

# THE WEB ECONOMY'S WILD RIDE

## In this chapter, you will learn about:

- ◆ The main reasons that business on the Web grew so quickly
- ◆ The reasons that Web sites experienced huge losses in the late 1990s
- ◆ The global economic factors that contributed to the Web economy's downturn
- ◆ The role of brands in Web site success
- ◆ The differences between online and mass media advertising
- ◆ The rush to invest in sites that were conceptually flawed
- ◆ How traditional businesses entered the online marketplace
- ◆ What to expect in the future for Web business



Imagine you are going up in a very fast elevator. If it's powerful enough, you will get a slight head rush from ascending so quickly. Now imagine that as the elevator reaches its maximum speed, there's a lurch, an ugly sound of twisting metal, and a sudden, unexpected freefall as you hurtle down the shaft toward the ground below. That feeling is an approximation of what it's like to own an advertising, marketing, or production firm in the economic environment around the turn of the 21<sup>st</sup> century. As the CEO and cofounder of PFS Marketwyse, an agency with expertise in custom digital media campaigns, I have been immersed in the creative, technical, and marketing development of more than 100 Web sites since 1994. The combination of lightning-fast technological advancements and a roller coaster of an economy have made the business of Web site management exciting, frustrating, challenging, rewarding, and, at times, nauseating (though not necessarily in that order). This book explains successful Web site creation from the perspective of one who's been there. Chapter 1 describes the various economic and technical developments that led to the bursting of the Web bubble.

## A QUICK TOUR OF THE WEB LANDSCAPE

“Ladies and gentlemen, this concludes your rollercoaster ride through the World Wide Web. Please excuse the sudden, unannounced stop. After the safety bar has been raised, we invite you to exit the rollercoaster to your left, and spend the evening with us in our newly constructed *Land of Skepticism* tour.” Such has been the tumultuous ride of the New Economy. From dot-com company employees and owners to stockbrokers and buyers, the future of the cyber world is uncertain at best.

### What Goes Up Must Come Down

After years of hype, the medium that would replace television has taken a dramatic turn. Even as **electronic commerce (e-commerce)**, or online business, increases to record levels, the **Web start-ups** (businesses that exist only online, also called **pure-coms**) that first appeared to change the face of commerce are trading their home pages for “out of business” signs. **Dot-coms**, a broader category of online business, encompass both pure-com sites and sites run by traditional marketers.

Toward the end of 2000, following the strangest U.S. presidential election in modern history, interest rates and gasoline prices were on the rise. Companies that were starving for new employees only a few months prior suddenly changed course and began announcing massive layoffs. Earnings predictions were revised downward. Like any bust that follows a boom, these were days of mixed emotions. The widespread fear of recession among both corporations and the general population was somewhat offset by the odd contentment that the people who made billions on paper were as vulnerable as everyone else.

So what happened? For a time, it seemed that business on the Web was unstoppable. Companies were scrambling to get on the Web—the general attitude was “be there or be at a severe disadvantage.” Traditional advertising agencies, unused to this new medium, rapidly tried to forge partnerships with upstart Web site development firms or to create internal Web programming shops. They did this rather than lose accounts to **production houses**, or small creative agencies that specialized in Web site production. Having a “dot com” next to your name practically guaranteed success; not having one got you branded “old fashioned” in the industry media.

### The Party's Over

One day, in the middle of the third quarter of 2000, the pure-com market (followed soon by the economy as a whole) started to crumble. Suddenly, being an Internet-only business went from being a badge of pride to a near liability. Pure-coms scrambled to rebrand themselves to avoid negative ramifications of Internet association—as evidenced by Jfax.com changing its name to **j2 Global Communications** ([www.j2.com](http://www.j2.com)) and ShopNow.com switching to **Network Commerce** ([www.networkcommerce.com](http://www.networkcommerce.com)).

These companies wanted to differentiate themselves from the likes of Pets.com, Furniture.com, MotherNature.com, PlanetRX, and others who led the industry, spent hundreds of millions of dollars, and then abruptly closed their doors.

Heavy hitters like **Priceline.com** saw their stocks drop from a 52-week high of around \$104 to just over \$1 per share, and they announced massive layoffs. Stock for eToys.com plummeted from a 52-week high of around \$32 per share to just over \$.20, and as a result, eToys.com had to close its U.K. offices and lay off many employees. Even **Amazon.com**, the poster child of start-up success who made others believe they could do it too, saw its stock, which peaked around \$250 per share, settle at \$12. Amazon's revenues of over \$3.5 billion have generated over \$1.5 billion in losses, leaving many people to wonder just how much longer the site will be around.

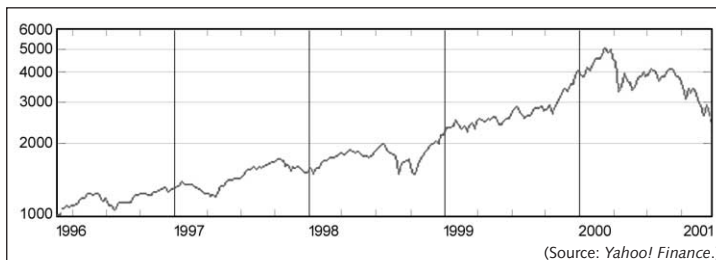
The pure-coms weren't the only companies to suffer in the late 2000 slump. Major tech players such as Lucent Technology and Cisco Systems also experienced significant stock drops in light of revised earnings expectations. The sudden shift in the technology segment of the economy—which has, since the Industrial Revolution, led the economy upward—left the immediate future of the new economy (and the overall economy) in question.

## Many Causes

So what caused the tumble? There were many causes: the venture capital money that funded many start-ups began drying up, the Federal Reserve's planned slowdown of the U.S. economy was not as effective as anticipated, and the high-flying, tech-rich NASDAQ stock market began a dramatic downturn.

Making matters even worse, the growth and expansion of the computer industry that had helped fuel the economy of the 1990s suddenly began to dry up. Even the European markets, which were relatively untapped compared to American computer markets, were slower to grow than many experts anticipated.

Figure 1-1 shows data for the NASDAQ for January 1996 through January 2001. You can see how the market nose-dived in the fourth quarter of 2000.



**Figure 1-1** Point gains by the NASDAQ, early 1996 through January 2001

The NASDAQ chart illustrates the initial demand for and belief in pure-coms and related tech companies (including those that provided Internet service, site development skills, or the manufacturing of necessary equipment) starting in early 1997. It then shows a sudden

abandonment of them, proven by the sudden drop in the market's index average. The dot-com sites developed by traditional marketers were typically just a function of their parent company and were not listed separately on stock indexes.

This new situation begs these questions: What happened to the pure-coms to make them fall from grace? How did they go from being the new American dream to an economic liability? Can they rebound, and, if so, will the Internet landscape ever be the same? In addition, where, in all of this, were the traditional marketers? How were traditional businesses dealing with and surviving on the Web? Most importantly, how can today's problems be avoided in the future, and what can we expect tomorrow?

With the benefit of hindsight, it is possible to identify many reasons that led to trouble for the pure-coms. These problems include economic conditions beyond pure-com control, lack of brand development, bad ideas, consumer oversaturation, and general lack of experience. The next sections discuss the many issues that contributed to the end of the seemingly unstoppable rise.

---

## GLOBAL SHIFT

In many respects, the struggling dot-coms were mere victims of circumstance. Economics classes will probably be talking about the third and fourth quarter of 2000 for years to come. It is important to understand at least a general picture of what the world is like in the New Economy vs. its Old Economy predecessor before we can really investigate and comprehend what happened to Web commerce. Understanding the economic environment is vital to gaining a true picture of how Web commerce will survive.

### A Changing Economy

Prior to the middle part of the 1900s, the economic environment known as the **Old Economy** was a setting in which fewer than 5 percent of American households owned stock. Those who did own stock were generally a specific type of conservative white-collar investor. Regardless of who was doing the trading, the market was always the buoy in rough waters—a source of stability even during times of economic recession. Changes in the market, either up or down, were always measured in points—rarely in percentages. The stock reports were available in a few editions of a daily newspaper, and buy/sell orders usually involved consultation and a phone call to a broker. Snap decisions were hardly part of the equation.

The **New Economy** of the 1990s and beyond is an environment of instant data, endless opportunity, and instantaneous decision-making in which the average American is an informed and active participant. Circumstances and conditions we've never faced before are creating a haphazard set of economic rules that we struggle to understand and work within. However, before any of them can be studied, we should take an overall look at the landscape of late 2000.

