THE RELATIONSHIP BETWEEN E-MARKETING STRATEGY AND E-PERFORMANCE: A CONCEPTUAL FRAMEWORK

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ABSTRACT

This paper proposes a conceptual framework that relates e-marketing strategy (Web-Design, Web-Promotion, Web-Price and Web-CRM) with performance at web and firm levels, while considering the contingent effects of firm’s internal and external forces. Based on established literature, through a conceptualization of each constituent element of the theoretical framework, the paper provides a basis for future empirical testing.

KEYWORDS
Contingency theory, marketing, internet, performance, 4Ws

1. INTRODUCTION

As of February 2002, 544 million people had Internet access (www.nua.com). The Internet provides firms with an unprecedented ability to communicate directly with customers. With the relatively widespread adoption of the Internet, businesses of all sizes have the opportunity to build competitive advantage. The Internet is assumed to be an important channel for marketing and distribution of products and services. This is, among other things, due to the cost-effectiveness of the Internet and the convenience for customers. With the Internet marketers can reach out to a broad customer base, locate target customers, identify their needs and communicate with them at a relatively low cost. Increasing digitalization will make it progressively easier to experimentally alter particular aspects of a business and quickly observe how customers respond (Wyner, 2000). The combination of information search and purchase process is an advantage over traditional retailing as it allows personalized targeting as consumers increasingly shop online.

2. RESEARCH OBJECTIVES

There are four main objectives of this research, the first of which is to extend our understanding of the contingency theory, particularly in an e-marketing context. A contingency approach allows for a multi-faceted approach of the phenomenon. This is accomplished by presenting a more comprehensive understanding of
The simultaneous links among the internal and external forces of the firm, e-marketing strategy, and performance.

The second objective of this work is to consider the role of past performance on marketing strategy formulation and on current performance in an internet context. We try to advance past work on marketing strategy, which traditionally focuses on a single marketing-mix element, to consider the full marketing mix in a web context. Historically, marketing strategy formulation is viewed as an antecedent to performance outcomes (Lages, 2000). However, past performance can be a critical variable in the determination of e-marketing strategy, and the evaluation of current period performance.

The third objective is to study how an articulated approach of four critical e-marketing strategy tasks – the 4Ws (Web-Design, Web-Promotion, Web-Price and Web-CRM) – relates with current performance. Figure 1 presents the conceptual framework incorporating e-marketing strategy with past performance, internal and external forces of the firm, and current performance. These three main objectives are intended to be achieved through the empirical testing of the present conceptual framework.

Finally, this study can aid marketers to reflect on how to achieve a better performance both at the firm and web levels. The study findings might also help marketers make better decisions by identifying which internal forces and strategic choices specific of e-commerce might lead to better results, by simultaneously considering the context of the firm (its internal and external forces).

Figure 1. A contingency framework of the relationship between e-marketing strategy and performance

3. THEORETICAL BACKGROUND

This paper is based in the contingency theory, which has its early roots in the general systems theory (Boulding, 1956; Von Bertalanffy, 1951) and in the behavioral theory of the firm (Cyert and March, 1963; March and Simon, 1958; Simon, 1957). Over the last four decades this perspective has been widely accepted in the field of marketing research. This theory defends that the best strategy across situations does not exist. Performance levels result from the co-alignment among strategy and the firm’s context (i.e., the internal and external forces). Each strategy may be, or not, the best depending on the nature of the contingent forces. Nevertheless, one should acknowledge that this theory has been subject to some criticism, namely with regard to its limitation on the identification of all relevant determinants of performance, as well as the fact that the use
of different measures of performance in contingency frameworks will influence the fit between the context, strategy and outcomes (see Zeithaml et al., 1988). While building on the contingency approach, we propose the following research propositions (see figure 1):

**Proposition 1: Depending on the nature of the internal factors, performance might be:**
- positively or negatively affected by these factors;
- directly affected by these factors; and
- indirectly affected by these factors through their influence on e-marketing strategy.

**Proposition 2: Depending on the nature of the external factors, performance might be:**
- positively or negatively affected by these factors;
- directly affected by these factors; and
- indirectly affected by these factors through their influence on e-marketing strategy.

**Proposition 3: There is a relationship between performance levels in the past year and performance levels in the current year. This relationship might be:**
- positive or negative depending on the nature of the contingent forces;
- direct; and
- indirect, through the influence of past performance on e-marketing strategy.

### 4. CONCEPTUALIZATION OF VARIABLES

#### 4.1 Internal Forces

The marketing literature suggests a variety of internal forces, i.e, corporate forces at the institutional and individual levels, which are relevant for e-marketing strategy and performance:

- **Organizational innovation** is a function of management that seeks to create new solutions for existing or potential problems. Many studies demonstrated the link between innovation and business performance (eg. Khan and Manopichetwattana, 1989). Today’s intensification of competition and of environmental uncertainty gives innovation an increasingly important role not only for growth but also for survival (Grønhaug and Kaufmann, 1988).

