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Abstract
Who's afraid of the Internet? Not companies, it seems, according to a new survey. But closer analysis suggests optimism may well be misplaced and expected benefits a mirage. The reality is that companies already adept at creating and nurturing close customer relationships will reap the benefits opened by the web.

Disciplines
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CUSTOMER RELATIONSHIPS

GO DIGITAL

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GO DIGITAL

Opinions on the impact of digital technologies on customer relationships have swung from anxiety about the threat of frictionless commerce, to enthusiasm over the prospects for cutting customer service costs and tightening connections with customers. As recently as 1999 the prevailing view was that when customers could use the internet to expand their search for alternatives, learn more about them faster and easily compare prices, that margins would shrink and loyalty would be increasingly transient.

Persuasive evidence that these fears have subsided comes from our survey of 352 senior managers on the impact of the internet on their ability to manage customer relationships. We found they were generally positive, with 30 percent seeing the internet as a major opportunity whereas only one percent saw it as a major threat. A further 52 percent saw the internet as a minor opportunity and only 13 percent said it was neither a threat or opportunity. To better understand these overall judgments we also asked them about 15 possible consequences of the internet for customer relationships (See Exhibit One).

Overall the internet offers opportunities to reduce customer service costs, while tightening customer relationships by encouraging dialogue, linking more parts of customer contact and enabling the personalization of communications. Fears of channel conflict, price wars and new business models disrupting their markets have been overshadowed by these opportunities. However, a closer look at the results reveals that this optimistic interpretation is potentially misleading, and that most firms won't realize

HOW THE DATA WAS COLLECTED

A representative sample of senior marketing, sales, and MIS managers and executives was drawn using a database combining information from Dun & Bradstreet and Market Place. SIC codes were selected from the manufacturing, transportation, public utilities, wholesale and retail trade, finance, insurance and real estate sectors. Companies locate in all 50 states with more than 500 employees were included in the sample.

The questionnaire was mailed to the most senior person responsible for CRM initiatives who was also knowledgeable about the competitive strategy and performance of the firm. The cover letter explained how to access the questionnaire on the web if the participant preferred. The web survey was password protected and designed to look as similar as possible to the paper survey. Two weeks after the mailing, follow-up telephone calls were used to remind people to complete the survey and surveys were remailed if requested. 1,100 surveys were sent out in the first mailing, and a second wave was sent out about four weeks later to 900 new contacts. The two mailings had similar response rates and the final response rate was 17 percent with 24 percent of respondents choosing to complete the survey via the internet. Data collection was completed in March 2001.

There were no significant differences between the firms that responded compared to the sample frame. Early respondents did not differ significantly from later respondents, which further confirms the representativeness of the data. There were also no differences between the internet and paper forms of the survey. Although the firms in the sample all had more than 500 employees, we asked respondents to answer from the perspective of a specific business unit or division competing in a distinct market. Thus 19 percent of these businesses had less than 500 employees, 66 percent had between 500 and 4,999 employees and 13 percent had more than 5000 employees. The selection criteria tilted the respondents toward marketing and/or sales management so they made up 75 percent of the sample. Another 10 percent were in general management and the remainder were in technology management. The majority of business were B2B (at 54 percent) while 24 percent were B2C and 22 percent sold to both B2B and B2C markets.

the expected benefits. Instead the gains will likely go to the firms that were already proficient at forging close customer relationships.

Because the strategies of these relationship leaders emphasize connecting with customers, and their organizations are already aligned to this priority, they will use the Internet to increase their advantage. To help companies assess whether they are likely to gain, stay where they are, or fall behind in the competition for customer relationships, we have extracted three lessons:

- Relationship leaders will leverage the internet to stretch their lead
- The transformative impact of new market models will be modest.
- The internet will complement the existing channels

OPPORTUNITIES AND THREATS FROM THE INTERNET

To address this issue we first asked how closely the 15 specific consequences were correlated with the overall judgment of the managers about the impact of the internet on customer relationships.[2] These multiple regression results are reported in Table One. Since all items were measured on the same five point scale—from "major threat" to "major opportunity"—the regression coefficients of the consequences can be directly compared for their relative influence on the overall judgment.

The main conclusion is that none of the threats had much influence on the overall judgment of the impact of the internet on customer relationships. Conversely the perceived opportunities to reduce service costs, link customer contact points within the firms, and encourage feedback and dialogue with customers were very influential.

