Individual Report : Business To Customer

Maxime CHAMBREUIL

McGill ID: 260067572

maxime.chambreuil@mail.mcgill.ca

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1 Subject

What are the tangible and intangible costs of advertising on the web ? Is it profitable ?

2 Introduction

During the E-Commerce course of the Faculty of Management at McGill University, each student has the opportunity to develop a special topic of the course. I was responsible for the Business 2 Customer subject and I will develop here the tangible and intangible costs of advertising on the web to know if it is profitable. First we have to use the same meaning behind each words, that's why I will explain you the different notions useful to understand this report. Then, we will analyse the costs of web advertisement, to finally discover if it is really profitable or no.

3 Definition

The first 2 notions necessary to understand this report are the concepts of "Business 2 Customer" and "Web advertising".

3.1 Business 2 Customer

Here are some definition you can find on the web.

- Marketingterms.com: "Business that sells products or provides services to end-user consumers."

- inverstorwords.com: "A transaction that occurs between a company and a consumer, as opposed to a transaction between companies (called B2B). The term may also describe a company that provides goods or services for consumers."

We can define B2C as a relationship between 2 entities, one is a company and the other is a client or customer. The company provides something to the customer: product, solution, service, advice, help... This concept is not specific to the web and is applied to the real world too.

Different models of Business 2 Customer has been found:

- Buying at the stores: the traditionnal way to buy something.

- Mail ordering trading: Choose from a catalog, pay and order via mail.

- Click and order: Choose, pay and order from the web.

3.2 Web advertising

Web advertising can be easily defined as advertising on the web, by opposition of classical advertising: TV, newspapers, posters, etc. . . On the web there exists different form of advertising:

3.2.1 Websites

The construction of a website is the most used form for advertising products and services. That's why each company has a website to promote his core work.

The website is the last step of advertising before the customer can buy the goods or services offered. All the other type of webad oare just advertisement of websites to direct the customer to the website, which will then lead the customer to buy.

3.2.2 Banners

A banner is a clickable image. His size and format has been standardized to be easily exchanged. They appeared on different websites and attract you to click on it and go to the advertised website.

3.2.3 Platform of affiliation

"The affiliation is a concept which consists in remunerating sites supports according to the sales generated starting from advertising banners."

3.2.4 Pop-up

A pop-up is a new window containing a clickable image, which appeared in front of or behind all your windows, when you download a page or when you close a window.

3.2.5 Interstitials

The consultation of information of a site is stopped by an advertisement which occupies the totality of the screen or the window during a few seconds.

3.2.6 Advertisement during software installation

During the installation of a software, you can find advertisement that will make you wait. Moreover, many software nowadays contains a button to lead you directly to the websites of the company.

3.2.7 Links installed on your desktop

Sometimes, when you download and install a software, there is not only the desired software. You can also find a short program, which will install links on your desktop. Those links lead you directly to different websites.

3.2.8 Mailing lists and spamming

It's easy to retrieve e-mail adresses on the web and build an e-mail database to spread different announcements. This type of advertisement is similar as ad you can find in your mailbox. On the web, this process is much more easier and free of charge, but there is a problem of privacy. That's why the spam is illegal in Europe from fall 2002.

3.2.9 Referencing on search engines

There are 2 types of search engines: those which index the web (Ex: Google) and those with directories (Ex: Yahoo). With the former, you don't need to do anything, it parses your website and indexes it automatically. Concerning the latter, you need to add your website in the corresponding heading and you may have to pay for that.

Now that we have all the necessary background, we can think about the costs of advertising on the web.

4   Webad costs

As a general answer in managament, the costs of the project will depend on many thing: the organisation of the company, the internet culture of the company, the targeted market, the goal of advertising on the web, what we will advertise, how we will advertised it, what we want the customer to do (go to the store or to the website)... That is why we will assume that the company is a manufacturer that has nothing to do with internet and discover that his client can also be found on the internet. The top management has therefore decided to advertise his products on this new media.

The classification between tangible and intangible costs are mostly due to the consideration of the time: Tangible costs will mainly refer to the direct costs, the funds that will be necessary during the first days, weeks and months. By intangible, we will think of a more long term basis costs, that will mostly be due to the use of the budget during the first period of the project.

4.1   Tangible costs

4.1.1   A short example

Let us imagine that you are in charge of the project and responsible for determining the strategy and the budget. Assume that you are alone with your desktop and you have a few experience in webad. Your first idea is to build a website to describe all the products.

Note that advertising a website is the most popular ad that you can find on internet. Banners and pop-up are mostly linked to the website, instead of being only an image promoting your product, with your phone number or address on it. I have never met this kind of advertisement, but it is completely possible.

Once you have decided to build a website, you will need the help of an IT consultant to make the right choice. He/She is going to tell you that you need:

- an ISP for your new internet connection

- some machines to protect your network, to host your web server, to keep your database, etc...

- persons to develop and maintain your website: developers, web and database administrators, web designers, etc...

- rooms for this people and the equipment

Once your website is created and generates some traffic. You will reference it on some search engine. You may need to pay a subscription for some of them. Then you will negociate banners with widely visited websites and business-related websites to redirect some users to your website.

Now that you have more traffic, you can know which people visit your website, what for, how many, etc... and build a database of your visitors to present the most relevant information to each specific user. To do that you may need to buy some data-mining software to give a real value to your data, and a specific person might be required to do that.