- **Organizational bureaucratization** is the degree to which procedures are required to be formalized. The contingency theory argues that bureaucratic structures – that rigidly institutionalize previous lessons from prior experience – can improve performance under stable conditions, but more organic structures are necessary in turbulent conditions (Lawrence and Lorshch, 1967; Mintzberg, 1979). Either way, it seems reasonable to expect that the degree of bureaucratization of an organization developing e-marketing will affect performance.

- **Centralization** refers to the degree in which authority to take decisions concentrates at the highest levels of the organization (Dewar and Werbel, 1979). There are two schools of thought about the impact of centralization on marketing strategy making. One traditional school argues that centralization leads to a better strategy making, suggesting that in centralized organizations the planning processes use specialized instruments, techniques and personnel (Hofer and Schendel, 1978). In contrast, another school defends that centralization is associated with more political activity (Eisenhardt, 1989).

- **Formalization** refers to the degree in which rules, procedures, instructions and communications are written and standardized and the degree in which roles are clearly defined (Pugh et al, 1968). Previous research suggests that the more formalized the institution, the more the levels of rationality in planning and the more formal systems, such as analysis and evaluation (eg. Miller, 1987).
Organizational improvisation is the development of mutually adaptive interactions in which knowledge of the work was developed as the work unfolded. Organizational improvisation includes improvisation by groups, departments and whole organizations (Dougherty, 1992).

An innovative organizational culture refers to the degree to which there is, in the organization an emphasis on creativity, openness to new ideas, and quick decision making (Menon and Varadarajan, 1992).

Deshpandé and Farley (1996:13) define market orientation as “the set of cross-functional processes and activities directed at creating and satisfying customers through continuous needs-assessment”. It has been shown that market orientation, is, in general, positively related with various business performance measures (eg. Jaworski and Kohli 1993; Selnes et al., 1997).

The organizational behavior literature suggests that learning experience is another key variable, as organizations and individuals set goals and adjust their behavior in response to favorable and unfavorable feedback (Cyert and March 1963; March and Simon 1958). This assumption has also been supported by the work of Lant and colleagues (Lant and Hurley 1999; Lant et al. 1992; Lant and Montgomery 1987) showing that learning experience is associated with managers’ strategic orientation.

All firms are dependent on the availability of resources to develop appropriate strategies. As increasing levels of resources are committed to the e-marketing activity, the firm will be better able to improve its planning procedures, implement more adaptive strategies and achieve its goals. And if one considers the long term failures and successes of the firm is a function of its short term actions, it is clear that understanding the impact of resources availability in the development of e-marketing strategies can yield valuable insights into improving performance

4.2 External Forces

Market turbulence is the degree of change in the clients composition and in its preferences (Jaworski and Kohli, 1993). The market turbulences are typically generated by the heterogeneity of consumer preferences (Han et al., 1998). Korgaonkar and Wolin (1999) found out that web users’ motivations and concerns correlate significantly with the number of hours per day spent on the Web, and the user’s purchasing behavior.

Environmental turbulence is the degree to which there is change in the environment. Previous research underlined the role that the external environment has on the development of strategy and performance (Eisenhardt, 1989). When the environment in which an organization operates experiences a lot of change, the organization has several choices: it can ignore external demands or shocks that suggest the need to change plans and continue with previously planned activities; it can attempt to speed up its planning and execution cycles so that they remain distinct but happen more quickly; or it can move toward an improvisational approach that merges planning and execution processes. (Eisenhardt and Tabrizi, 1995).

Technological turbulence is the degree of change associated with new product technologies (eg. Glazer and Weiss, 1993). Technology change refers to the speed with which the technology is developed in a market product. On one hand, authors such as Day and Wensley (1988) argument that, when technologies change quickly, it is imperative to the companies to interact with clients because its preferences and needs can provide directions in a product market. On the other hand, Jaworski e Kohli (1993) suggest that the importance of information from the client is lower because he knows little about the emergent technologies.

Competitive intensity is the degree of competitive force in a product market. In conditions of intensive competition, collection of information about competition can help the companies to anticipate better the changes in competitor strategies for new products and reduce “market unpredictability”. With intensive competition in product advantage and market share became more volatile and neglect competition can damage more the position of the company in the market (Day and Wensley, 1988).
4.3 E-Marketing Strategy

Strategy as a general direction of the company, reflects its response based on information from the environment (Jennings and Zandbergen, 1995). E-marketing strategy involves using electronic methods and affects traditional marketing in two ways. First, it increases efficiency in established marketing functions. Second, the technology of e-marketing transforms many marketing strategies resulting in new business models that add customer value and/or increase company profitability (Strauss and Frost, 2001). The current study will operationalize web strategy using four main constructs - the 4Ws: Web-Design, Web-Promotion, Web-Price and Web-CRM (Fig. 1).

- **Web Design** - Chen and Wells (1999) found out that entertainment, informativeness and organization profiles of web sites are useful descriptive dimensions, which in their study have correlated with attitude towards the site.

