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INTERNET ECONOMY AND MARKETING

1. Internet and New Economy

Internet is a fastly growing environment for communication, knowledge sharing, business, collaboration and entertainment. It has become the global force for knowledge and economic development. During the last 7 years of XXI century (2000 – 2008 years) Internet usage in the world has grown 275 % (www.internetworldstats.com/stats.htm, table 1). In April 2008 the number of people in the world, who had internet-connection and basic skills for Internet usage, exceeded 1,355 billion. That means more than 20% of the world population (6, 6 billion) is internet-connected.

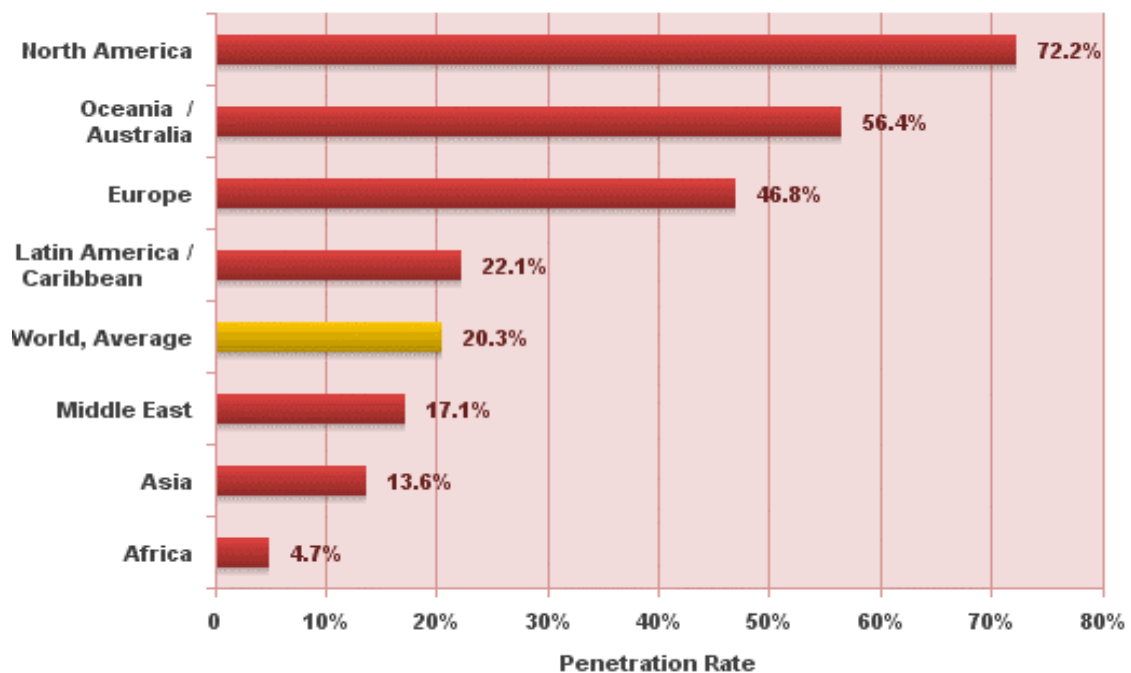
Table 1.
 Internet usage worldwide, www.internetworldstats.com/stats.htm

World Regions	Internet usage % of World, March 2008	Usage Growth 2000-2008
Africa	3.3 %	903.9 %
Asia	37.8 %	348.1 %
Europe	27.6 %	256.1 %
Middle East	2.5 %	923.7 %
North America	18.0 %	125.2 %
Latin America/Caribbean	9.4 %	603.4 %
Oceania / Australia	1.4 %	151.6 %
World Total	100.0 %	275.4 %

Ten years ago e-Bay, Google, Amazon.com, and operating in Russia Ozon were fledgling ventures, but have since gone on to become successful mainstream companies. During last few years new internet-services such as Skype, ICQ, iTunes and YouTube, have become part of the dally life for millions of people around the world. Between 2004 and 2007, the number of registered Skype users worldwide increased by over 50 times, up to 276 million (The Future of the Internet Economy, 2008).

Internet access distribution is uneven around the world (Figure 1). The more Internet penetration the more the region or country is close to new Internet economy.

World Internet Penetration Rates March 2008



Note: Penetration Rates are based on a world population of 6,676,120,288 for mid-year 2008
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Figure 1. Internet penetration, www.internetworldstats.com/stats.htm

Technology infrastructure of Internet has been fundamentally transformed in the last decade. Dial-up Internet access has given way to always-on broadband technology. Broadband technology allows intensive communications, video communications and video-conferencing. Broadband Internet can deliver major productivity gains by enabling flexible working and better use of time. Users are accessing the Internet via all manner of wireless devices, from laptops to mobile phones. Since 1993 for OECD countries communications became the fastest-growing part of household expenditure, even faster than health and education (table 2; *The Future of the Internet Economy*, 2008; p.24).