## An Upward Spiral

For most of the 1990s, the United States enjoyed intense economic growth. In 1999 alone, the Dow was up 25 percent, and the NASDAQ climbed an unbelievable 85 percent. New homes were selling faster than they could be built, computers had infiltrated more than half of U.S. homes, and the Internet was, in the early 1990s, starting to generate a lot of buzz.

Commercialized growth of the Internet spawned new types of companies that the world had never seen before. These included pure-coms, consultancies, Internet service providers (ISPs), and production houses. Existing tech companies like IBM and AT&T had new crops of customers, and consumer demand for computers skyrocketed. Amazon.com (an online retailer that began selling books and later expanded into selling music, electronics, home furnishings and other items) roared onto the scene in 1995, and its success convinced anybody with an idea that if Amazon.com could sell books over the Web, they could sell music, clothes, imported herbal remedies, and so on. These high-tech trailblazers scoffed at **brick-and-mortar** stores, which are retailers doing business only in physical locations.

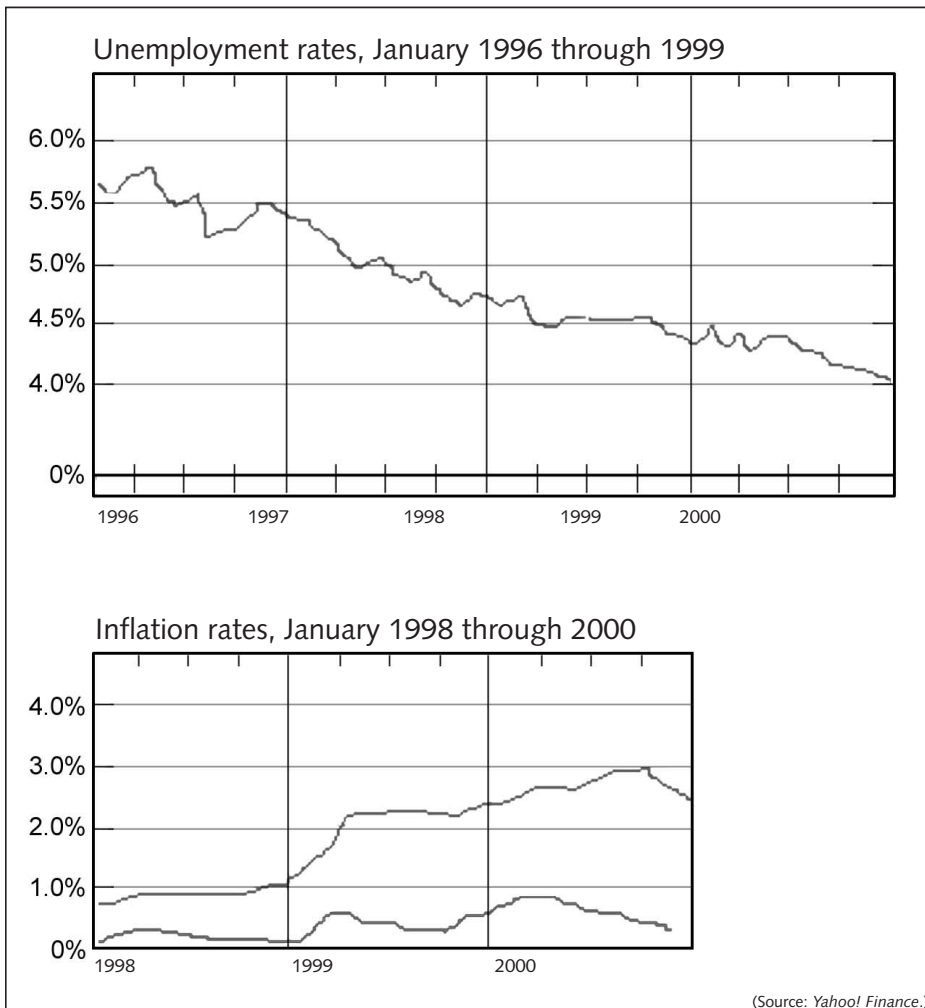
With the promise of a new medium (the smart money at the time was betting that Internet usage would eclipse television usage), everybody wanted a piece of the action. The NASDAQ became home to the new crop of tech players, including nearly every publicly traded pure-com, and consequently, its indexes inflated higher than ever. Even as market experts and stock analysts warned during the early days of the boom that a correction was imminent and the Federal Reserve issued repeated warnings about the dangers of inflation in an over-heated market, the stock indexes continued to rise. Stocks rose so dramatically that it seemed that the growth of the economy was the only topic the media were reporting. The media attention itself fueled the market further, which in turn fueled more media attention, and so on. Investors continued to pour money into many pure-com start-ups that, with inexperienced executive officers and often flawed business models, were getting in way over their heads.

New products, mostly high-tech gizmos such as MP3 players and Palm Pilots, hit the market in a rapid, constant blitz, taking advantage of an extraordinarily high consumer confidence and seemingly endless wealth. It seemed that the only major problem facing corporate America in the late 1990s was an extreme lack of skilled workers. With stock prices skyrocketing, consumers and corporations were finding new wealth to spend, creating a demand for goods across the board. Companies, hungry to meet the demand for new products and services, took advantage of the low interest rates and borrowed money for expansions. These expansions created a need for qualified workers to fill newly created positions so that growth could be maintained. Soon, the market for employees was saturated. With the unemployment rate hovering under 4 percent for most of the late 1990s, employers went to great lengths to find and retain qualified employees to help spur further growth.

The high demand for employees is what kept the Federal Reserve nervous about potential inflation. Before too long, corporations would have to increase salaries to lure and maintain new workers, and they would, in turn, raise the prices of their goods and services

to cover their increased salary expenses. That was the (rational) economic theory. However, companies dealt with their employees without raising salaries. This helped keep inflation down. Instead of offering more cash, publicly traded companies offered enticing stock options, which were what the workers *really* wanted. Smaller firms often promised their employees that they would go public (offer stock in a public offering) in the near future and that shares of stocks and options would be distributed generously. Most companies installed creative quality-of-life improvements to keep employees without having to add more dollars to their paychecks.

Figure 1-2 shows the unemployment rates coupled with the inflation rate for the second half of the 1990s.



**Figure 1-2** Unemployment and inflation rates

Figure 1-3 shows the stock prices for a few key pure-com companies that went public during those years.