To conclude our example, you have noticed that the direct cost ares incredible. You have so many things to set up before being operational, and even after you need to invest more to give a real interest to what you did.

4.1.2 Invoicing

Like classical advertising, there are different types of invoicing webad:

As for displaying banners, they can be sold for a defined duration, at a CPM rate or at a click rate. CPM stands for "Cost Per Thousand Impressions. An impression occurs when a visitor to a Web site views a page where an ad is displayed, whether the add is seen or not". This is the most widely used means of invoicing a banner on the internet. You can also negociate the displaying of your banners on partner websites.

Pop-up windows and interstitials should be also negociated and depend on your parternship.

Referencing your websites on search engine depend on the search engine: you have to pay for some of them, some are free but you have to subscribe, and some like Google (most widely used) where you don't need to do anything: his robots is going to parse your site and reference it.
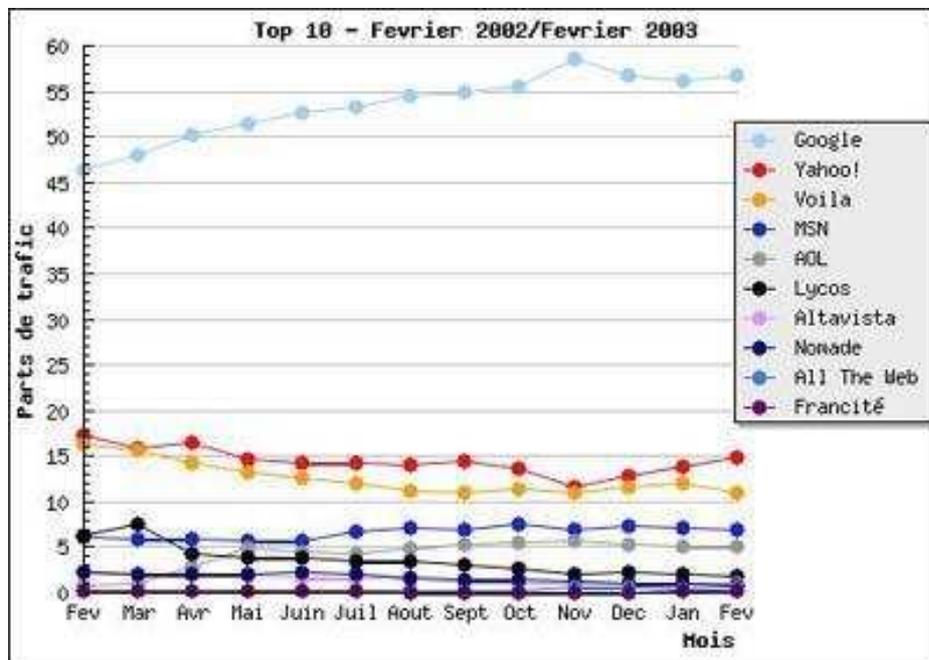

Figure 1: Search engine use in % (source: http://www.adpub.be)

4.2 Intangible costs

Concerning intangible costs, they are mostly due to mistakes in the choice of the technology, organisation and architecture.

For example, your website is not visited and you are paying your ISP a broadband connection that you don't use at the maximum, you have deployed an architecture which is not flexible and is expensive to maintain.

On the other hand, you have generated a lot of traffic and your hardware and software cannot support the visiting rate, your architecture cannot support the load, and your website is not available many times a week.

These kind of problem are pretty expensive to solve. You need to totally rethink your strategy and your organisation. As you have chosen your solution, you will need to consider the migration from your current solution to the new one. This migration will lead to new costs. Migrating and changing does not happen without unpredictable costs.

5 Profitability

In general, it is hard to say that advertising is profitable. By definition, it is a loss, an investment to go to the customer, to lead him to buy our products. Advertising is a bet of the customer response.

I would personaly say that it is profitable, when we are not surprised by the result. If the response of the customer is incredibly low or high, it costs to the company. The organisation is not optimized to meet the customer requirement. The profitability is an equilibrium between the webad investment and the sales increase.

On the next table, you will have an idea on how much to spend depending on the percentage of people surfing the internet you want to reach (source: Carat Expert):

Budget	Min coverage	Max coverage
150 000 $ CAD	10 %	16 %
300 000 $ CAD	20 %	33 %
600 000 $ CAD	40 %	60 %
750 000 $ CAD	50 %	83 %

I won't give any more figures and prices as they may change in a month.

6 Conclusion

To conclude, we have seen that there are many possibilities for advertising on the web. Each of them requires different investment and has a different return. You can also use many different combination of them to reach your targeted market.

The choice of webad tools really depends on your budget, your strategy and the response you want to get. I hope you now have an idea of how importance it is to predict the market response to make your personal right choice, to adjust your budget in function of your objectives and invest the optimum amount of money to reach your customers and potentials ones.

Webad is really profitable if you succeed in this prediction, if you do the right choice concerning tools of webad and if your organisation around your website is flexible to the market change.

In the near future, new means of webad will appear or has already appeared: ad on your cell phone or PDA, TV and his ad will soon appear on the web, screen ad during the boot of your machine. . . With house automation and context aware, there will be new media to advertise based on the internet. They might be expensive at the beginning but they will help you to be closer to your customer and personalize your offer to generate a maximum profit.

I would like to add that I learnt great things doing this report: I am commonly using internet and I was not aware of this commercial use of the web. I wish I had more than 2 weeks to go deeper in the subject and its analysis.

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