Table 2

Final consumption expenditures of households in the OECD area, %%,
1995=100%

Groups of expenditures	1997	2000	2004	2006
Communications	113	124	130	125
Health	107	112	121	125
Education	103	110	110	113
Clothing	94	85	79	77

Millions of people now use the Internet for their everyday life – for communicating and news search, for doing job and homework, for buying books, or playing or downloading games, music and movies. Daily activities, such as mailing, telephoning, shopping, playing

music and games, banking, are increasingly done online. Level of user participation and publication on Internet has increased thanks to blogs, podcasts and interactive wikis that anyone can modify. User participation is the core business idea of services for sharing photos and video clips, such as YouTube, Flickr and Daily Motion. Internet-media are often in part customer-generated media – such as CNN's I-Report and Russian Gazeta.ru. Social networking sites such as Facebook and MySpace, Bebo and Russian Odnoklassniki.ru, Vkontakte.ru represent relatively new and rapidly developing frontier of communication. In June, 2008 the largest social network MySpace counts 120 million users; Facebook – 80 million, Odnoklassniki – 18 million and Vkontakte – 13 million users. Mark Zuckerberg, who founded Facebook in 2004 with his friends, today is a youngest world's 23-year's old billionaire.

(www.integrum.com/ArticlesByCategoryPage.aspx?oid=624&tid=7).

People increase their presence in Internet. On average, 18% of all Internet users in OECD countries have created Web pages in 2007. In Korea and Iceland, one Internet user out of three has created a Web page. In Japan there were 8 million blog-writers and 35 million blog-readers in March 2007 (The Future of the Internet Economy, 2008; p.11).

Internet-based applications and technologies underlie major advances in science, mass communications, business organization, transport management, education and e-government, environmental monitoring. Internet today is critically important factor for all of these spheres. Nowadays in many countries without Internet, financial markets would not operate, planes would not fly, supermarkets would not restock, taxes would not get paid and the power grid would not balance the supply and demand for electricity.

The Internet is a growing research and educational environment. Scientists of all over the world work with global research bases such as Ebsco, ProQuest. Over 3 000 Open Courseware courses were available from over 300 universities worldwide in 2007. Among these, monthly visits to the MIT Open Courseware and affiliates' Web sites almost tripled in two years, up to 2.1 million in January 2007 (The Future of the Internet Economy, 2008; p.13). Over 20% of Internet users used the Internet for formalized education activities in 2006 in the United Kingdom, Netherlands, Turkey, Greece, Hungary.

People worldwide increasingly rely on the Internet for information, business and social activity. Whereas the Internet now connects just over a 1,3 billion people, in the future it will potentially connect many billions of objects, from refrigerators to recycling bins. Internet integrates new technologies. Radio-frequency identification (RFID) and sensor-based networks can potentially be used to track and trace everything, from what is in consumer shopping baskets to flow of goods and people and transport regulation. All of this information will be tied together by the Internet and can be used for improving supply chain and logistics management,

Contemporary world can be identified as Internet-centric. The innovation and creativity being fostered across a range of areas of social and business life is impressive. However there are the daunting challenges for privacy and security. Internet is the sphere of increasingly sophisticated and severe attacks against business, government and consumers. The examples are "botnets", which are networks of compromised computers that can be used to launch cyber attacks on other computers and networks.

Previously separate and distinct information networks (data, video, telephony) once provided critical communication functions, these infrastructures are now converging towards the Internet. These changes constantly challenge cultural, political, legal and regulatory frameworks born of a less blurry era of telecommunication and broadcasting. They disrupt and put in question many existing business models in areas such as media and content production, education and science, marketing and promotion, human resource management, engineering and design. At the same time they also create enormous opportunities for innovation and growth, as companies like Apple, eBay, Google, Salesforce.com, Electronic Arts, have all shown.

The future of the Internet is critical for policymakers too. New opportunities arise for scientific collaboration, for more efficient delivery of government services, for greater access to public sector or cultural activities. On average, over 30% of citizens in OECD countries used the Internet for interacting with public authorities in 2007. On-line tax declarations have shown a dramatic increase in France and Norway since 2004. The implications of Internet-technologies for economic and social activities have become more far-reaching and profound than many imagined possible

Internet is closely interconnected with electronic commerce. Electronic commerce (e-commerce or eCommerce), is the process of buying and selling of products or services over electronic systems such as the Internet and other computer networks. In 2006, e-commerce was above 15% of total turnover in Korea, Denmark, the United Kingdom, France and Ireland. On average, three out of four businesses with 10 or more employees in OECD countries had their own Web site in 2007. The spread of the Internet has extraordinarily increased the amount of trade conducted electronically. A growing number of businesses purchase and sell goods and services via the Internet. In 2007, on average, one third of all businesses in OECD countries with 10 or more employees used the Internet for purchasing and 17% for selling goods or services.