While the overall patterns were robust they also concealed important concerns by some firms. To better understand these concerns we also interviewed managers in 12 large companies, including GE Capital, Dow Chemical, Fidelity Investments and Verizon Information Services and reviewed the extensive professional literature on CRM (Customer Relationship Management).[3]

Prospects for connecting and personalizing. There was a considerable enthusiasm for using the Internet to tighten customer relationships. Between 42 and 45 percent of all respondents saw *major* opportunities to:

- Encourage customer feedback and dialogue
- Facilitate linking more points of customer contact (which is the central appeal of Customer Relationship Management)
- Permit the personalization of marketing messages

These results are at odds with criticisms that efforts to use the internet to personalize customer relationships are misguided, because nothing can match person-to-person communications. In this jaundiced view, the efforts to extract patterns in clickstream data, then make predictions based on past behavior, and construct deep customer profiles to guide personalized marketing messages will continue to stumble over software problems, consumer indifference and privacy concerns.[4]

While these criticisms do sting, they overweight the failure of dot.com start-ups and overlook the experience of best practice companies who are learning how to use the internet. For example, the internet has already pushed deeply into business markets ranging from commodity chemicals (see the boxed insert on Myaccount@dow) to expensive, mission-critical items like power transformers and diagnostic-imaging devices. Radiologists using GE's CT scanners and MRI machines can go to the Internet and try out new GE software that increases the efficiency of spinal exams. If they like what they see they can order the software for $65,000.[5] They are likely to make the purchase of about 65 percent of the time, without ever talking to a salesperson.

Myaccount@dow

Before the Internet, customers had to deal with Dow Chemical the way Dow was organized; rigid and siloed. But customers really wanted an easy one stop source of information, assistance and ordering. For example; to get spec sheets on products, customers had to call Dow and request specific specification sheets. These were then mailed to the customers. A few days later, upon receiving the spec sheets, the customer might realize the products weren't exactly what they needed. Then, they would have to call back (during business hours, of course) to request more sheets.

Now, with Dow.com, 24 hours a day, customers can log onto the site, search spec sheets and print and/or download all those that interest them. No longer is the information gathering process a multi-day task which may involve several iterations. Instead, when a customer needs information, it is immediately available and accessible. During Dow 2000, estimated that they were saving approximately $1 million per month in printing and mailing costs by having customers serve themselves.

Myaccount@dow provides more personalized account servicing and is being piloted and developed with a subset of customers. The account allows customer specific information to be accessed by the customer and Dow. For instance, *myaccount@dow* allows secure internet monitoring of customer chemical tank levels. When tanks reach predetermined levels, reordering can be automatically triggered.

Privacy concerns are very real, with one estimate that 40 percent of firms with CRM initiatives are making it their top priority to better balance privacy with the desire to improve personalization.[6] According to Scott Nelson of the Gartner Group, "This is going to require rethinking how information is gathered, how customers can access and control that data, and how enterprises can safeguard it from parties that might want it but shouldn't have it".

For some firms the personalization of interactions and communications is a step on the road to using the internet to help customers to custom design products to their specific requirements. [7] Despite the appeal of "mass customization," only 11 percent of the respondents saw this as a major opportunity, while 30 percent viewed it as a minor opportunity. What explains this hesitancy? Another question in the survey found that 58 percent of respondents thought it was very or somewhat difficult to tailor or mass customize the product or service offer in their market. Perhaps this is a reflection of the difficulties of designing a manufacturing or service operation with highly flexible processes that can cost-effectively produce individualized offerings.

The promise of efficiency gains. The size of the opportunity to reduce customer service costs (because customers could self-serve) explained more of the overall judgment about the internet than any other aspect. This reflects a noticeable shift of the goals of CRM projects from revenue enhancement to cost containment.

GE Capital's Card Services division has harnessed the Internet to improve the efficiency of pre-approved direct mail, one of the core customer acquisition processes it offers to its retail clients. These are the credit offers that try to entice you with, "Congratulations! You've been pre-approved." In the paper world, the prescreen process involves departments such as credit screening, marketing, creative agencies, fulfillment, plastic embossing and so on, with abundant places for delay and error. This paper process has been converted to a very fast and low cost, web-enabled sequence of activities so a customer can connect via a modem to make a purchase and establish credit in one seamless process.

