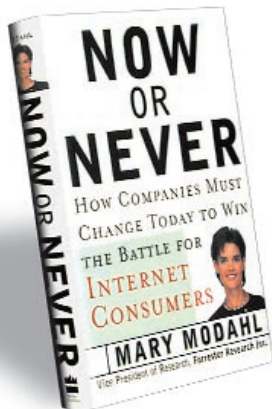




Executive Book Summaries®



By Mary Modahl

How Companies Must Change Today To Win The Battle For Internet Consumers

NOW OR NEVER

THE SUMMARY IN BRIEF

The coming five years will be decisive in the battle for Internet consumers. Bricks and mortar companies who don't make the transition to the Internet will find themselves unable to keep up with the dotcoms.

In this summary you will learn how to estimate when and how your customer base will make the transition to the Internet. The method you will use, dubbed Technographics, has been developed by Forrester Research, and focuses on the demographic characteristics of consumers and their attitudes toward technology.

Using Technographics, you will be able to categorize the consumers who buy your products or services by their attitude toward technology. You will then be able to predict which of your customers are online now, which will get online soon, which will need encouragement to get online, and which will probably never get online.

After you determine when and how your customers will get online, you will need to come up with a strategy for reaching them. You will also learn about the fundamental economic change the Internet is bringing to traditional concepts of supply and demand. The new model is Dynamic Trade. Dynamic Trade will push supply very close to actual demand, and will mean companies must be prepared to ramp up for demand faster than ever.

You will also learn what it takes to make your Internet presence lasting by developing something others can't easily imitate. The answer lies in developing a relationship with customers who visit. You will, in effect, be creating a brand experience for customers so that they will become loyal buyers. This requires you to use the information customers provide to enhance their interaction with your company.

Finally, you will learn what steps you must take to ensure that your company's Internet strategy will work. You will see how successful companies have managed the transition and which of several models will work best for your company.



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NOW OR NEVER

by Mary Modahl

— THE COMPLETE SUMMARY

Understanding Internet Consumers

Understanding why, when and how different people shop online is the first step to winning the battle for Internet consumers. Unfortunately, likely online shoppers and unlikely ones look at first to be very similar in age, occupation, income, education and other characteristics traditional marketers use to predict consumer behavior.

Take, for example, two women who to conventional marketers look remarkably alike. Mary and Sue are both in their late thirties, married for ten years to men who work in finance, and residents of the same Boston suburb. Sue has three children, and Mary has two. Both attended similar colleges, and even drive the same kind of car. But when it comes to online shopping, the differences are striking. Mary loves shopping online, appreciating the convenience and the fact that she doesn't have to drag her kids through stores. She uses the Internet to shop for toys, clothes, books, music, videos, airline tickets, appliances and other consumer goods. But Sue won't have any part of it. For companies trying to come up with an Internet strategy, Mary and Sue are a problem.

How Consumers Form Technological Attitudes

Like all attitudes, people's attitudes toward technolo-

The Internet Consumer

In order to advise companies on how to identify likely consumer reaction to and adoption of the Internet as a purchasing tool, Forrester Research spent three years identifying the key drivers of consumer behavior in relation to technology. After exhaustive research that included polling, focus groups and interviews, the conclusion was clear. What drives consumer Internet behavior is their attitude toward technology. Consumers are either technology pessimists or optimists. The research concluded the population is made up of 52 percent optimists and 48 percent pessimists. Both groups can be further divided into market segments. By identifying where your customers belong, you can begin making educated guesses about which ones will come online, when and how.

Technographics

Technographics is the term used to measure consumer pessimism or optimism toward technology. Those who score high on the technographics scale are optimists while those who score lower are pessimists. Technographics classifies consumers according to three factors that most influence behavior:

Attitude toward technology. How the consumer feels about technology. That is, is he or she an optimist or a pessimist?

Income. The amount of money consumers have to spend strongly influences online behavior. Those who make less than \$40,000 have a hard time affording anything beyond the basics of food, clothing, shelter and transportation, and are classified as low income. Those making more than \$40,000 can buy more than the basics, and are therefore classified as high income.

Motivation to use technology. Beyond comfort with technology and money to purchase technology, a consumer's motivation to use technology is a powerful factor in predicting online behavior.

gy take shape as they grow up. As people grow older, those attitudes solidify and become very resistant to change. People who become comfortable with one technology in their youth appear able to accept change to that technology, but are resistant to newer technologies that come along. So while Americans who accepted automobiles in the early part of the 20th century have adapted to other forms of motorized travel, few have adopted computers.