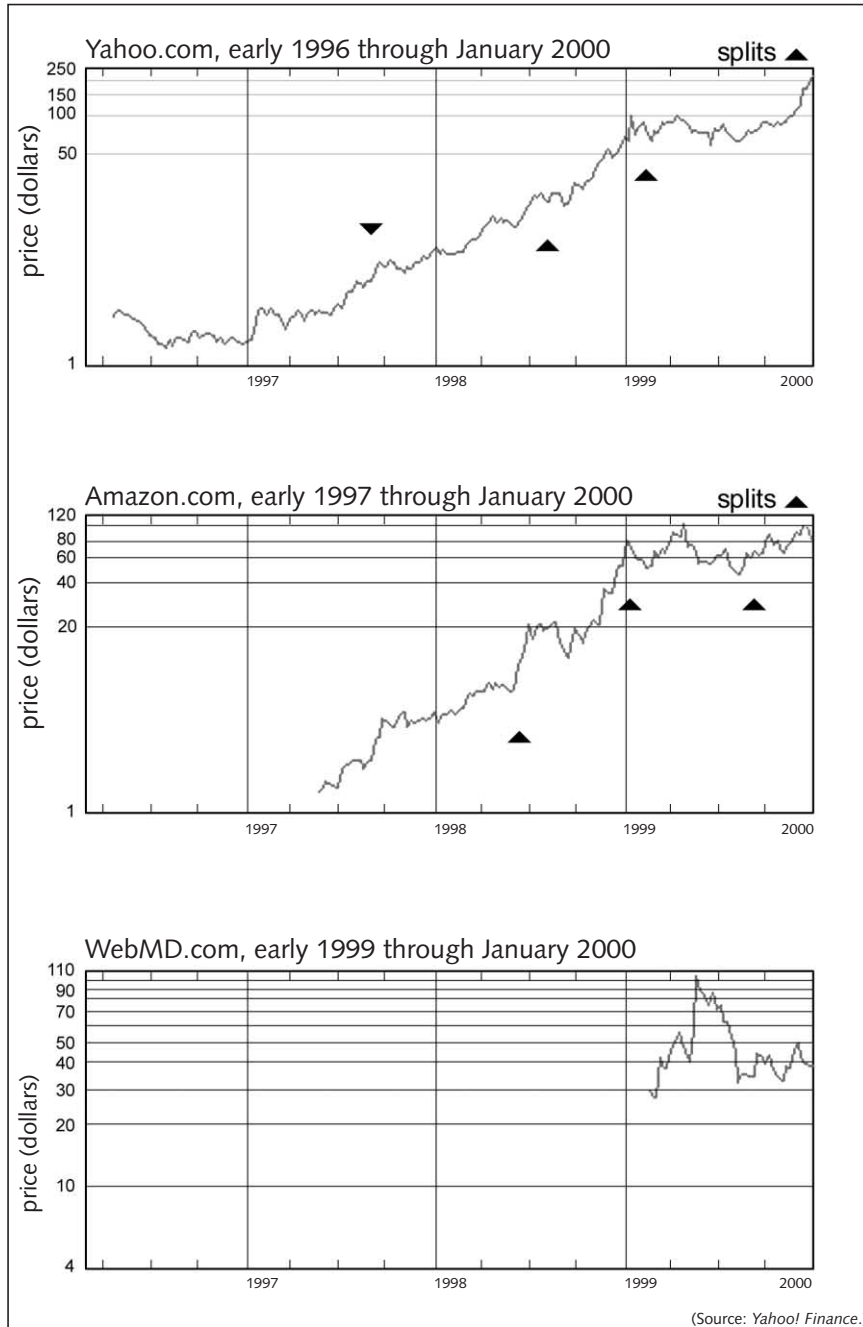


Figure 1-3 Pure-com stock prices



Like other companies eager to hire and retain talented employees, my own agency began offering attractive extras to help entice workers; we installed a full game room and lounge in the office and initiated a “come when you want, leave when you want” policy. We expanded creative freedom and scheduled field trips to ball games and amusement parks. The approach seemed to work. Although salaries weren’t significantly increased, only a few employees left the agency to work for competing firms, while many of the others were recommending their friends for positions that we had open.

Then came the year 2000. The fear of a Y2K meltdown was unfounded, and threats to disrupt New Year’s celebrations didn’t materialize. Unfortunately, that was the last of the really good news for a while. As 2000 moved along, the economy did not experience much more of a change in the first quarter than it did in 1999. A few pure-coms failed, but those failures weren’t cause for major concern. At the pumps, gas prices jumped suddenly—nearly doubling in some areas to nearly \$2 per gallon. People complained about it, and the media made a slight issue of it, but it wasn’t *that* big of a deal. The really big news of 2000 was that the Federal Reserve, under chairman Alan Greenspan, started to orchestrate an economic slowdown by raising interest rates. It was then that the wild ride ground to a halt.

## The Downward Slide

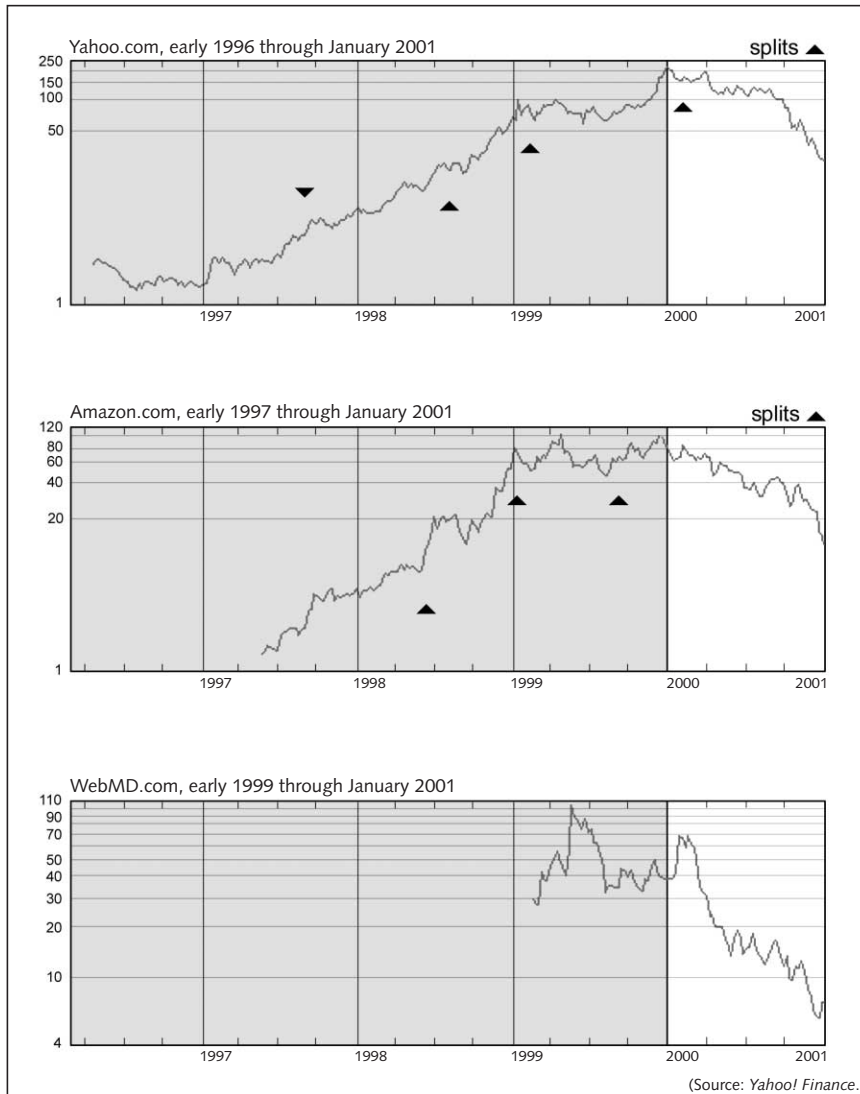
In the fall of 2000, news came that Pets.com shut its doors. That was the first real indicator that something had gone terribly wrong in the Web’s business environment. Pure-coms, far from being money machines, had *real* expenses to deal with and were vulnerable to losses. Then another pure-com died. And another. It was impossible not to watch with fascination; it was ugly and entertaining at the same time.

Not long after Pets.com’s demise, eToys.com (a pure-com that sold children’s toys online, and one of the few **e-tailers**, or online retailers, mentioned in the same breath as Amazon.com and eBay.com) released news that its 2000 holiday sales would be half of what it expected and its current cash would last only a few more months. Suddenly, the industry wasn’t entertained—it was alarmed. If eToys.com could fail, what did it mean for the rest of the sector?

The downward slide was gaining momentum. Lucent Technologies’ stock plummeted as bills from failing pure-coms and other expanding businesses went unpaid, and **Microsoft** (www.microsoft.com) reported that it would not hit expected earnings for the first time in a decade. The economy for the third quarter of 2000 grew at 2.2 percent, the slowest rate in years. Following a hotly contested presidential election, the word “recession” started being mumbled by stunned corporations, by stock-rich households, and, more loudly, by the media. The “soft landing” that the Federal Reserve had orchestrated wasn’t going quite as planned.

This new set of economic circumstances, coming so quickly after the hot electronic commerce takeoff, sent investors running scared. As a result, stock prices plummeted, hurting even the most solid dot-coms.

Figure 1-4 shows the individual stock charts of the pure-com companies examined in Figure 1-3, with data through 2001.



**Figure 1-4** Pure-com stock drops in 2000

As a broader indication of the economic slide, the Standard 100, an index consisting only of dot-com and tech stocks, gained 28 percent in just the two months between January 2000 and March 2000. However, the Standard 100 had an overall loss of 69 percent between January and November of the same year. Even more alarming is the fact that electronic commerce companies that received venture capital funding in the fourth quarter of 1999 had a median value of \$108 million, but just six months later they had a revised median value of \$21.5 million—down about 80 percent.

Solutions to recent problems will likely come from sweeping and specific economic changes. These changes will eventually turn the tech and broader markets around, but they never will restore the dot-com mania of the end of the millennium.

Now that we've set the economic scene for the dot-com downturn, we should examine some of the New Economy conditions that contributed to it.

---

## CONTRIBUTING FACTORS

Unlike the Old Economy described in the previous section, the New Economy is an economic environment in which the majority of American workers are participants. This situation, along with factors such as consumer consumption and increased access to information, helped spur the rise and fall of the dot-coms.

### The New Economy Environment

Mutual funds, company 401k plans, and increased general interest due to rapid gains in the stock prices got more people involved in the market, and by the latter days of 1990s, nearly half of all American households were invested in stocks. Discussions about stocks moved from the smoky rooms of upper crust lounges to the dinner table of the common worker.