Skeptics about the internet believe that most of the prospective cost savings will be captured by customers because their bargaining power has been enhanced.[8] While there is modest evidence to support this position the picture is not clear-cut. On one hand the two biggest threats were "expanding the competitive set" and "making switching easier." Indeed 10 percent of the respondents said their firms were seriously threatened because there were more competitors who would undermine longstanding relationships or be used by their customers as bargaining chips to push down the price level. But when we put this threat into the broader context of all threats and opportunities we find that it has relatively little influence on the overall judgment of the consequences of the internet. The coefficient of this variable in the regression equation is small and not significant, which means that the threat from more competitors is far outweighed by the other benefits.

Similarly, the potential threats from auctions and buying groups were found to be symptoms of deeper underlying problems. For example, the five percent who were seriously threatened by customers initiating free-markets.com-type reverse auctions were invariably in mature markets with few differences among competitors, or lacking close relationships with their key customers. One manager at a large detergent chemical maker shared the poignant tale of a long-standing and seemingly loyal customer who abruptly announced they were preparing a reverse auction to open up the business to more suppliers. This supplier was assured they would be invited to bid and would be favorably considered—so long as they were price competitive! Perhaps an auction was inevitable, but the fact they were taken by surprise suggests they weren't very close to their customer, nor were they perceived as a supply partner.

Reducing customer search costs. We did not expect to find this variable to have such a large influence on the overall judgment. But, just because customers can search more widely, compare more readily and eliminate some of their transaction costs on the internet doesn't mean they will actually defect. Indeed only three percent of firms saw this factor as a major threat, while 14 percent said it was a major opportunity. More than a third saw neither threat not opportunity – in deference to the reality that most customers don't actually search very much. One recent study found that households that browsed an internet category initially visited only 1.1 book sites, 1.2 CD sites and 1.8 travel sites.[9] As their behavior became routinized they visited even fewer sites.

Firms in business-to-business markets are especially likely to believe they can turn the reduction in customer search costs to their advantage. These suppliers appear to believe that customers they don't currently serve will be able to find them more readily, and then they have a good chance of being chosen on their merits. At the same time they have confidence their current customers will stay with them even after they have considered new sources.

When and Why Is the Internet an Opportunity?

What explains the varying levels of enthusiasm for the internet? In particular, what distinguishes the firms that saw the internet as a major opportunity from the others? Was it because their market environment was especially conducive, or were they better equipped to exploit the opportunities than their rivals? In fact we found both factors were at work.

The following sets of variables were used in the multiple regression equation in Table Two, where the dependent variable was the overall judgment about the internet:

Attributes of the market:

- growth rate of the total market
- loyalty of customers in the market
- customer perceptions of differences among competitive alternatives
- type of market (B2B, B2C or both)
- ability of customers to judge the quality of the product or service on the web

Attributes of the firm. These were grouped into three categories.

(A) Strategy and capabilities

- Focus of strategy on delivering superior value through close customer relationships
- Availability of resources to support the strategy
- Capability in developing and managing customer relationships relative to competitors

(B) Prowess with CRM Technology

- Utilization of CRM software to coordinate customer communications, interactions and service support activities
- Progress with CRM initiative compared to direct competitors

(C) Demographics

- Market share
- Number of employees

A further correlate was the total number of channels used by the firm because the number available is an attribute of the market and the number used is a strategic choice.

The main story from the multiple regression analysis, using all these variables, is that the overall judgment about the impact of the internet on customer relationships mainly depends on the number of channels, the customer's perceptions of differences among competitive offerings, the firm's market share and the adequacy of resources.

To learn what set apart the 30 percent of firms that saw the internet as a major opportunity for strengthening customer relationships we next used a continuous ratio logit model to compare this group with the rest of the sample, using a reduced set of variables. The results in Table Three show that those who see the greatest opportunity are: (1) much better at managing customer relationships than their rivals, (2) provide adequate resources to support their CRM initiatives, and (3) serve markets where customers perceive significant differences among competing choice alternatives. These results were especially valuable in extracting useful lessons for managers.

LESSON ONE: RELATIONSHIP LEADERS WILL LEVERAGE THE INTERNET TO EXTEND THEIR LEAD

Who is going to gain and sustain an advantage in the customer-empowered, competitive markets that are being reshaped by the Internet? The message from our study is that those who already excel at managing customer relationships were best equipped to capitalize on the opportunities of the Internet. These leaders were able to anticipate earlier how to use the Internet to connect with their customers, exploited it faster and implemented the initiative better. Relationship leaders are the 15 percent of firms who judged themselves to have a significant advantage in their ability to manage customer relationships.