- **Web-Promotion** - Stevenson et al. (2000) have researched on the type of background that is most appropriate for positively affecting advertising effectiveness. Bruner and Kumar (2000) further explored the advertising hierarchy of effects and its antecedents in the context of the web. Web experience was found to play an important role along with web page complexity and interestingness on attitude towards the web site, which in turn had significant effects on the web advertising hierarchy of effects.

- **Web-Price** - The advent of the Internet as a new medium for buyer-seller interaction is changing the issue of price for both customers and suppliers in an unprecedented way. On the one hand, there are Internet dynamics that flatten the customer value pyramid (defined by the value of the customer to the firm) because of technology that facilitates customer search, customer control over transactions, the provision of means by which the customer can make rather than take the price, and a return to one-on-one negotiation. On the other hand, firms may differentiate on other dimensions of the purchase decision and reduce transaction costs (Pitt et al., 2001). The fundamental value of the Internet lies not in lowering prices or making them consistent but in optimizing them in three ways. First, the Net lets companies to set and announce prices with greater precision since different prices can be tested easily, and customers’ responses can be collected instantly. Second, as it is so easy to change prices on the Internet, companies can adjust prices in response to even small fluctuations in market conditions, customer demand, or competitors’ behavior. Third, companies can use the clickstream data and purchase histories that they collect through the Internet to segment customers quickly and offer segment-specific prices or promotions immediately. (Baker et al., 2001)

- **Web-CRM** - The Web can be used to establish direct marketing channels between firms and consumers (Lau et al, 2001). Through data mining tools, it is possible to make use of the personal information on a visitor’s web site and identify his or her interests and needs. Based on such understanding, firms can send e-mail messages and offer service packages especially designed for a potential customer, based on the marketer’s assessment of the individual’s interests.

4.4 Performance

A key concern of this study is related with the conceptualization and measurement of performance. Overall the literature suggests that it is required a multidimensional scale. One approach that is increasingly relied upon is the aggregation of various performance measures into a single measure of performance. We incorporate this approach here by considering firm performance as well as site performance evaluation (Chakraborty et al., 2002).

- **Firm Performance** - Firm performance is a well-established measurement in the marketing literature. We will measure it through sales volume, profitability and market share for the current period (current firm performance), and perceived satisfaction with these measures when considering the previous year (past firm performance).

- **E-Performance** - The identification of current market position in the web is an essential issue. Although many e-commerce companies collect cost and usage data about their Web sites, few of them understand in
any detail how well such information measures their sites’ performance or how success in attracting, converting and retaining customers compares with that of competing sites. However, since year 2000 investors have been insisting, if not on profits, at least on objective measures of a site’s success in attracting, converting and retaining customers. Most measures of e-performance track variations in traffic-page views, advertising impressions served, unique users, and so on. But the foundation of long-term performance is lifetime customer value: the revenue customers generate over their lives, less the cost of acquiring, converting, and retaining them (Agrawal et al., 2001). A recent McKinsey study (Kemmler et al., 2001) shows that while the performance of Internet retailers is improving, most media and content sites are going down. Thus, e-tailer sites are creating significantly more value than content sites. The latter need to continue search for a winning business model in the face of rising acquisition costs and slumping ad revenues.

5. CONCLUSION

This conceptual study intends to add to previous research by studying e-marketing strategy not only as an antecedent, but also as an outcome, of performance. We believe that marketing researchers are ignoring a significant part of the marketing-performance phenomenon. Researchers should consider two sets of relationships: Performance → E-Marketing effects and E-Marketing → Performance effects. The existing research in e-marketing which has focused exclusively on the study of direct relationships, has sometimes been inconclusive. Hence, future research should study not only the direct effects of contingent forces (i.e. internal and external forces) over performance, but also its indirect effects over performance through e-marketing strategies. Based on the contingency theory, future research may empirically test how the fit between e-marketing strategy and its context (whether organizational forces or external environment) impacts on performance. For example, one might suggest that in highly competitive markets an innovative organizational culture is required. In competitive environments firms have to constantly collect information about market competitors and environment, and as a result will have to be flexible, open to new ideas, and present quick decision making (Menon and Varadarajan, 1992) when implementing the web-strategy. On the other hand, in the less competitive environments the fact of having, or not, an innovative organizational culture might be irrelevant when implementing web-strategies. Hence, in addition to the analysis of the direct relationships, future research may empirically test the conceptual framework presented here. This will add to previous research by showing how the contingent forces (i.e. internal and external forces) affect performance directly and indirectly, through their influence on the definition of the e-marketing strategies.

In addition to providing systematic insights into e-marketing literature, this research can aid managers in improving their web and firm’s performance and formulating appropriate e-marketing strategies. Which internal forces are key to improve web and firm’s overall performance? Is it worthwhile to allocate human and financial resources to the e-marketing activities? If yes, how and which resources should be allocated? Is e-marketing strategy formulation influenced by internal and external forces of the firm as well as by past performance levels? If yes, how? If the past web and firm’s performance is unsatisfactory, how to break this pattern such that the current year’s performance does not follow suit? By better understanding the relationship between past and current period performance and by making the appropriate co-alignment with the internal and external context, managers can avoid a vicious cycle of successive unsatisfactory results.

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