Information has become easier than ever to get. CNBC, CNN, and others provide real-time stock quotes during the day, and as a result, **day trading** (the act of buying stocks and selling them that same day after making a quick profit) became a widespread phenomenon. Executing a trade was as easy as jumping on a Web site. It was far easier and less expensive than consulting with a broker.

The repercussions of easy and instantaneous access to data certainly contributed to the downturn in the economy, as it brought not only too many (inexperienced) people into the stock market, but also spurred dizzying market heights that could not be maintained.

The real market dollars that at one time were an indicator of expectation and a forecast of how a company would fare in the future (stocks often rise and fall based on how well the stock traders *expect* a company will do in the short or long term) were being diluted with dollars that treated the NASDAQ as though it were little more than a roulette wheel. The effect of all this is still being analyzed. Data sources played an important role in building the New Economy, and later, the economy suffered because of easy access to data.

Most significant in the New Economy is the extreme volatility of the market and this volatility's impact on the public. Investors viewed companies that gained or lost 1/8 of a point as boring and unable to keep pace with a world in which a decent meal could be cooked in a microwave. With the introduction of pure-coms, it wasn't uncommon for many stocks, and the markets in general, to gain 15 percent, 25 percent, 50 percent, or even more in a single day. Most new pure-coms that went public (and many rushed to go public, ready for it or not) were instantly snatched up by eager investors who didn't want to miss out on the next eBay. Markets were measured not by their points, but by their percentage gains. Record-breaking highs were occurring with thrilling frequency.

All this excitement had a downside. With so many people invested in stocks, the market became less a source of stability and more a measure of the economy in general. When the market was up, people felt richer, even if the wealth was only on paper. (In 1999, with the NASDAQ up 85 percent for the year, household assets had climbed by \$5.5 trillion over the same time frame.) Confidence was up, so consumers spent more.

When the pure-coms began collapsing, the market went with them. Between March 2000 and January 2001, \$2.5 trillion of consumer wealth vanished. Consumer confidence vanished and spending habits changed.

Regardless of whether a country is really in a recession, the economy can be a victim of self-fulfilled prophesy. Consumer confidence is the single most important factor in maintaining momentum in the economy. Heightened confidence built the pure-coms; lack of confidence tore them right back down again. The same trend is true for the general economy.

Amazingly enough, the slide in the market and the talk of a recession didn't immediately hurt the unemployment rate, which at the beginning of 2001 remained around 4 percent, which is consistent with the rate for the previous 12 months. Although layoffs made headlines throughout 2001, it seemed that companies that fought hard for employees were reluctant to give them up after so much effort, and those workers who were laid off found new work almost immediately. This trend is in opposition to Old Economy activity, in which a slower economy meant longer unemployment lines.

In fact, the latest numbers show that over 145,000 new jobs were *created* in the midst of all this talk of layoffs, although most of these new jobs were created by biotech and pharmaceutical firms, which were Wall Street's new darlings. At the same time, nearly 65,000 tech workers lost their jobs. With nearly 55 percent of all tech-related employees (especially those at the pure-com companies) receiving at least a portion of their compensation in the form of now-worthless stock options, a lot of people who still had jobs were suddenly finding it more challenging to make their next rent payment. Later, though, the unemployment rate began to rise (mid-2001 figures showed the unemployment rate rising to 4.5 percent and approaching 5 percent rapidly) as the tech sector's economic woes spread to other sectors, particularly retail. Non-tech industries felt the pressure of a consumer public with fewer dollars to spend.

## Not Much Left to Buy

By all appearances, American consumerism is at an all-time high. We've got our DVD players and our CD burners. Our Palm Pilots are tucked away in laptop computer bags, next to our e-mail-reading cell phones and MP3 players. Driving home in our SUVs is a cinch, thanks to computerized navigation systems. Once home, we can watch any one of hundreds of channels beamed in by the satellite dish on the roof, or we can surf the Web on our Pentium IV computer with 128 MB of RAM, a 4 GB hard drive, a video

card, and a nifty game of Solitaire. The marketing wizards, including product manufacturers, retailers, and advertising agencies, outdid themselves. They sold the world every electronic gizmo they could think of, and whether it was tool or toy, we bought it.

There's nothing wrong with our purchasing habits, except that at the same time that investors demanded profits from the pure-coms, the range of "must-have" items seemed to have reached a point of saturation. The Web itself was the impetus for massive growth, computer upgrades, technological advancements, and a dire need by corporations to invest in new equipment. Tech companies released scores of new software programs to help companies streamline billing processes, serve their customers online, and become more efficient. At the same time, computer and electronics manufacturers targeted the consumer markets with everything that the average user would need to take advantage of the Web: faster computers and peripherals, hand-held items for wireless Web use, and the list went on. Soon after the Web became more of a staple and less of a novelty, companies and consumers had fewer reasons to purchase new products or upgrade existing systems. There was little need for a faster computer. (How fast does it need to be when your average user just surfs the Web or types a paper in Microsoft Word?) There was no apparent doom if you didn't upgrade to Windows 2000: Windows 98 worked just fine, thank you. As with all cycles, the boom created by the popularization of the Web and personal computing was subsiding.

Across the board, from businesses to consumers, the marketing gurus of the tech surge learned one hard lesson—with so many chips and wires, the most important component is obsolescence, and that's the one component they forgot to include. Even as newer, better, faster models hit the market, there seemed to be no way to convince a product-fatigued populous that there was anything wrong with the older, slower models they already had bought.

The lack of new purchases led to a severe reduction in earnings for both pure-com companies and traditional marketers. Microsoft's introduction of Windows 2000 epitomized the consumer lack of interest in new products; even the promise of new European markets didn't help the underwhelming Windows 2000 launch. Chip manufacturers saw downward revenue slides as computer sales dropped, and network solution companies were faced with a corporate world that was suddenly less eager to upgrade its existing network.

Was marketing *too* good, or were the new products and upgrades just not good enough? One way or another, tech companies had to develop new and more "must-have" features to penetrate an otherwise disinterested market.

Beyond economic factors, many dot-coms—and especially pure-coms—grew so quickly that they didn't have time to develop a primary element that is vital to success: brand. The next section addresses the implications of inadequate brand development.

## DISREGARDING THE BRAND BASICS

With millions of dollars of venture capital money at their disposal, many pure-com sites unveiled large-scale advertising campaigns to drive traffic to their sites. However, a combination of inexperience (on the part of both site directors and their ad agencies, who were unused to marketing to Web audiences) led most sites to waste a good portion of their money making a pitch, but not building a brand.

A **brand** (discussed at length in Chapter 8) is the promise that a Web site, company, product, or service makes to its customers. Logos (which are frequently confused for the brand) are one of the brand components, along with tag lines, colors, font styles, and other elements that serve as the basis for brand recognition. The brand itself is intangible. One of the hard lessons of marketing is that it is rare for a brand to be built over a very short period of time. Television ads, no matter how radical, innovative, or memorable cannot provide the same promise and reputation that a strategic campaign, quality products, and a simple matter of time can.

The promise itself is what consumers come to expect from the companies from which they purchase. **Nike** ([www.nike.com](http://www.nike.com)), for example, doesn't just make sneakers; it promises comfort, style, and increased athletic performance. You might not consciously process these messages when you buy a pair of Nike hightops, but the brand message is there—innate, subconscious, and built into the product's identity.

The brand itself is, in all cases, bigger than the product or service. The brand contains the message (what consumers can expect from and associate with the company, product, or service), and it's what consumers remember and believe. However, the brand is only as strong as the product or service it represents. If the product doesn't keep the promise, or if the performance is not what's expected, the brand becomes a smokescreen that consumers will see through immediately. If you buy a pair of Nikes for \$100 and watch them fall apart within a month, or if they cause blisters on your feet, you might consider it a fluke and still go and buy another pair. However, if it happens a second time, there's probably nothing that Tiger Woods or Michael Jordan can say that will make you buy another pair of Nikes. In this case, the brand did not live up to its promise, and the product performance brought the brand down.

### Dot-Coms and Branding

Failure to deliver on brand promises is where many of the pure-coms went wrong. Massive amounts of money thrown at expensive advertising campaigns does not equate to brand development. Remember the Pets.com sock puppet? That campaign won practically every advertising award possible. Now Pets.com is gone, having burned through approximately \$110 million, and its most valuable remaining asset is that old sock. The puppet, while cute and funny, didn't represent anything, nor did the site itself offer consumers anything that they couldn't get elsewhere (with the exception of the increased shopping convenience already inherent in the Web). Providing some unique

aspect to a consumer is an important feature that any company, product, or service must have. It is known as a **unique selling position (USP)**.