B2C sector of e-commerce is growing too. On average, over 25% of people in OECD buy or order goods or services over the Internet in 2007. In Japan, it was over half of all adults. On average, over 30% of people in OECD countries use banking services on the Internet. (The Future of the Internet Economy, 2008). In USA B2C e-commerce sector for 1-st quarter of 2008 was estimated as 33.795 billion dollars. It accounts 3.3% of common retail sales in the country and this share is constantly growing (<http://www.census.gov/mrts/www/data/html/08Q1.html>). According to Forrester research, in 2008 online Retail Sales are expected to reach \$204 Billion (http://www.shop.org/c/journal_articles/view_article_content?groupId=1&articleId=702&version=1.0)

E-commerce includes and influence such spheres as electronic funds transfer, supply chain management, Internet marketing, online transaction processing, electronic data interchange (EDI), inventory management systems, and automated data collection systems. A large percentage of electronic commerce is conducted entirely electronically for virtual items such as electronic subscription and access to premium content on a website, electronic books, But most electronic commerce involves the transportation of physical items (books, electronics, flowers) in some way.

Tight integration of e-commerce and Internet-technologies was the reason for new term appearance for contemporary internet-centric economy – “Internet Economy”. According to Wikipedia, “The Internet Economy refers to conducting business through markets whose infrastructure is based on the Internet and World-Wide Web. An Internet economy differs from a traditional economy in a number of ways, including: communication, market segmentation, distribution costs, and price”. Internet economy is global, it grows rapidly and challenges traditional economy institutions, national cultures, policies and law. In 2003 Global Internet economy was named a cultural and economic force that influenced the organization and institutions of countries and a world system (The Global Internet Economy, 2003, p 38).

2. Marketing in Internet Economy

Rapid changes in the ways of doing business brought new vision of marketing and of its role in business and society. These changes were reflected in definition of marketing by marketing professional community. The American Marketing Association (AMA) – is one of the largest professional associations for marketers in the world with 38 000 members

worldwide and with more than six decades of working experience. In order to reflect on the state of the marketing field, AMA revisits the definition for marketing every five years. At the beginning of 2008 year AMA unveiled new definition of Marketing. The new definition includes the role marketing plays within society at large, and marketing is presented as a broader activity, not just a management system. The new definition reads: "Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large" (www.marketingpower.com/content2653039.php). In a global Internet economy marketer has a global scale of communications and influence, tracing across geographical, national, cultural borders.

Traditional marketing-mix (4 "P") is more often realized through Internet – in part or even completely. Product can be developed using Internet infrastructure in collaborative environment of PDM and PLM systems. Pricing policy is influenced by price information widely available in Internet. Distribution chains are managed with online flow of information. Following consumer migration to Internet-media, promotion is moving online. Internet-promotion has become important for almost every marketing mix. Expenditures on Internet-advertising have been growing faster than any other. Since 2005 till 2007 there was a growth of 50%. In 2007, Internet advertising accounted for 7% of global advertising expenditure. The Internet already attracts more than 10% of advertising expenditures in Norway, Sweden and the United Kingdom (The Future of the Internet Economy, 2008).

Global internet-community of customers – is a new reality for marketing. Social network services creates multimillion communities for marketing activities. The largest social network service Facebook was launched February 2004 and in May, 2008 had over 70 million active users and around 109 million monthly visitors. "Social-networking sites have to work differently than Web-search sites to make money from advertising. "Unlike people visiting a Google or Yahoo search page, users of social-networking sites aren't there to seek out other sites or to buy things, which might make them more receptive to ads"" (Buckman and Steel, 2008).

Blog-marketing is a relatively new sphere of online marketing activity. Bloggers – a growing work force of laborers created by the global around-the-clock Internet economy that demands a constant stream of news and comment. Thousands of bloggers write for Web publishers — as employees or as contractors or have started their own online media outlets with profit in mind. " Most writers earn about \$30,000 a year starting out, and some can make as much as \$70,000. A tireless few bloggers reach six figures, and some entrepreneurs in the field have built mini-empires on the Web that are generating hundreds of thousands of dollars a month. A popular technology blog - TechCrunch (www.techcrunch.com) has brought in millions in advertising revenue" (Richtel, 2008).