These leaders were also much more willing than their rivals to provide adequate resources to support their CRM initiatives. This was not necessarily about investing in CRM software, or being a pioneer in the use of the software since neither of these variables had a significant influence. Relationship leaders were especially optimistic when they thought there was substantial differentiation among the competing alternatives in their market. We see this in Exhibit Two below, which contrasts the views of relationship leaders with laggards in market environments with the most and least differentiated offerings.

Exhibit Two

LEADERS versus LAGGARDS

VIEWS OF THE INTERNET

Customer Perceptions of Differences Among Competing Alternatives		Laggards (29%)	Leaders (15%)
	Substantial (43%)	**31%**	**52%**
	Minor (33%)	**20%**	**25%**

% of category seeing the internet as a major opportunity

Relative Ability to Manage Customer Relationships

In summary, the Internet offers the best opportunities for firms that have the necessary conditions in place. If the culture condones a transactional mind-set and is not equipped to treat different customers differently, the systems and databases are incomplete, incompatible and out-of-date, and the organization is balkanized along hierarchical lines so teams struggle to collaborate, and the incentives don't reward retention, then the Internet should deservedly be feared. These firms don't have any strategic degrees of freedom, and the Internet means they will lose further control. Conversely, best-of-breed relationship builders like Dell, FedEx, Schwab, Fidelity, Singapore Airlines, L.L. Bean, Recreational Equipment Inc., and Pioneer Hi-Bred Seeds relish the prospects presented by the Internet.

LESSON 2: THE TRANSFORMATIVE IMPACT OF NEW MARKET MODELS IS MODEST

At the peak of Internet enthusiasm it seemed anything was possible, and that the old rules for reaching and serving markets were about to be overturned. Extravagant pronouncements about the possibilities for reverse auctions, open exchanges, infomediaries and name-your-own price models captured the collective imagination. One reason these forecasts had credence was that no one had any meaningful experience they would use to appraise the claims. Now we have the experience and the myths have been dispelled. Our results confirm what others have found; these models have limited or negligible roles in most markets. None of the new market models was judged to be a major threat by more than five percent of the respondents. The reason the fears of established firms have abated differ for each of the Internet market models, but the net effect is that they are having little impact on customer-supplier relationships.

Infomediaries. Many have been disabled by unexpected barriers that incumbents had long learned to live with. These constraints serve as isolating mechanisms that impede competitive moves. Protected niches within a market—stemming from long-standing relationships or regulations designed to protect some players in a value chain—are among the signals of these killer constraints. These signals were frequently downplayed by e-commerce challengers during the optimism of the boom period.

- The on-line auto infomediaries like Autobytel, Auto Web, and Cars.com, face restrictive state-level regulations that bar anyone from clinching the sale. Some states go further to require a new car buyer to pick-up their car at a dealership.

Without the ability to make a sale the online buying services are left with only the revenues from lead generation for dealers.

- Most Internet postage sites such as eStamp, Neopost, and Stamps.com encountered heavy regulation by a US Postal Service concerned about fraudulent postage. This impediment plus unexpectedly high costs of $500 or more to acquire each customer dimmed their prospects of survival.

- While the concept of Brandwise.com, a comparison-shopping website for appliances was appealing it was unable to overcome two killer constraints. Up to 80 percent of sales to consumers of appliances are immediate replacements of broken units, leaving no time or inclination for careful comparison-shopping. Another impediment was the inability of geographically dispersed and incompatible retail systems to communicate inventory status or fulfill orders. The existing system had long adapted to these rigidities and had little incentive to change.

- Pure play online pharmacies' were hobbled by the relationship of pharmaceutical benefit managers (PBMs) and pharmacies with major employers and health plans. These were never opened up. Further constraints were the unwillingness of consumers to wait for their prescription to be delivered so they could begin treatment, and hesitations about credit card security and sharing of their personal information.

The nature of on-line interactions imposes further constraints. Many products are unsuitable because their quality or reliability cannot be readily described or communicated in digital terms.[11] There are inherent delays in navigating sites, finding information and making choices that are exacerbated by the volume of information and plethora of options. The lack of human contact eliminates opportunities for clarification, problem solving, reassurance and negotiation. These limitations don't negate the Internet, but often relegate it to a supportive and subordinate role in a market.