Rather than spend so much money on expensive ad campaigns, many sites would have been wiser to retain their funds, spend more on shipping and distribution systems, and build site enhancements to keep visitors coming back. Sites were slow to realize that marketing to existing customers is far less expensive than trying to recruit new customers. For some sites, that lesson came too late. At the time that most of the pure-coms were receiving their funding, it seemed that the well of venture capital-sponsored good fortune would never dry up. Thus, traditional brand-building practices could be disregarded. Many start-ups behaved as if an abundance of ads to drive people to their sites was all that mattered. In time, these sites helped prove that despite all the innovations they offered, some established, well-entrenched practices could not be replaced. Customer service, public relations, a well-organized marketing strategy, uniqueness in offering, and quality of service were all part of the overall brand, and brand counted.

Brands take time to develop, and the strategy behind them needs to be long-term—not overnight. The pressure of investors and venture capitalists, an untried new medium, intense media hype, and a general lack of experience prevented pure-coms from executing traditional brand practices. Instead, they turned business development into the corporate equivalent of an Olympic sprint for profitably. Although a strong brand can't guarantee success, the lack of one can almost guarantee failure.

---

## THE PERCEIVED FAILURE (AND MISCONCEPTION) OF BANNER ADVERTISING

To the great surprise of many advertising veterans, Web site banner advertising is more effective than its mass media counterparts. Dot-com management often needs convincing and reassurance that their advertising dollars are not going to waste in **banner ads**, the thin horizontal or vertical ads that appear at the edges of many Web pages. (Since 2001, other types of Web ads have made an appearance, but the banner ad remains the most widely used.) A majority of data available prior to 2002 seems to indicate that people recognize banner ads more often than they recognize TV ads. *Jupiter Media Metrix*, a data collection and reporting firm, reported that general consumers are over 3.5 times more likely to retain and recall the message and brand associated with a Web banner ad than with a TV commercial.

Unfortunately, although brand recognition is the real value behind banner ads (in terms of value to the marketer), many marketers new to the Web are eager to quantify advertising success by measuring **click-throughs**, which is the number of times Web site visitors click an ad to link to the advertiser's site. If the click-through rate is low (currently, click-through rates are approximately 0.5 percent), then, according to the new conventional wisdom, the banner ad campaign is not working. However, the inherent value of brand recognition builds value far beyond that of a measured click-through.

## Recognition Versus Action

How often do you actually get up from your couch to buy a can of Coke because you saw an ad with a dancing polar bear? Not often, because the TV ad is not a call to action for that very moment. Rather, it's a **brand recognition effort**, which is an attempt by an advertiser to plant the brand name in your head and make you associate that brand with a feeling, lifestyle, or philosophy. The advertiser hopes that when it comes time for you to make a beverage choice, you'll choose theirs.

Now consider another kind of television commercial in which you hear this type of message: "Get 26 hit songs on two cassettes or one CD, for the low, low price of only \$19.95. This item is not available in stores and will be offered for a limited time only, so call now. Credit card orders are accepted; sorry, no C.O.D.s." This type of commercial is a **call to action**. Brand isn't a component of these ads. Instead, calls to action require an immediate customer response to be successful. Enough people have to pick up the phone and order the product to offset the cost of production, distribution, and the commercial itself.

Watch enough TV and you'll notice that there are far more commercials that fall into the first category than the second. Television has survived and prospered as an industry because it is an advertising/branding medium, not a call-to-action forum. Call to action ads have their place on TV for national companies (such as the direct sale of music or specific household items that are not sold in stores) as well as for many local companies like cafés and restaurants that use (primarily) cable outlets to pitch themselves to a local audience.

If *every* TV ad was a call-to-action ad, the audience would be asked to make a new purchase with every ad that it saw. Eventually (and rather quickly), the money that the audience has to spend on impulse items (items that you buy at the spur of the moment) would be unavailable. *Some* call-to-action ads would succeed, but by and large, most would fail, and television as an advertising medium would be deemed a failure.

On the brand-recognition side of advertising, the marketing people at Anheuser-Busch really have no concrete way of knowing whether you'll ever buy a beer because of its Budweiser talking frog campaign or how much any commercial in particular has really influenced your purchasing decisions. Anheuser-Busch doesn't expect you to get up off your couch to drive to the nearest store to buy a Bud as soon as you see the commercial. Instead, its goal is to build the brand. As long as the ad does that, the ad can be considered a success. Television, as an advertising medium, enjoys the same distinction. At first, this fact seems inconsistent with one of the earlier lessons that you learned about the Web and the mass-media advertising methods used by many of the pure-com sites. Their jump to television brand-style advertising hurt them instead of helped them. How can that be, if we now are singing the praises of brand-style television ads? Later in this book, you will learn about the differences and see how different types of messages and marketing need to occur at various stages of a Web site's life.

Online advertising differs from mass media advertising in how it is quantified; it is not easy to determine the effectiveness of Web advertising as a branding medium, and it is all too easy to track the click-through rate. Because the click-through rate is low, many advertisers consequently consider online advertising to be ineffective. As you'll see in later chapters, this assumption is not necessarily true.

---

## REVENUE MODELS

Among the several reasons for starting a Web site, the main objective is usually to make money. There are various methods to bring in revenue online, including:

- Selling advertising
- Selling information
- Selling products or services

Chapter 4 of this book outlines online revenue generation in detail, and includes coverage of some alternative means of turning a profit—few of which are plausible. Of all the methods that are used to raise money, online retail sales, known as **business-to-consumer** electronic commerce (**B2C**), comprises the largest percentage of sites.

Financially, B2C e-commerce is the most amazing of all business models. By all indications, most sites should be generating a profit by now. However, a July 2001 article in *The Industry Standard* showed that of 43 publicly traded online retailers, nine had gone under completely and 10 had been acquired from traditional marketers (in each case, the selling was done in the face of collapse). Of the remaining 24, only four had managed to squeeze out a modest profit, with one of those being the standout Web success story that is eBay. Many of the remaining 20 were, at the time of the report, warning investors that they had only enough cash on-hand to remain alive for a few more months and were requesting that the NASDAQ not delist them.

The paradox in the situation is that even in the face of widespread negativity by mass media and stock market indexes, Internet traffic has continued to rise, gaining nearly 30 percent in 2000 with almost 63 million users by the end of February 2001. Shopping has increased, too, and is consistently finding newer, higher levels. More importantly, the amount spent per order is on the rise; as of February 2001, Web shoppers were spending almost \$146 per order on average, up from \$107 per order at the end of 2000. At this rate, B2C e-commerce will account for nearly 4.5 percent of the U.S. gross domestic product by 2002. Yet, as *The Industry Standard* report documents, pure-com electronic commerce sites aren't showing a profit.

Online sales are obviously hot and still growing rapidly, but distribution problems often cost sites more money than anticipated, and the price they pay for each new customer may prove to be astronomical. Amazon.com is one of the few start-ups to actively seek as much if not more revenue from existing customers than from new customers. Most

of the sites that sought to imitate Amazon.com's business model, however, have failed or are on the verge of failing. Of the pure-com e-commerce sites that are either profitable or coming close to turning a profit, all have at least one of two things in common: they either follow eBay's model of being nothing more than facilitators of transactions (they hold no inventory and become simply the intermediary between two parties), or they service only a niche market.

---

## SOME IDEAS JUST DON'T WORK

Merchants noticed that Amazon.com could sell books online—a *lot* of books. Somewhere, some manager theorized this: "If Amazon.com can do it with books, then surely we can make a fortune opening [www.wholesalefishnetstockings.com](http://www.wholesalefishnetstockings.com). People will come in droves! And they'll line up to invest in us, and we'll make millions, and be featured on the cover of *Fortune* magazine for finally bringing the world what they've been waiting for—a cheap and easy way to buy fishnet stockings."

It might sound cynical, but the truth is that a lot of really, really bad ideas got funded and went public. It didn't take long for investors and the public to realize that many of these sites didn't live up to their initial potential.

### Mercata.com

Shown in Figure 1-5, Mercata.com was a truly innovative Web site that spent heavily on advertising in an effort to drive traffic. The site worked off the concept of group buying, which is the idea that the more people buy a product, the lower the price becomes. You could watch the price of a Mercata item drop as shoppers from across the globe drove prices downward.