In addition, it seems that as people age, they slowly become more pessimistic about new technologies. People over 65 are overwhelmingly pessimistic about

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Understanding Internet Consumers

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computer technology, baby boomers are about evenly divided between pessimism and optimism, and people under thirty-five are optimistic. Other factors also enter the picture. There is a strong correlation between optimism about computer technology and using computers in the workplace.

Income and Technology Adoption

Don't fall into the trap of believing that income is the most important factor in getting online and shopping once there. In fact, although those with high income may own more computers, nearly forty percent of them can be classified as pessimists. They may buy technology as part of an overall greater spending pattern. They own PCs but don't necessarily use them. Your job, if *high-income pessimists* are part of your consumer base, is to get them to adopt the use of technology. *High-income optimists*, of course, are already online.

On the other hand, there are many *low-income optimists* who buy and use PCs, including college students and young families. If they can't buy them, they will find a way to connect anyway, whether at school or at the library. You can't ignore them if they are part of your customer base, either. As their income rises, they will also begin buying online in greater numbers.

The hardest group to entice online is the *low-income pessimist* segment. If your customer base includes a large number of this group, you must proceed with caution. Many will never adopt the Internet. ■

Using Technographics to Target Internet Consumers

Consumer technographics can help companies identify their early prospects on the Internet and can tell traditional companies how fast their consumers will go online and why. But the first step is figuring out what type of consumers they have now. Are they optimists or pessimists?

The best way to figure out the technographic composition of your customer base is to interview them directly. But this method isn't practical for everyone. Your existing customer database can be divided into thirty or more very specific demographic categories. By creating weighted averages of the technological attitudes found in these demographic groups, you can estimate what percentage are probably technological optimists. But the method requires a high level of statistical work. Fortunately, there is a quicker test you can use to get a feel for which of your customers will move online and when.

The quick test is based on five demographic customer

measures: gender, education, median household income, children at home and median age. These five measures are broken down as shown in the chart below.

Customer Categories

The quick test for technographics puts your customer base into one of three categories.

Early adopters are the high-income technology optimists already online and shopping. Nearly a quarter of early adopters are shopping online and almost all of

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The Quick Test for Technographics

1) Are your target consumers men or women?

Percent male:

More than 70% — 3 pts.....40% to 70% — 2 pts
10% to 39% — 1 pt.....Under 10% — 0 pts

2) How well educated are your consumers?

Percent with some college:

More than 60% — 3 pts.....50% to 59% — 2 pts
40% to 49% — 1 pt.....Under 40% — 0 pts

3) What is their median household income?

Median household income (thousands):

More than \$70 — 3 pts.....\$45 to \$69 — 2 pts
\$25 to \$44 — 1 ptUnder \$25 — 0 pts

4) Do your target customers have any children at home?

Percent with children under 18:

More than 50% — 3 pts.....40% to 49% — 2 pts
30% to 39% — 1 pt.....Under 30% — 0 pts

5) What is the median age of your customer?

Median age:

Under 25 — 3 pts25 to 39 — 2 pts
40 to 55 — 1 ptMore than 56 — 0 pts

If your total score was:

11 to 15Early adopters
6 to 10Mainstream
0 to 5Laggards

Your target customers are:

Using the Quick Test at Starbucks Coffee

When Starbucks Coffee took the quick test, their score of 11 reflected the fact that its customers are well-educated, high-income people who are slightly younger than the national average. Starbucks can conclude that a heavy percentage of its consumers will be among the earliest Internet adopters. These coffee drinkers will expect Starbucks to be an online leader. It can become an online leader selling high-end coffee.

Using Technographics to Target Internet Consumers

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them will by the end of 2003.

Mainstream customers are evenly divided among optimists and pessimists and between high and low income. They will be about two years slower to shop online than early adopters — either because they are pessimists or because they have low income.

Laggards will be the last to move online. They are low-income pessimists who lack both interest and resources to become online shoppers. ■

Reaching Early Adopters

The battle for Internet consumers begins with the early adopters, the high-income technology optimists. These sixty million consumers wield enormous influence over the fate of both Internet start-ups and traditional companies. Start-ups must attract early adopters to survive.