Pricing Models. The Internet made radically new pricing schemes possible, which encouraged start-ups to adopt pricing structures that departed greatly from traditional industry practice. The most famous example is the Priceline "name-your-own- price" model, which many people believed would become the dominant model for pricing, but is now seen as another variation on well-established pricing formulas. Their approach works well with airline tickets because accurate, timely information about the best prices is hard to get, and the seats must be sold before the fight. But customers must be willing to put up with the inconvenience of not being able to choose their airline or time of day they will fly. Within this narrow niche Priceline has a loyal and potentially profitable customer base. These conditions do not apply to the long-distance telephone, automobile, or mortgage markets where prices are more transparent.

Public Exchanges. These exchanges attempted to insert themselves in the channel at the strategic point when customers decide who to buy from, how much to buy, and how much they will spend. As payment for matching buyers and sellers through electronic networks, on-line exchanges attempted to charge fees to sellers ranging from two to five percent of gross sales.

Yet the vast majority of industrial suppliers are still independent distributors and dealers who continue to thrive due to their great skill at maintaining high levels of locally delivered customer service and support.[12] Although the fees the exchanges wanted to charge appeared low, they were more than 50 percent of a typical distributor's net margin. Competition quickly lowered these transaction fees to marginal cost – or lower. Some exchanges saw transaction fees drop to as low as one-quarter of one percent, which was not enough to cover operating and capital expenses. Customers were also reluctant to disrupt systems that work, even if those systems are partially uneconomic or somewhat inefficient. This is particularly true when the stakes are high, such as business customers that must procure supplies to keep factories and offices running without disruption or downtime.

Exchanges looked promising because customers in most business-to-business channels face enormous procurement and inventory costs. On-line systems that could reduce these costs and improve efficiencies held great promise. But exchanges misdiagnosed their relative advantage. During the past ten years, industrial customers have been improving the efficiency of their supply chain by consolidating supply contracts and reducing the number of suppliers. A supplier that can lower a customer's total cost of acquisition is preferred over one that simply offers a lower price. Many B2B exchanges went against these fundamental trends by emphasizing the lowest price instead of lowest total procurement cost.

Prospects for pure play B2B exchanges were further dimmed with the advent of industry-wide exchanges created by consortia of bricks-and-mortar companies who could provide both financial strength and guaranteed volume. But even these consortia are sometimes supplanted by private B2B systems.[13] One likely scenario is that each industry will have one or two public exchanges to help buyers and sellers find each other, with subsequent transactions taking place on private networks where logistics can be optimized. A few specialized exchanges will be available to conduct auctions or offer specialized financing and logistics services.

LESSON 3: THE INTERNET COMPLEMENTS OTHER CHANNELS

Two opposing forces have been contending to shape how companies view the impact of the Internet on their distribution channels. On one side the net was welcomed as another way to reach existing customers, a new way to find new customers and a solution to the vexing question of how to synchronize proliferating channels. In opposition was the fear that the Internet would encourage disintermediation and incite more channel conflict.

With experience the fear factor has abated, and only eight percent of our sample viewed the internet as a serious threat because of increasing channel conflicts. However it is more than an additional channel. When used creatively it enhances all the other channels: call center employees with net-based CRM systems deliver better service, bricks-and-mortar stores using new location-based services are found by more customers, and sales people equipped with mobile devices have more information and tools available during their sales calls.

Companies have so embraced the Internet that is has become the most widely used channel. While 77 percent have direct sales forces, and 48 percent use mass media to reach their markets, we found 85 percent using web-site access and email. This rate of adoption is a testament to the adhesive powers of the internet.

Most companies use a variety of channels, depending on the type of market. Firms in the business markets used an average of 4.7 channels, while consumer firms used 4.2 channels out of nine possible ways to reach markets. Those that served both consumer and business markets used an average of 5.5 channels to serve more diverse customer segments.