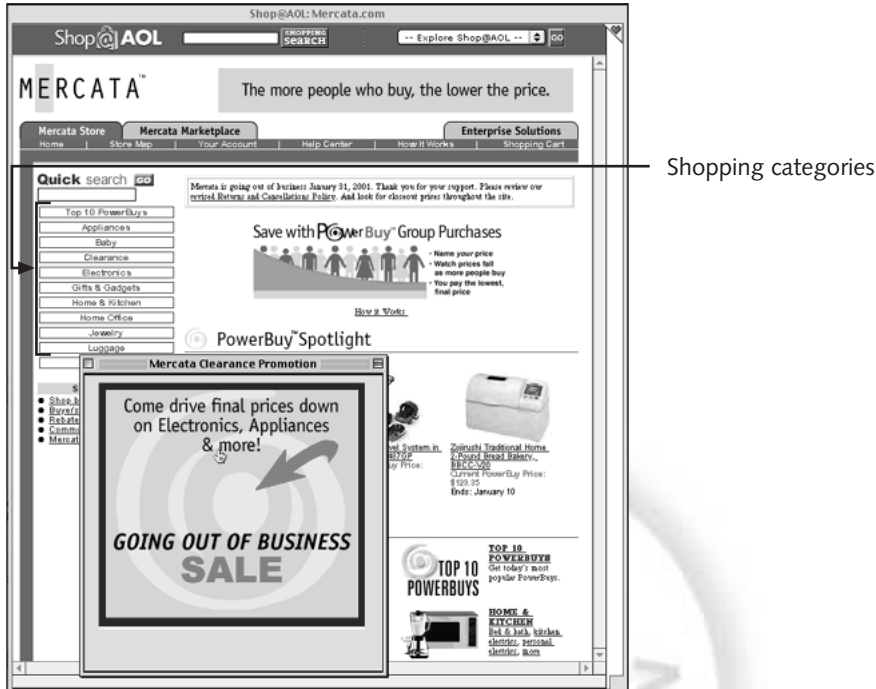


Figure 1-5 Mercata.com group buying site

It sounded good in concept. Mercata had a few shortcomings, though. It was difficult or impossible to find a large enough group of shoppers who wanted to buy the latest and greatest gadget all at the same time. Another problem was that nobody wanted to be the person who bought the first product. It was better to wait until somebody *else* made the first move and then take advantage of the resulting lower price. Mercata.com closed its site at the end of January 2001.

## PNV.com

Illustrated in Figure 1-6, PNV.com was a portal site for truckers. Apparently the makers of this site didn't realize that you can't surf the Web by plugging a laptop into a vehicle's cigarette lighter.

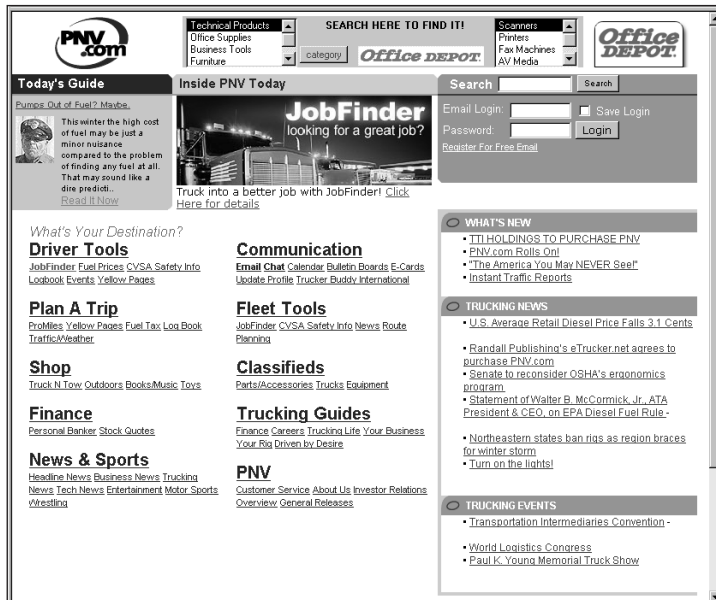


Figure 1-6 PNV.com—a portal for truckers

## HaggleZone.com

HaggleZone.com was a great site to play in. Unfortunately, it was no fun for shopping, which was its intended purpose. Visitors would choose the product that they wanted to buy. Then, they would select a salesperson to buy it from, choosing from among a few icons of people's faces. There was really no difference between them, except in the way that they looked. Buyers then were asked how much they wanted to pay for the item they were purchasing. You could name any price that you wanted. For a top-of-the-line DVD player, you might offer \$10. The salesperson would respond with a text message, something along the lines of this: "You're kidding, right? Look, I like you, so I'll give you the DVD player for just \$400." The buyer then offered \$30, and got a similar response, but this time the site came down a few more dollars. This would go on for a while until the buyer and salesperson came to an agreement. It was really very cute—the first time. Customers found the process irritating in the long run.

## Other Ideas Whose Time Never Came

The stream of outlandish ideas never ends, as illustrated by the following list of pure-coms that are either having trouble or have gone out of business:

- Refer.com: Online referral service.
- Driveway.com: Another in a slew of online file management sites, Driveway stood apart because it had a really bad name.

- Stamps.com: Stamps over the Internet.
- AllAdvantage.com: One of many “pyramid schemes that tries to pass for legitimate business” companies.
- PersonalGenie.com: Marketers of “wish-fulfillment” technology; reading the site just one more time still doesn’t explain what the site does.
- QuickDot.com: E-mail, instant messenger, and the other “best ways to stay in touch” didn’t do anything more than AOL did years ago, and AOL did it better.

In any industry, there are ideas that seemed great at the outset, but that failed to have any real staying power. Some ideas are so bad that people look back and scratch their heads in wonder. Every industry has seen its share of bad ideas. In this instance, at least, the New Economy showed itself to be surprisingly similar to the Old Economy—something New Economy players found dismaying.

---

## UNFORESEEN ISSUES IN ELECTRONIC COMMERCE

As the Web has slowly gained commercial success, a few economic theories became popular among site developers and marketers:

- If you build it, they will come.
- The Web lets small players compete equally with the monster corporations.
- Getting into a Web business is relatively cheap.

Not surprisingly, not one of these early “Webisms” proved true. You can build it, sure, but they won’t come unless you advertise. Advertising costs money that keeps the small players from competing with the big budget sites. Lastly, from the site developers’ perspective, there is almost no aspect of the Internet that is cheap for companies trying to make money. Warehouses, inventories, personnel, and marketing efforts all add up to a hefty cost of doing business, and that’s before the most fundamental cost of the site is taken into consideration: the site itself. Creation, maintenance, upgrades, and other components of a major, publicly funded site takes more than two programmers in a garage (even if the site may have started that way).

### The Web Got Ahead of Itself

During the 1999 pure-com boom, it was generally believed that online purchases would quickly account for a significant percentage of all retail sales. In fact, as of the first quarter of 2001, online sales accounted for only about 1 percent of all retail sales.<sup>1</sup>

For 2000, first-time Web shoppers outpaced experienced online buyers in terms of both numbers and average dollars spent. This can be interpreted to mean that experienced buyers are not making repeat purchases on the Web.

<sup>1</sup> Source: *The Washington Post*, Sept. 4, 2001.

As stated earlier in this chapter, Americans are consumption-happy. So why weren't we ready to do more Web business? The reasons are myriad, but there are three main issues at play:

- Poor service and high prices
- Too much to choose from
- Inconsistent technology

## Poor Service and High Prices

From shopping carts that were difficult to use to forms that were too long to fill out (or required information that users did not want to provide, such as home phone numbers), many sites did not provide the convenience necessary to make users give up the benefits of going to an actual store.

More alarmingly, a whopping 45 percent of U.S. shoppers abandoned their shopping cart before the final purchase, due to high shipping costs.<sup>2</sup> Conversely, 55 percent of online shoppers have said that free shipping would entice them to visit a site more often.

To be fair, many sites have been forced to charge high shipping costs due to the popularity of **spider sites**. A spider site, such as **MySimon.com**, searches the Web for user-defined products and provides a list of the sites that offer the lowest price for that product. To be listed on these sites, many e-tailers lowered the prices of the products they carry—often below a level of profitability. They try to make up the loss by charging higher shipping fees. Some sites, such as Amazon.com, offer specials and promotions, reducing shipping costs for purchases over a certain level. But not all sites do that, and those that do still have trouble turning a profit on those purchases.