Early adopters are the most Internet connected of all consumers. At the beginning of 1999, 60 percent were

The Internet? No Thanks!

Some businesses will probably never want to move online. Consider the case of a successful business selling high-end stationary in an affluent Boston suburb. The store's customers are primarily "society women" in their fifties and sixties who have never worked outside the home. They visit the store two or three times a year and spend a few hours chatting and selecting personal stationary. It's as much a social event as a commercial one. The clients are traditionalists, high-income, family-motivated technology pessimists. Taking the business online would fail.

already connected and another 20 percent planned to be connected by year end. Together, they control \$3 trillion in spending power, money they can shift from traditional retail outlets to Internet storefronts.

There are three reasons to believe they will do just that. First, nearly all early adopters say they expect to shop online. Second, those who do shop online have so much disposable income that their spending increases dramatically. Third, as worries over credit card fraud subside, the greatest barrier to online shopping falls.

Segmenting Early Adopters

Early adopters can be divided based on their motivations. They are:

- **Fast Forwards** — high-income optimists motivated by career needs;
- **New Age Nurturers** — high-income optimists motivated by family needs; and
- **Mouse Potatoes** — high-income optimists motivated by entertainment needs.

Fast Forwards

Fast forwards possess more digital equipment than the rest of us, and they are willing to use it. Their median income is \$70,000, and 21 percent earn over \$100,000. They are the best-educated group of consumers in America, and over one-half live in dual-income households. They are the leading buyers of every type of product sold online and are especially interested in travel, financial services, home office equipment, and other computer and communications-related gear.

How do you reach them? By remembering that their focus is on getting ahead. They don't care about getting the best price, but they do want to find a better way to do things. Their forays onto the Web are organized; they set up shortcuts to get where they want to go as fast as possible. Because time is precious, they tend to be surgical shoppers. To capture them, you must make shopping easy, quick and convenient.

Where do you reach fast forwards? They read more business magazines than any other groups. Good bets are *The Economist*, *The Wall Street Journal*, *Business Week*, and *The Industry Standard*. They can also be found at Web sites like the *New York Times* and *Business Week*. They also frequently search sites like Yahoo and Excite. From there they go directly to the Web sites of companies whose products they want. Don't bother with television; this group makes up just 10 percent of the overall audience during prime time.

New Age Nurturers

New age nurturers tend to focus their lives and con-

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Reaching Early Adopters

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sumption patterns on personal affiliations. They tend to live in family households, and are more often female than other early adopters. They form the affluent center of the baby-boom generation, and tend to live near cities in suburbs. Companies need to reach this group because they are likely to become opinion leaders for the mainstream. New Age Nurturers are responsible for trends like sports utility vehicles, all-cotton clothing, fresher foods at the supermarket and baby joggers. Very simply, their tastes set trends. Getting them to shop online at your site is therefore extremely important.

Companies who make a bad online impression with this group risk more than turning them away from those Web sites; they also risk losing them as bricks and mortar customers. Don't neglect the needs of family-oriented early adopters. Companies who want to keep them must direct them from traditional outlets onto the Web, and once they get there, make sure the experience is a great one.

Where can you reach these future decision makers? By saturating the venues that attract affluent families. This includes television news magazines like *Dateline*, *60 Minutes*, and *20/20*, as well as children's shows. It also means reaching them directly through magazines targeting women, teens, children and parents. Any advertising you do should direct these customers to the Web site.

Mouse Potatoes

Mouse potatoes are also well off and optimistic about technology. But where they differ is in their use of technology for fun. They frequent sports sites, visit adult entertainment venues, look up movie reviews and play online games. They are predominantly urban and male. Their income, \$59,000, is slightly lower than other early adopters, but it goes farther since they don't have a family, pay tuition, or hire babysitters. These consumers have both time and money and they're out to have fun.

Mouse potatoes are like kids in an amusement park online. They love to listen to the radio or watch television while online, and often buy on impulse. Popular purchases are books, music, videos, fashion clothing, electronics and tickets. They also buy online for convenience, so they don't have to stop the fun and go looking for mundane products like mops or garbage cans. Investments and travel also sells well online with this group.

Get their attention via television. They like sports events, hot evening dramas and movie channels. You can also reach them via *Sports Illustrated*, *Entertainment Weekly*, *People*, *Cosmopolitan* and *Vanity Fair*. They also read the Thursday weekend planner in the local paper.