Managing Channel Proliferation

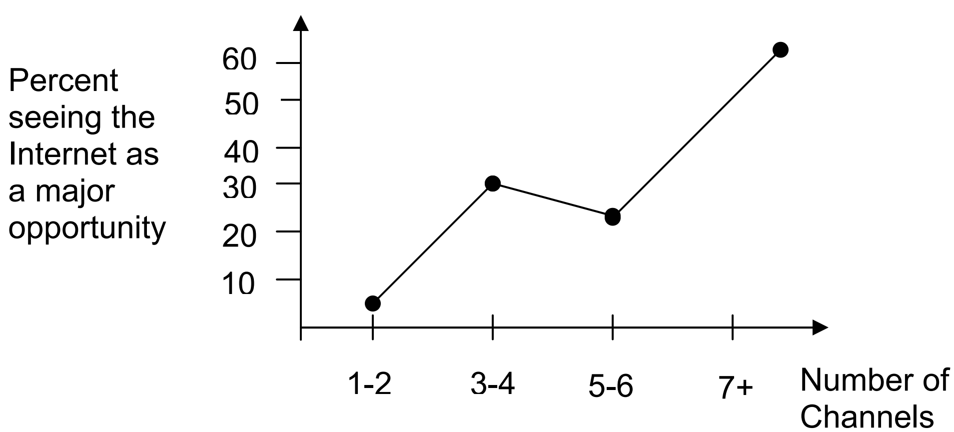
Even before the Internet arrived companies were under pressure to serve their customers with more varied channels. With new toll-free services, companies added call centers at a rapid rate during the past decade. New composite channel designs were devised to divide up the channel functions. Instead of each channel performing all the functions the immediate customer requires, a team of channel partners, each specializing in a few tasks, satisfies the customer's total needs. The supplier might negotiate the sale, while the partners take over order fulfillment, distribution and after-sales service.[14]

This proliferation of channels and customer contact points poses acute synchronization problems. Customers also don't limit themselves to a single channel; instead they pick the one that is most convenient or effective for the situation. But they also assume the firm will recognize them at each step of the way. When they place an order via the Internet they expect call-center records to be updated, inventory information to be consistent across channels, and that they can return goods to the store.

The Internet plays two roles: it is a rich and interactive channel that complements existing channels, and the digital architecture enables the connection and synchronization of all channels. This is why the firms with the most channels are also the most enthusiastic about the Internet.

Exhibit Three

INFLUENCE OF NUMBER OF CHANNELS



Managing Channel Conflict

Many channel members resisted the Internet at first, because of the perceived threat of disintermediation. Airlines took the lead by selling tickets directly to passengers. Automakers thought they had found a cost-effective way to go around their dealers. Proponents of disintermediation also forecast the demise of real estate agents when home buyers could search, negotiate and buy houses on the Internet. This prospect attracted a swarm of start-ups to the home buying arena. It is instructive that most have failed – but a few are thriving because they help agents by serving as a lead generation vehicle. Realtor.com lists over 1.4 million homes for sale, and directs inquiries to a local agent who takes over the relationship building part of the sales cycle. Realtor.com also develops customized web-sites for agents, and helps them sell related services such as mortgages. In this way the two channels complement each other.[15]

Because the Internet has been so thoroughly co-opted and integrated into existing channels most of the concerns about conflict have dissipated. Even the minority of eight percent of the sample who saw the Internet as a major threat because it increased channel conflict, didn't let that dampen their enthusiasm. We found no relationship between their judgment about channel conflict and their overall judgment about the impact of the Internet on customer relationships.

APPLYING THE LESSONS

The new conventional wisdom is that most firms will find that the efficiency-boosting benefits of the Internet will be offset by the margin-deflating effects of reduced market friction and enhanced buyer power. Furthermore, only a few firms will use the net to create unique and lasting advantages. Like all simplifications there is an element of truth here, but it also distorts the full picture.

Instead of pessimism and fear we found enthusiasm across all markets. A large majority of our respondents saw more opportunity than threat, and 30 percent saw the Internet as a major opportunity. These firms have embraced the net for a variety of reasons, but mainly to keep up with rivals and leverage their existing capabilities. Consequently the Internet is now the most popular means of reaching and interacting with customers. But the biggest lesson is that the rewards of increased customer retention, growth and profitability will go only to those who are already the most proficient at managing their relationships with their most valuable customers. Only with a *superior* capability can a firm fully exploit the potential to tighten connections with better service, remember customer histories and requirements to deliver personalized solutions, and improve the synchronization of dispersed points of customer contact. This has several messages for firms trying to catch up or stay ahead.

First, the technology of the Internet is only a tool; it is not a competitive strategy or the capability to deliver the strategy. Thus the starting point is to know how well your capability compares to your rivals – both where they are now and where they are going to be based on their intentions, plans and observed actions. Don't rely solely on your sales and service people. Instead go directly to the best and most demanding customers and ask for a frank assessment. Be sure to ask about their best suppliers who are not competitors and learn how they manage their customer relating capability. These “best of breed’ are worth benchmarking because they set the standard by which customer expectations are formed.