Increasingly, many sites are offering 24-hour, toll-free customer support to put a live person at the Web shopper's disposal. This is a step in the right direction to combat the criticism that Web retailers have received in terms of service.

## Too Many Choices

Is more always better? Not always. Go to any hardware store or Home Depot to find a shower head. You'll probably find yourself standing in front of a shelf, choosing from about a dozen different products. Now go online and look for shower heads. There are hundreds of them. Who needs that kind of selection? Overwhelmingly, buyers have turned away from an excess of choice, abandoning their intended purchase because of "selection fatigue." Shoppers have become accustomed to having retail stores narrow down the choices for them. It will take some time to get used to having every last product available at the click of a button.

Site navigation and the ability to better confine a search for increased convenience are issues that e-tailers will need to deal with for Web sales to increase. Chapter 6 covers navigation in depth.

<sup>2</sup>Source: *CyberAtlas*.

## Technology Discrepancies

As the Web gained commercial popularity in the mid-1990s, people accessed the Internet with what were then the primary options: 9.6-kilobytes-per-second (Kps) or 14.4-bps telephone modems. Those rates were slow relative to what people have since gotten used to, but sites were simpler then.

As Web use exploded, Web users diverged into two groups: people using the Web at work and people using it at home. The gap in connection speeds between the two locations has grown into a veritable chasm. In fact, of the 122 million Americans who have Web access from their homes, only 3.1 million have high-speed DSL or better Internet connectivity. Modems of 36.6 bps are still the average connectivity tool for home users.<sup>3</sup> At the same time, business users are more accustomed to faster connection technologies, such as ISDN, DSL, and T1 or T3 lines. Site designers, although designing for both markets, create sites intended for users with higher bandwidths (faster connections), which offer more development flexibility.

Now that we have examined consumer-oriented issues related to Web retailing, we will investigate the role of traditional business in the evolving Web marketplace.

---

## ENTER THE EXPERIENCED BUSINESS PLAYERS

While the start-ups were dominating the Web world, investors, journalists and interested businesspeople looked at the established companies and wondered why they were barely visible in the online world. Although in retrospect many were far smarter to wait it out, at the time when pure-coms were getting tens of millions of capital dollars for what promised to be a commerce revolution, the established marketers seemed to have been caught snoozing. **Barnes & Noble** and **ToysRUs**, long-established brands and retailers, should have been the immediate, undisputed Web leaders in their categories, but each came in a distant second to start-ups **Amazon.com** and **eToys.com**, respectively. And where were **Wal-Mart** and **Kmart** and all the print catalog players that could have used the Web to their advantage? The big players suddenly became dinosaurs. Stodgy old corporations didn't understand the Internet, and they couldn't compete with the creative wizards who were the new stars of Wall Street.



At the height of the Internet craze, I personally spoke at dozens of seminars, criticizing the established marketers for not jumping on the bandwagon sooner.

Maybe these old-timers knew something. In the rubble of start-up collapse, the Internet horizon boasts a new landscape. The old dinosaurs are gaining momentum through the same slow-and-sure brand-building techniques that led to their offline success. Their established brands and larger coffers provided many advantages that the pure-coms didn't have.

<sup>3</sup>*Jupiter Media Metrix*

## Brand Loyalty and an Established Market

The most important factor in the online success of the established retailers is that traditional businesses enjoy brands that have penetrated consumer's consciousness over the course of decades, not just months. That brand recognition brings with it a high level of trust. After experiencing poor service and slow shipping times from dot-com retailers during the 1999 holiday season, consumers shied away from unknowns and sought more solid ground. They found that solid ground with the established companies, and the established companies delivered.

The integration of a dot-com address with the established firms' brick-and-mortar sites only added to consumer trust. If you are going to buy an electronics item, will you buy it from HagggleZone.com, an unknown company, or from **CircuitCity.com**, which has actual stores you can visit if you are unhappy with your online purchase? As more and more people are factoring in post-purchase satisfaction with their desire to shop on the Web, users are gravitating to the traditional marketers. Ideas and good intentions just can't compete with experience and strong branding.

## Deeper Pockets

As discussed already in this chapter, many of the pure-coms are running out of money. The inability to turn a profit, coupled with sinking stock values and reduced marketing budgets, has caused such a strain on the pure-coms that many won't survive for more than a few months.

A few of the traditional marketers have succumbed to a dropping economy. Northeast discount chain Bradlees went under at the end of 2000, closing all of its stores, as did the large mid-Atlantic supermarket chain Grand Union. Most significantly, 128-year-old Montgomery Ward closed its doors in 2000, unable to compete in a new economy for which it never prepared. Although a few traditional marketers have closed up shop along with many of the pure-coms, those failures are the exceptions. Wal-Mart, Kmart, Staples, and others have launched dot-com operations, but they can rely on more traditional resources of revenue to weather any storm. In some cases, the dot-com addresses of the traditional marketers have been thriving, helping to compensate where the brick-and-mortar revenues have lacked. The diversification of revenue and a longer history of earnings has provided the "dinosaurs" with the cash that the upstarts lack.

## Distribution Facilities and Experience

EToys.com made its first major blunder during the 1999 holiday season when it failed to deliver merchandise to thousands of customers who were expecting orders in time for Christmas morning. The leading online toy retailer found itself the ridiculed subject of news articles in which the media focused on the kids who woke up to no gifts at Christmas. A year later, the addition of two gigantic (and very expensive) warehouses for inventory and delivery weren't enough to overcome the ghost of Christmas past; shoppers avoided the eToys.com site during the 2000 holiday season, making it the site's last season of operation.

Other pure-coms have run into similar trouble. Even Amazon.com, with its multiple facilities, can't seem to optimize distribution. By sending the wrong product to the wrong customer, or more often, by sending multiple items in separate packages but only charging one shipping price, it's estimated that Amazon.com loses about \$2.30 per order.

Established marketers like **Circuit City**, **Barnes & Noble**, and **JCPenney** streamlined their distribution processes years ago. Some of these have already experienced tremendous success as catalog merchants, so for them, selling over the Web was just a way to reduce printing costs, not a whole new experience. (In the case of JCPenney, online success is coming in the wake of many brick-and-mortar locations closing.) The Web learning curve is far smaller for these businesses than for start-ups, as is the financial investment, giving the traditional marketers a significant advantage.



Although there is no way to prove it, I'd take an educated guess that if the introduction had been the other way around, with the traditional marketers entering the Web scene first, they might not have fared so well. People love an underdog, and the Web was (or so people thought) an environment where newcomers could compete on an equal field with the big players. The fact that many pure-coms collapsed on their own has turned the established marketers into saviors rather than oppressors.

## Easier, Less Expensive Marketing Avenues

Established companies already have marketing dollars worked into their annual budgets as they continue brand awareness campaigns. Integrating a Web component into that budget becomes a campaign enhancement, rather than a standalone project for those companies. Further, mailing lists of established customers already exist. Older brands can parlay these lists into Web traffic.

Brick-and-mortar locations are aggressively used to lead audiences to their affiliated Web sites. Walk into any Barnes & Noble café and you will see multiple instances of the bn.com URL address, as well as special discounts offered only on its site.

---

## WHAT'S IN THE FUTURE?

Technology plays a huge role in the success or failure of Web businesses. When it comes to technology, and the Internet in particular, a week can be equal to a lifetime. New products can be introduced and new markets developed in a fraction of the time of traditional markets. The best minds in business have tried to predict the future. Some made millions while others went broke. In the 1980s, no one could have predicted the speed with which technology developed. At best, we can use past and current events to paint a likely picture of the Internet world that lies ahead. The one universal truth that we can

safely assume is that the Web will only get bigger and better. It just won't take the path that most people expected it to.

Beyond that somewhat obvious assumption, what else can we hypothesize about the Web's future? How will future Web developers, programmers, and marketers survive in the coming years? More than survive, how will they *succeed*? What current problems will be solved, and what new hurdles will appear? The next four sections take a stab at anticipating what's in store for the Web.

## Hype Will be Replaced by Substance

In the early craze of Web development, wacky ideas became multimillion-dollar enterprises for overenthusiastic investors. The speed and accessibility of media reports fueled this modern revolution. As the hype of the Internet and the frenzy over pure-com start-ups has faded, only the strongest and best in a category survive. The shake-up has left investors skeptical about Internet profitability, and few will be ready to jump on a new public stock offering just because it has "dot com" after its name.

In place of the frenzy will be stronger, more reliable Web businesses with clear, manageable business models. If the profitable sites are not owned by traditional marketers, they will likely be funded by them or affiliated with them. Partnerships similar to the **ToysRUs/Amazon** affiliation, developed for the 2000 holiday season, will be the standard.