Online, reach them on search engines and sites that

Getting High-Income Pessimists to Participate at Fidelity

An example of a successful Internet strategy for getting high-income pessimists online that's working is the approach Fidelity has taken. Fidelity found that its customer base was split between high-income optimists and pessimists. The optimists got online right away, but the pessimists held back. Fidelity's strategy was to generate positive word of mouth by the optimists and to make the Web site familiar.

Fidelity presents the same logo, color scheme and message whether it communicates in print, on TV or online. Peter Lynch is everywhere. Want to plan asset allocation? Click on familiar Peter Lynch. The sheer simplicity of knowing and trusting Peter Lynch, and by extension Fidelity, makes it easier for high-income pessimists to move to online investing. By being familiar, showing brand consistency, and making the site easy to use, Fidelity was able to persuade a fair number of pessimists online.

frequently update information with fresh sports scores, stock quotes and the weather. ■

The Battle for the Mainstream

Ultimately, mainstream consumers hold the fate of electronic commerce in their hands. Whether Internet shopping tops out where catalog shopping is now or grows much larger depends on the mainstream, who are 43 percent of the population and control 45 percent of the nation's spending. Mainstream customers must participate if Internet shopping is to become a widespread activity, one that appeals to more than just the technological elite. But mainstream customers face significant obstacles to shopping online. Either they are technological pessimists who don't want to go online or they lack the income to buy a PC.

Most high-income pessimists are simply apathetic about the Internet. That wouldn't matter so much if they didn't control so much spending power. This group also falls into three categories. These are:

- **Handshakers**, focused on getting ahead,
- **Traditionalists**, focused on family and community relationships, and
- **Media Junkies**, feeding an appetite for fun.

What distinguishes them from high-income optimists is that they don't see technology as a way to meet their needs. The answer will be to ease their way onto the

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The Battle for the Mainstream

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The Knot Grabs Low-Income Optimists

The bridal industry is a \$45 billion business, and the online start-up The Knot is turning it on its head. By focusing on young low-income optimists, they have managed to create a niche. They do it by offering a place where young couples can plan a wedding, register for gifts, and otherwise prepare for the big day. The biggest advantage for the couple is the gift registry, which lets them select from a wide variety of items and makes it easy for far-flung guests to get the right gift. By offering the service online, updates are fast, and returns are much lower than the standard 40 percent when a traditional department store bridal registry is used.

Internet by making it comfortable for them.

Low-Income Optimists

Also in the mainstream are a group of low-income optimists. Although at first glance they may look unimportant, look again. They may only control half a trillion in disposable income, but they are young. They may be technostrivers or fun-loving gadget grabbers who earn little because they are just starting out. They tend to be single college-educated white collar workers whose income will rise in the next few years as they advance in careers and marry to become dual-income families. Low-income optimists also include the Digital Hopefuls who are family-oriented retirees who use the Internet to stay in touch with children and grandchildren.

Winning Over the Mainstream

You can use three strategies for winning over the mainstream.

First, your company must have a single electronic system for managing customer accounts. Mainstream customers want to shop in person, on the phone, by mail, and eventually over the Internet. Passwords and account numbers must remain the same. Eventually, as happened with teller machines, the mainstream will realize the electronic channel works and will adopt it.

Second, make your service consistent. The Gap is the Gap for mainstream customers, whether it's at the mall or on the Internet. Don't separate the two. Eventually, people will expect to go online and buy an item at lunch and pick it up in the store on their way home.

Third, make advertising work for you. A classic example is garden.com, which must reach high-income pessimists who garden. They introduced a print magazine, *Garden Escape*, which included a shopping list, an 800 number, and the Web site address where consumers can buy the plants and tools they need. ■

Avoiding the Laggard Trap

When it comes to joining the online competition, the largest consumer companies face a strategic dilemma. Because their customer base often resembles the general population, they serve a large number of mainstream and laggard consumers. As a result, they don't know how soon or how much the Internet will matter. This is the Laggard Trap, where traditional companies become paralyzed by late adopters in their customer base. If your company provides basic necessities, you risk falling into the trap.

Laggard consumers cannot afford technology. With a median income of less than \$20,000, these consumers would have to spend 5 percent of their income in order to buy a PC. And unlike low-income optimists, these pessimists don't have access to technology at work either. They are gas station attendants, clerks, aides, road repair workers or retired.