Second, assess the quality of the present customer relationships. Are the most valuable customers really committed to the firm, or are their connections merely passive because of habit and inertia? This is the context for assessing whether Internet-enabled services based on new market models such as reverse auctions or emerging technologies such as broadband and mobility will strengthen or undermine existing relationships. This is especially important in business-to-business markets with complex organizational buying processes. Suppliers who built close relationships with purchasing agents during a supplier reduction program are especially vulnerable. The threat often comes from senior management, who may overrule purchasing and impose a reverse auction to get lower prices.

The third implication is that the success of initiatives to deploy the Internet and CRM technologies are more about organizational alignment than data base management, systems integration and software selection. Internet enabled CRM has to be managed as a cross-functional initiative that deepens the overall capability. This is especially so in organizations where functional divisions and interests prevail. If marketing historically blames sales for not closing leads, sales blames marketing for not generating enough leads and service blames them both for too-high expectations, the promise of the CRM technology will not be realized. By some estimates 55 percent of all CRM projects will disappoint.[16] The stakes are considerable given that CRM systems may cost $35,000 or more per call-center agent to deploy and that much again to maintain them during the next three years. It will take strong leadership including the assignment of a senior manager to spearhead the initiative, cross-functional structures and collective incentives to motivate the functions to work together and ensure a return on this investment.

Finally, we have learned it doesn't pay to be paralyzed by channel conflict. Customers prefer a choice of channels and expect all channels including the Internet to work together. To achieve this synchronization the place to start is a deep understanding of what the target customers want from the channel system, and then work back to assess how well the current channels meet those needs. The next step is to decompose the entire set of channel functions into their component parts. Only then is it possible to see where digital channels best fit; are they better than what is available for generating leads, or providing an online storefront or aggregating demand via hubs like Commerce One? Such an approach to integrating the Internet into the channel system is far better than bolting it on as a separate channel. An integrative approach to digitally-enhancing channels requires the same level of cross-functional coordination as CRM initiatives that use the Internet to coordinate all customers touch points. Indeed, competitive advantage comes by integrating and aligning the Internet with the overall strategy; and doing so better and faster than the competition.

FOOTNOTES

[1] The flavor of these New Economy prognoses can be seen in K. Kelly, *New Rules for the New Economy: 10 Radical Strategies for a Connected World*, New York: Penguin, 1998, W. A. Sahlman, "The New Economy is Stronger Than You Think," *Harvard Business Review*, (November-December 1999), 99-107, and G. Hamel, "Edison's Curse," *Fortune*, (March 5, 2001), 175-178. A more balanced perspective is J. Rayport and B. J. Jaworski, *e-Commerce*, New York: McGraw-Hill/Irwin, 2001.

[2]To assess the risk of multicollinearity we conducted a varimax factor analysis of the 15 items in Table One. Five factors accounted for 47 percent of the variance—and only three variables held together on one factor. Because the intercorrelations were not high among these variables (customization of marketing messages, linking points of customer contact and encouraging customer feedback) we elected to keep them separate in the multiple regression analysis to facilitate interpretation.

[3] Useful resources are P. Greenberg, *CRM at the Speed of Light*, New York: McGraw-Hill, 2001; C. Jonhoff, L. Loftis and J.G. Gerger, *Building the Customer-Centric Enterprise: Data Warehousing Technologies for Supporting Customer Relationship Management*, New York: John Wiley & Sons, 2001, and Thomas Seibel, *How to Become an eBusiness*, Siebel Systems, 2000.

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[5] G. Colvin, "Shaking Hands on the Web," *Fortune* (May 14, 2001), 54

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[9] E.J.Johnson, W.W.Moe, P.S.Fader, S. Bellman and G.L.Lohse, "On the Depth and Dynamics of Online Search Behavior" *Marketing Science* (forthcoming.)

[10] This concept of capabilities is derived from the resource-based theory of the firm. See J. B. Barney, "Firm Resources and Sustained Competitive Advantage," *Journal of Management* 16 (1991), 99-120, D. J. Collis and C. A. Montgomery, "Competing in Resources: Strategy in the 1990's," *Harvard Business Review*, 73 (July-August 1995), 118-128, and H. Mintzberg, B. Ahlstrand and J. Lampel, *Strategy Safari*, New York: Free Press, 1998.