The ToysRUs/Amazon partnership marked a potential turning point in Web marketing. Both companies were a little beaten up as a result of mishandling deliveries during the 1999 holiday shopping season. (ToysRUs, although receiving bad press, was not punished by consumers like eToys.com was, largely due to the former's long-established brand identity.) This partnership had each company doing what it excelled at, with Amazon.com taking orders and ToysRUs filling the orders.

In addition, shoppers will have more options for using both a retailer's Web site as well as its brick-and-mortar location. These electronic and physical presences will work together more frequently for service, support, ease of product return, and so on.

## Convenience Will Increase While Prices Will Decrease

Web sites must—and will—introduce increasingly creative methods for providing online customer service. Whether it be through real-time chat sessions, 24-hour phone access, faster e-mail response rates, or even dedicated help desks at cobranded brick-and-mortar retail locations, Web businesses will develop dramatic improvements in how they serve their clientele.

At the same time, Web developers will not want to see their market reduce as price buyers shrug off convenience factors for lower brick-and-mortar prices. Through more and better-advertised specials, cobranded agreements, and better internal distribution practices, e-tailers will quickly find a way to reduce shipping costs and pass those savings along to valuable

customers. This cost reduction will not only bring back the disenchanted, but also help recruit new Web shoppers as well.

## Increasing Business-to-Business Commerce

The continued growth of the Web will be fueled by an expanding business-to-business segment (discussed in detail in Chapter 2). Companies will continue to include value-added Web provisions into their corporate revenue models. Devoted to servicing the business sector, these **business-to-business** electronic commerce sites (or **B2Bs**) understand the value of time-saving convenience over high art and site complexity, and they will be the solid foundation on which Web growth will be based.

## Merging Old and New Technologies

The bandwidth discrepancies between home and business Web users will reduce, but the change will occur more slowly than users might wish. Regulation and government incentive will eventually push local phone and cable companies into providing faster residential connections at attractive prices. Cable resources, and the inevitable integration of TV and the Internet, will bring newer, more engaging advertising possibilities for marketers.

Consider a television show like *Seinfeld*: Far from being a show about “nothing,” this show was about everything—everything that could be sold, at least. In practically every episode, viewers watched Jerry and the gang in his apartment as he paraded past boxes of Honeycombs cereal, Milton Bradley board games, and Superman figurines. The show was, in essence, one big product placement.

As TV and the Internet converge, and as products like TiVo catch on (TiVo is a continuous recording system, allowing viewers to pause live TV and bypass commercials with the touch of a button), television will look a lot more like *Seinfeld*. Product advertising will take the form of in-show placements rather than standard 30-second spots.

Product placement will become a popular advertising vehicle, and it won't stop at just showing the product on screen. In the future, as Jerry walks past his box of Honeycombs, a viewer will be able to push a button on his or her remote control or keyboard and go directly to the Post Web site, where he or she can browse for more information or order the special Honeycomb box with the *Seinfeld* cast on the front.

This integration, while exciting, will bring more than just new possibilities. It will bring veritable nightmares for Web designers, who will be forced to design for both TV screens *and* computer monitors. Designers who suffered through the introduction of Microsoft Internet Explorer (IE) will remember the headaches that accompanied designing for both Netscape Navigator and IE. Compared to designing for both TV and computer, the Netscape/IE problems will seem like a weekend at Club Med.

## CHAPTER SUMMARY

The rise, fall, and uncertainty of business on the Internet is enough to make anyone just a little motion sick. As the Web comes of age and the shakeout leaves many of the original players dead and forgotten, the financial world is learning a few lessons about the Web and the New Economy. The stock market has become a part of common culture, and fortunes rise and fall with popular opinion. Financial markets lost faith in pure-coms that took too long to show a profit, leaving the pure-coms strapped for cash with nowhere else to turn for financing. This situation, combined with Federal Reserve actions and diminishing consumer innovations for increased spending, brought the tech market crashing down in late 2000.

Dot-coms are changing before our eyes. Traditional marketers are making a big splash on the Web, leveraging their established brand identity, deeper financial pockets, and easier marketing avenues for better Web potential. The Web will become a haven for traditional marketers, as business-to-business-sites become more popular.

For the consumer, the differences between shopping on the Web versus traditional retail operations include the immediate satisfaction, privacy, and pricing advantages offered by the latter. The most important factor—increased convenience—ultimately, will drive the success of Web sales. Increased customer convenience will need to be enhanced to compensate for high shipping costs as the dot-coms make their way into the next phase of development.

## KEY TERMS

banner ad  
brand  
brand recognition effort  
brick-and-mortar store  
business-to-business electronic commerce (B2B)  
business-to-consumer electronic commerce (B2C)  
call to action  
click-through  
day trading  
dot-com  
electronic commerce (e-commerce)  
e-tailer  
New Economy  
Old Economy  
production house  
pure-com

spider site  
unique selling position (USP)  
Web start-up

---

## REVIEW QUESTIONS

1. Tech companies such as Lucent Technologies saw their earnings and profits drop in 2000 partially because \_\_\_\_\_.
  - a. competition became fierce, driving hardware prices down
  - b. failing and cash-strapped pure-coms weren't paying old bills or buying more products
  - c. poor internal management led to weaker sales
  - d. they poured millions into their own Web sites that never turned a profit
2. List three reasons why traditional marketers have a better chance of survival than do pure-coms.
3. The establishment of a meaningful brand typically takes \_\_\_\_\_.
  - a. more money than time
  - b. more time than money
  - c. more television ads than print ads
  - d. a really cool logo
4. From the mid-1900s to the late 1900s, the number of American households that were invested in the stock market \_\_\_\_\_.
  - a. doubled
  - b. remained steady
  - c. rose to approximately half
  - d. rose to approximately 80 percent
5. In the New Economy, high stock prices equate to \_\_\_\_\_.
  - a. high consumer confidence
  - b. high interest rates
  - c. high unemployment rates
  - d. All of the above.
6. Many of the pure-coms and tech companies are (or were) listed on the \_\_\_\_\_ exchange.

7. In the future, it's likely that Web commerce will be dominated by \_\_\_\_\_.
- pure-coms
  - government agencies
  - traditional marketers
  - No one group will dominate.
8. What is the primary reason that price shoppers at B2C sites often abandon their purchases?
9. Successful banner advertising on the Internet is typically measured in \_\_\_\_\_.
- number of visitor views
  - number of survey respondents who claim to recognize an ad
  - percentage of visitors who click-through
  - number of minutes visitors stay on the site
10. One of the fastest growing segments on the Web has been \_\_\_\_\_.
- B2B
  - B2C
  - sports sites
  - banner ad placement sites
11. Recent banner ad click-through rates are approximately \_\_\_\_\_.
- 5 percent
  - 2.5 percent
  - 1.5 percent
  - .5 percent
12. It is likely that many pure-coms will not survive in the long run, partly because \_\_\_\_\_.
- they are running out of products to sell
  - the bandwidth discrepancy between work and home has hurt their markets
  - with stock prices down, they are running out of cash
  - the cost of doing business continues to escalate.
13. Describe one of the primary reasons that Web commerce became popular so quickly.
14. One of the surprising aspects of the New Economy is that \_\_\_\_\_.
- unemployment rates have been largely unaffected by the slumping economy
  - venture capital is easy to come by
  - global oil prices are inversely related to American interest rates
  - fewer families are invested in the stock market

## HANDS-ON PROJECTS



1. This chapter describes some Web sites that were questionable ideas from the start. Do some online research and find three business sites that you believe are conceptually unsound. List the URL of each site and write a paragraph explaining why you think each site is lacking.



2. Examine three of the following eight Web sites:

**www.pepsi.com**

**www.sony.com**

**www.dominos.com**

**www.tonka.com**

**www.hersheys.com**

**www.nabisco.com**

**www.levi.com**

**www.nytimes.com**

Each of the eight sites has done a good job of providing a brand message that is consistent with its brick-and-mortar counterpart. Write a paragraph for each of the three sites you selected. In each paragraph, explain the following:

- The promise conveyed by the company's brand
- Visual similarities between the online and brick-and-mortar images
- Ways in which the Web site provides brand messages that go above and beyond those provided by the brick-and-mortar images



3. You are the CEO of Superworld, a Wal-Mart-like discount merchandiser. You believe it is time for your company to develop a Web presence. What are the three top challenges faced by Superworld in developing a Web site? Write a total of 500 words briefly explaining these challenges.