What can your company do if there are lots of laggards in your customer base? You must match your Internet strategy to the mainstream customers you do have, and hope that as time marches on they will drag the Laggards along. Here's how one company, Fingerhut, did it.

Targeting Optimists at Fingerhut

Fingerhut is a \$1.6 billion dollar company selling housewares and clothing to moderate-income consumers through 25 different catalogs. But a quarter of their customers are Laggards. Instead of deciding not to get on the Internet at all, Fingerhut is concentrating on the part of its customer base likely to be online now: low-income optimists. These fall into three categories — the Gadget Grabbers, the Digital Hopefuls, and the Techno-Strivers — who together make up 26 percent of Fingerhut's consumer base.

To target them, the company set up new Internet companies serving the needs of upwardly mobile young consumers. The Network Zone targets skiers, rock climbers and outdoor photographers. FreeShop lists free offers and trial incentives, and Andysauctions.com liquidates inventories of clothing and household goods. Finally, Fingerhut created thehut.com, which offers "cool stuff at low prices." These sites let the company reach more young consumers each month than if it just put its catalogs online. ■

Exploiting Internet Business Models

The first part of a company's Internet strategy is figuring out which consumers will go online and when. The second part requires companies to figure out how to exploit the new business models made possible by the Internet. The Internet has stripped away many of the barriers to competition, such as geography, lack of information, and poor communication. A new environment — Dynamic Trade — is being created.

Here's how Dynamic Trade works. As the Internet matures, consumer markets will become more fluid and responsive to changes in supply and demand. Prices will fall to their competitive point and vary more as demand shifts. Companies that fail to adjust to this reality will lose control of their prices, revenue streams and profits as more consumers shop online.

The Internet Increases Apparent Supply

When a buyer seeks a product, she is limited to the choices at hand. If she drives to the mall for a blouse, she picks one from the supply there. She could drive further to a discount store and hope to find the same blouse at 50% off, but she usually doesn't. Although the actual supply of blouses in the world is far greater, she perceives the supply at the mall as it. It's the *apparent supply*. But if she gets on the Internet, the apparent supply increases dramatically, and approaches the *actual supply*. This drives up the quantity of goods consumers can see and drives down the price. In many cases, prices on the Internet are far lower than at a retail store.

In addition, the Internet is very good at tying prices to current demand. Today, you can tell immediately what the demand is for your product, almost in real time. When shopping on the Internet reaches critical mass, current demand will be available and usable immediately. The result will be Dynamic Trade, in which supply will nearly match demand all the time. Companies will have to learn to keep pricing a live market mechanism,

Home Shopping Network Responds in Real Time

When the models (who are salespeople getting a commission) on the Home Shopping Network are on the air, they receive up-to-the-minute information about sales. As viewers call in, operators input the sales information into a computer. In turn, the information is relayed to the models/salespersons. They then respond to market demand by adjusting prices, or moving on to other items.

raising the price when demand rises and lowering it when it falls.

Dynamic Trade requires Internet businesses to scale fast. They must build up a customer base quickly and invest in technology that lets them measure and respond to consumer activities. Building a customer base means building a sales distribution channel. Internet businesses accomplish that by buying space on Internet portals like Yahoo and Excite. Another popular method is to establish affiliate networks. Amazon does this with its Associates program, whereby associates who direct a customer to Amazon get a percentage fee if the customer buys.

In addition, Internet companies have to spend on technology. The double costs of advertising and technology will mean that companies can't be profitable right away. But what happens eventually is that costs fall dramatically. Once the technology infrastructure is built, adding another customer account or product costs very little.

What Makes Internet Business Models So Difficult

Start-ups looking for venture capital must develop business plans that are inherently tough for established competitors to mimic. This usually means lower prices. But to attack an industry's pricing structure, it must change who pays for what and how. Some manage to find new revenue streams. For example, buy.com sells advertising from corporate sponsors to support its lower prices. They also offer new value for consumers. Examples include online auctions. They can also change pricing structures. For example, online auctions charge much less than a newspaper would for a classified ad, taking a cut of the sale price instead. At least three industries have seen changes brought on by new competition. These include print newspapers (who rely on classified advertisements for most of their profit), travel agents and airlines (who are battling for customers), and the brokerage business.

