



E-commerce

business. technology. society.

Third Edition

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Chapter 7

E-commerce Marketing Concepts

NetFlix Develops and Defends Its Brand

Class Discussion

- What was NetFlix's first business model? Why did this model not work and what new model did it develop?
- Why is NetFlix attractive to customers?
- How does NetFlix distribute its videos?
- What is NetFlix's "recommender system?"
- How does NetFlix use data mining?
- Is video on demand a threat to NetFlix?

Consumers Online: The Internet Audience and Consumer Behavior

- Around 175 million Americans (67% of total population) had Internet access in 2005
- Growth rate has slowed
- Intensity and scope of use both increasing

Internet Audience and Consumer Behavior

- Some demographic groups have much higher percentages of online usage than other groups
- Demographics to examine include:
 - Gender
 - Age
 - Ethnicity
 - Community Type
 - Income
 - Education

Type of Internet Connection: Broadband Impacts

- 52 million Americans had broadband access by end of 2005
- Broadband audience quite different from dial-up audience:
 - Wealthier
 - More educated
 - More middle-aged
 - Greater intensity and scope of use

Lifestyle Impacts

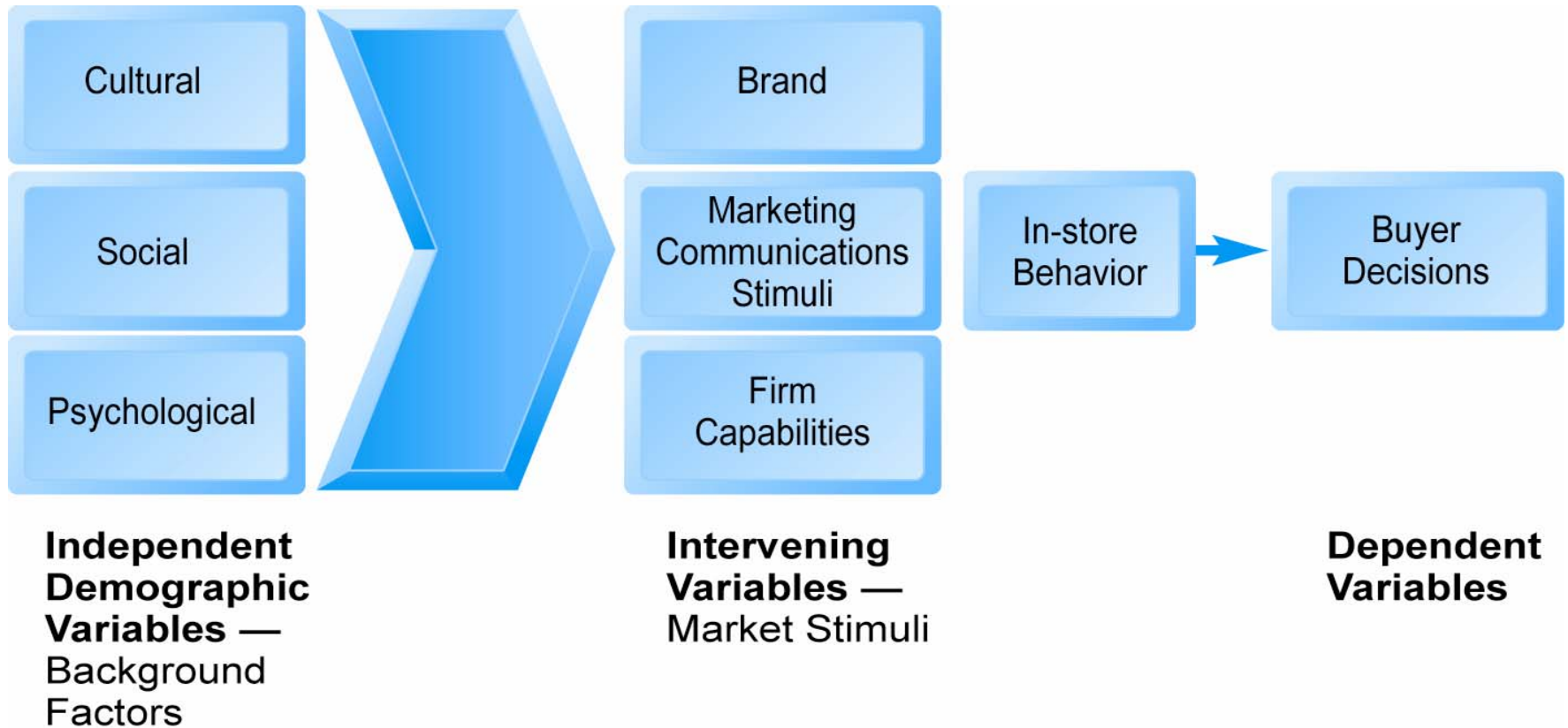
- Intense Internet usage may cause a decline in traditional social activities
- Social development of children using Internet intensively instead of engaging in face-to-face interactions or undirected play may also be negatively impacted
- The more time people spend on the Internet, the less time spent using traditional media

Consumer Behavior Models

- Attempt to predict/explain what consumers purchase and where, when, how much and why they buy.
- Consumer behavior models based on background demographic factors and other intervening, more immediate variables

