are somewhat more likely to be middle-aged than young. People who earn more money are, as one would expect, more likely to spend more money online; it's probably not a coincidence, then, that people with higher levels of education are also likely to spend more money online.

Experienced Internet users who go online several times a day are more likely to spend more online than less experienced users who go online less often. Broadband access to the Internet also seems to be associated with higher levels of online spending.

mind when approaching the e-commerce arena.

Choose target customers and aim at them

There is great benefit to targeting the customers you want with the benefits they want, although learning what they want takes time. The good news is that the Internet has cut that time substantially. Market research that used to take four months can now be done online in six weeks or less, and the online experience itself is ideally suited to a rapid cycle of continuous refinement using customer input—that is, taking rough concepts to customers, letting them help you refine them and then repeating the cycle until you get it right.

But however the job is done, focusing on target customers must be a priority. Neglecting to collect information about needs, preferences and profitability is a disastrous mistake.

Build marketing muscle

When it comes to marketing, many businesses, especially in the B2B sector, are neophytes. But companies need to develop basic marketing skills to deliver, profitably, what customers really want. At a minimum, that means using market research to uncover customer needs. It means analyzing the impact of improvements in users' online experiences on both preference and profit. And it also means applying your understanding of what customers really want to an e-brand strategy implementation so that the online purchase experience and customer service are improved. Such skills will continue to pay dividends when the next technology wave transforms the Internet once again.

Integrate the traditional with the nontraditional

Too many businesses have become infatuated with technology that their customers neither want nor understand. If target customers really prefer to use the telephone, don't force them to use your website so that you can lower your cost. Let customers use the technology they want, when they want. Target the more expensive and elaborate technologies (such as online video or telephony) to the situations that most affect customer preference, purchase and loyalty.

Drugstore.com is a good example. Customers can use the site to fill most prescriptions. If there's a problem, they can use e-mail or the phone to contact the company. A customer service message is displayed prominently, and the service customers get is actually helpful and friendly. E-mail is answered personally; problems prompt a phone call from a customer service representative. How obvious! What's remarkable is how rare that is on the Web.

Focus on EBIT, not bits of "e"

Companies need to focus their online efforts on things that contribute to the bottom line—whether it's lowering costs or raising revenues. Too many e-commerce efforts do neither. Don't invest in customer technologies without the business case for customer preference and profit. And think more broadly about how the e-experience serves the customer and drives your profit. Some customers may never want to buy online, but they may use the Web extensively for research before they buy.

The best sites recognize these differences. A home appliance manufacturer, for example, won't sell a washer online. But the company will help customers do research and find local retailers—and will even provide links to online retailers.

At the height of the recent technology-stock bubble, a bestseller predicted that the old economy would be *Blown to Bits*. In truth, the only thing blown to bits was the stock valuation of allegedly new economy companies.

The dot-com frenzy is history now, gone to join Tulipmania in the annals of mass hysteria. Good riddance. Because for a while, new economy noise temporarily drowned out all talk of business basics.

But it's clear now that business basics cannot be ignored. Among the most important of these basics is this: Know your customers. Only companies that identify what customers really want, and position themselves to provide it, can build strong brands—in any market economy. ■

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