Creating Company Value

In the online world, it almost seems as if Internet companies are chasing every hot idea that comes along. But smart companies who want to sustain an Internet advantage would do well to take a path that allows building something unique and hard to copy. This can be done in three ways: 1) develop a brand based on consumer experiences; 2) control physical distribution; and 3) leverage consumer information.

Branding separates one product from another. On the Internet, a brand is the result of a two-way experience between customer and company. As the relationship between customers and companies develop, the customer forms a strong bond. How you respond to customers on the Internet becomes far more important than any

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Exploiting Internet Business Models

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amount of advertisement you might send their way.

To build a powerful experience you must create a Web site that is unique and memorable. If your company is a bricks and mortar store, don't make the mistake of offering just a few items online when competitors offer as many or more items online as they do in their catalogs or stores. Be sure that you respond to all e-mail and confirm orders. Finally, be sure your Internet image is consistent in print, on television, and elsewhere.

You must also control the physical distribution of your products or services. Remember that every botched delivery detracts from your brand. As the Internet matures, delivery times will shrink. When that happens, be ready to meet demand. Your best bet will be to control the delivery process. The Internet is providing opportunities for companies already adept at order fulfillment.

Finally, your company must be prepared to leverage the information you are gathering from consumers using the Internet. While companies will have to be cautious of consumers' concerns about privacy, they should work at finding ways to use the data coming their way. The key is understanding the difference between personal data and collective data. Use personal data like names, addresses and purchasing history to create a better online experience. Use collective data to assess target markets, pricing strategies and product offerings. ■

Defying the Gravity of the Old Ways of Doing Business

Companies that expect to prosper must thrive on technological change and make technological management part of their core business. Some factors that companies need to take into account include what technology customers are using to get online and to the company Web site, the market pressure to upgrade technology, and the need to integrate business planning with technology.

Knowing what technologies will be adopted by consumers is a gamble. A rule of thumb is to wait until the technology you are considering works, the cost is reasonable, and it provides clear value. In most cases, consumer companies should avoid trying to become developers of technologies, relying instead on the steady stream of innovation happening in the computer industry.

Coping with Internet Channel Conflict

Channel conflict is one of the stickiest Internet problems for traditional manufacturers to overcome. On one hand, it may be tempting to reach consumers directly via the Internet. But existing retailers and wholesalers strong-

ly object to their supplier's direct approach to sales since it leaves them out of the loop. Channel retaliation is possible and has become a reality for some companies.

Manufacturers must use a mix of push and pull to get retailers online. The push is the threat to sell directly online. Ideally, your site should target new customers your retail partners didn't have. This is exactly what Clinique, the cosmetic brand, did with its Web site. The customers who registered were either new or lapsed customers. The vast majority didn't buy online, but went to their local retail outlet instead. But the fact that customers could buy online provided a powerful incentive for retailers to enter cyberspace.

The pull comes in assistance for retailers venturing online. This can include cooperative marketing dollars or other promotions. Be sure you set standards for retailer sites so that the sites reflect well on your brand. Disqualify those that don't come on board.

Manufacturers will also need to forge relationships with new dotcom retailers. Partnerships should be developed with many online companies to guard against the possibility of one becoming the dominant retailer in its industry. Companies should also sell direct over the Internet because consumers expect it, dynamic trade offers greater benefits to direct sellers than indirect ones, and the cost reductions made possible by the Internet can only be realized by online sellers.

Funding, Organization and Leadership

If your company is like many traditional companies, getting funding and acquiring the talent needed to run a profitable online venture will be difficult. One reason is that the growth retailers are seeing on the Internet outstrips the growth their bricks and mortar counterparts are earning in the traditional retail world. For online businesses to grow 500 percent per year isn't unusual.

Having the resources to fund incredible growth and having the right people in place is crucial. In addition, leaders must be prepared to support the Internet initiatives the development group conceives. If leadership is lacking, the venture will fail, and the innovators who brought the idea to the company's attention will more likely than not take their talents to a competing dotcom.

There are three methods traditional companies can use to get on the Internet successfully. It can make a wholesale transformation from a traditional company to an Internet business, it can balance its risk by investing with venture capitalists and other companies to mitigate the effects start-up costs can have on the traditional company's bottom line, or it can set up a separate venture capital unit that will compete on equal footing with other units. All three methods work to align funding, organization and leadership. ■