3. New challenges for marketers

Global marketplace brings new challenges for marketers: internationalization of previously local markets of products, of labor, information, and technologies. Global markets mean global competition for producers and the need for marketers to compete globally. All the elements of marketing mix now are influenced with globalization trends and internet-technologies development: product, price, place, and promotion. Both external and internal marketing environment of organization are influenced by new internet-based information technologies.

Products are more often developed and designed through internet-based systems, such as PLM and PDM. Pricing policy is pressed with open competition obviously seen in Internet. Place supposed to be less important for production with remote employment and offshoring. Promotion activity moves in Internet with increasing number of internet-users

worldwide. According to Quittner (2007) money has been pouring out of print and TV and into online advertising; a \$21.4 billion business in USA expected to double by 2011.

Global internet and the universal acceptability of credit cards means that there are an increasing number of things that can be moved by business offshore - call centers, engineering plants, research and development labs, computer program coding, and day-to-day routine part of professional work (Hammersley,2005). Personal offshoring that was once the preserve of big business is now available for the individual. RentACoder.com is a global virtual meeting place for freelance coders and of customers for program coding work. Russian, Belarussian, Indian coders work there for customers from USA, UK and other countries where labor costs more. Potential customers file there a request for bids from programmers. Prospective coders view all the requests on the site, and bid for the ones that interest them. Once accepting a coder's bid, customer pays the money to the site, which places it in escrow. After work completion customer checks it and instructs the site to release the cash to coder. India is a traditional place for offshoring call-center, financial, programming services. Based in India, CareerLauncher.com, offers maths tutoring over a live web chat in internet. For between \$10 and \$40 an hour, secondary school and university students can have maths graduates tutor them over internet. Journalists offshore the less creative part of their work - transcribing the interviews, - emailing interview record, often in other country. The reason for offshore not only the lower cost but also the shortage of time and skills resources, and closeness to the market.

In Russian market of coding, design and web-design, translation, copywriting, and other services work sites – www.freelance.ru, www.free-lance.ru, www.netlancer.ru, www.webpersonal.ru, where the positions of virtual office manager or on-line retail outlet manager, remote work positions of editor, moderator, hr-manager, autodealer-manager can be found. Work-search sites – such as www.hh.ru, www.futuretoday.ru - are the virtual markets, meeting demand and supply of human resources for global companies and people working in Russia. Russian site e-generator.ru is an example of virtual marketplace where customers of creative marketing ideas and creators, copywriters and idea-generators meet each other. And www.textbroker.ru is an example of virtual exchange for copywrite services.

More and more people are working now in remote mode – web-site moderators and forum moderators, content-managers and writers, editors, translators, mediaplanners, HR-managers, researchers, stockbrokers, marketers. Some of this positions are supposed by employer to be completely remote. Intangibly and increasingly the work on many others – previously off-line - professions is performed now in remote mode. Journalists, university professors, business managers and many others work more and more through Internet.

As customers and business-processes move in Internet, marketing is becoming increasingly virtual. Internet-promotion uses new concepts and technologically leverages communication opportunities of global scale. Search, or context, internet-advertising in contrast with traditional TV-advertising can be afforded by small and medium business and even by individual entrepreneurs. Google's AdWords search advertising campaign can be launched by advertiser with a minimum budget of 5 dollars and can be addressed globally. Russian Yandex's service - Yandex-Direct is yet available for Russian-speaking part on internet-community.

One of the latest challenges for marketing efforts is agent influence through social communities and forums. Trade companies and internet-marketing agencies use such influence for promotion of their customers' brands. This kind of interactive marketing is intangible, situational and sometimes called viral marketing, or viral advertising. It demands for promoter to have good knowledge of brand, excellent communicative skills, intelligence and high reactivity as soon as promoter works in dynamic virtual reality. Search advertising in contrast with traditional TV-advertising is affordable for small and middle size business and even for individual entrepreneurs.

Internal, or intraorganisational, marketing is challenged with internet-communications too. Internal marketing mix needs to be compatible with external marketing activity. Internal communications, salaries, processes need to be perceived by employees as valuable and competitive in comparison with externally offered. Thanks to internet the boundaries between internal and external organisational environments are blurring.

Internet creates an extensive infrastructure for business processes, communications and for new internet-economy. Global internet-economy encompass previously off-line industries and markets and has created new ones. Speed and global scale in conjunction with personalisation and interactivity are obvious advantages of internet-technologies. Internet supposed to be powerful instrument for marketers in an age of globalization. At the same time it represents a great challenge for marketing activity, demanding from marketers to have a vision of new business reality, understanding and good knowledge of constantly developing internet-technologies.

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