[11]J. M. Figueredo, "Finding Sustainable Profitability in Electronic Commerce," *Sloan Management Review*, 41 (Summer 2000), 41-52.

[12] This discussion benefited greatly from A.J. Fein, Facing the Forces of Change: Future Scenarios for Wholesale-Distribution, Washington, D.C., National Association of Wholesalers, 2001, and A.J.Fein, "E-Business Realities for Distribution Channels," *Progressive Distributor*, November 2000.

[13] J.P. MacDuffie and S. Helper, "B2B and Modes of Exchange: Evolutionary or Transformative Effects" in B. Kogut (editor), *The Global Internet Economy* (forthcoming) and N. Bloch and T. Catfolis, "B2B E-Marketplaces: How to Succeed," *Business Strategy Review*, 12 (3) 2001, pp 20-28.

[14] E. Anderson, G.S. Day and V.K. Rangan, "Strategic Channel Design," *Sloan Management Review*, 38 (Summer 1997), 59-70

[15] M. Sawhney and J. Zabin, *The Seven Steps to Nirvana*, New York: McGraw Hill, 2001 describe in detail several models for the synchronization of channels to reallocate the functions and flows across the entire spectrum of available channels of which the Internet is only one channel.

[16] These data were from a Gartner, Inc. study cited in Caulfield, "Facing Up to CRM," *Business 2.0* (August-September 2001), 149-150. Their conclusions are more measured than those of other surveys reported in L. Yu, "Successful Customer-Relationship Management" *MIT Sloan Management Review*, (Summer 2001), 18-19.

Table One

EXPLAINING THE OVERALL INFLUENCE OF THE INTERNET ON THE FIRM'S ABILITY TO MANAGE CUSTOMER RELATIONSHIPS

Independent Variables (listed in order of importance)	Parameter Estimates (t value)
Intercept	-.427 (-1.4)
Reduces customer service costs	.193 (3.6)***
Customers search costs are reduced	.188 (4.3)***
Encourages customer feedback and dialogue	.168 (2.49)*
Facilitates linking customer contact points	.172 (2.39)*
Enables auctions	.126 (2.30)*
Customers can propose prices	.126 (1.96)*
Customers can custom design products	.110 (1.92)*
Permits customization of marketing messages	.080 (1.26)
Prices can be changed quickly	.052 (1.01)
Expands set of competitors	.049 (1.18)
Increases channel conflict	.028 (0.50)
Facilitates customers switching	.018 (0.37)
Increases stickiness	.003 (0.06)
Customers can form buying groups	.001 (0.03)
Customers can learn from each other	-.055 (-1.17)
$R^2_{ADJ} = .448$	* = p< .05 ** = p< .01 *** = p< .001

Table Two

WHEN AND WHY IS THE INTERNET AN OPPORTUNITY?

Dependent Variable = Overall, what is the effect of the internet on your ability to manage customer relationships?

Independent Variables		Parameters Estimates (t values)
	Intercept	3.13 (5.4)
Total number of channels		0.097 (3.92)***
Loyalty of customers		0.163 (3.44)***
Market Share Rank		0.071 (2.26)*
Adequacy of resources		0.104 (1.96)*
Customer Perceptions of differences		0.081 (1.84)
Number of employees		0.051 (1.34)
Market growth rate		0.066 (1.23)
CRM initiatives		0.071 (1.12)
Customer relating capability		0.061 (0.92)
Number of customers		0.027 (0.53)
Use of CRM software		0.025 (0.53)
Ability to judge quality on net		0.022 (0.52)
B2B market?		0.018 (0.16)
Focus of strategy		0.001 (0.03)

*** = p<.001
** = p<.01
* = p<.05

$R^2 = 0.158$
$F_{14,280} = 3.74$

Table Three

WHICH FIRMS SEE THE INTERNET AS A MAJOR OPPORTUNITY?

(Continuous Ratio Logit analysis)

Independent Variable	**Major Opportunity *vs*. Rest (n=300)**	**Minor Opportunity vs. No impact or threat (n=207)**
Intercept		
Adequacy of resources	-.35 **	-.23
Customer relating capability	-.35 **	.01
Customer perceptions of differences	-.27 *	-.28 *
Focus of strategy	.10	.17
Market share rank	.08	.04

** = p< .01
* = p< .05