A General Model of Consumer Behavior

Figure 7.1, Page 367



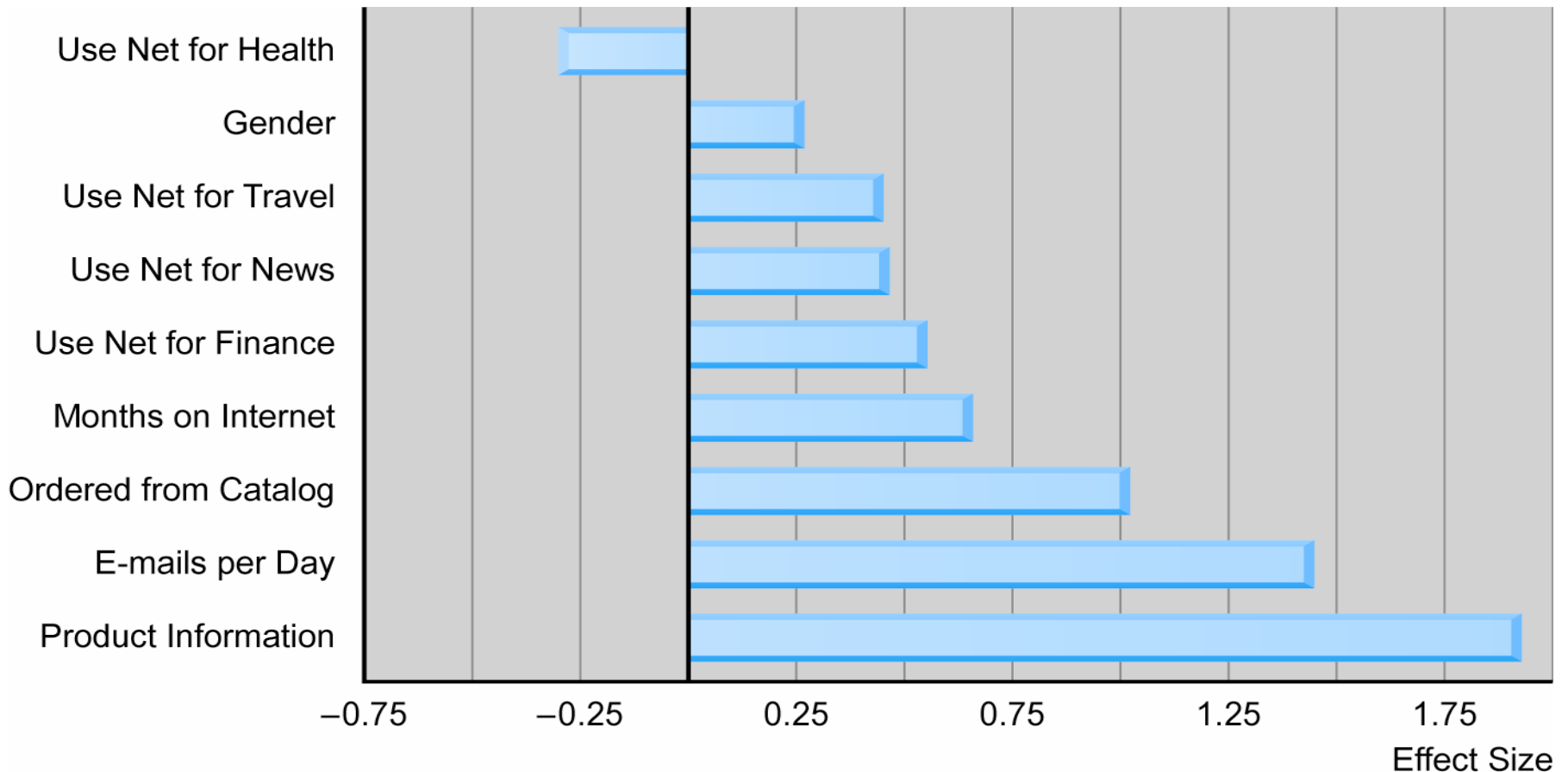
SOURCE: Adapted from Kotler and Armstrong, 2006.

Background Demographic Factors

- Cultural
 - Culture and subculture
- Social
 - Reference groups
 - Direct
 - Indirect
 - Opinion leaders (viral influencers)
 - Lifestyle groups
- Psychological
 - Psychological profiles

Factors That Predict Online Buying Behavior

Figure 7.2, Page 371



SOURCE: Lohse Bellman, and Johnson, 2000.

The Purchasing Decision

- Five stages in the consumer decision process:
 - Awareness of need
 - Search for more information
 - Evaluation of alternatives
 - Actual purchase decision
 - Post-purchase contact with firm

The Consumer Decision Process and Supporting Communications

Figure 7.3, Page 371

MARKET COMMUNICATIONS	Awareness— Need Recognition	Search	Evaluation of Alternatives	Purchase	Post-purchase Behavior— Loyalty
Offline Communications	Mass media TV, Radio Print media	Catalogs Print ads Mass media Sales people Product raters Store visits	Reference groups Opinion leaders Mass media Product raters Store visits	Promotions Direct mail Mass media Print media	Warranties Service calls Parts and Repair Consumer groups
Online Communications	Targeted banner ads Interstitials Targeted event promotions	Search engines Online catalogs Site visits Targeted e-mail	Search engines Online catalogs Site visits Product reviews User evaluations	Online promotions Lotteries Discounts Targeted e-mail	Communities of consumption Newsletters Customer e-mail Online updates

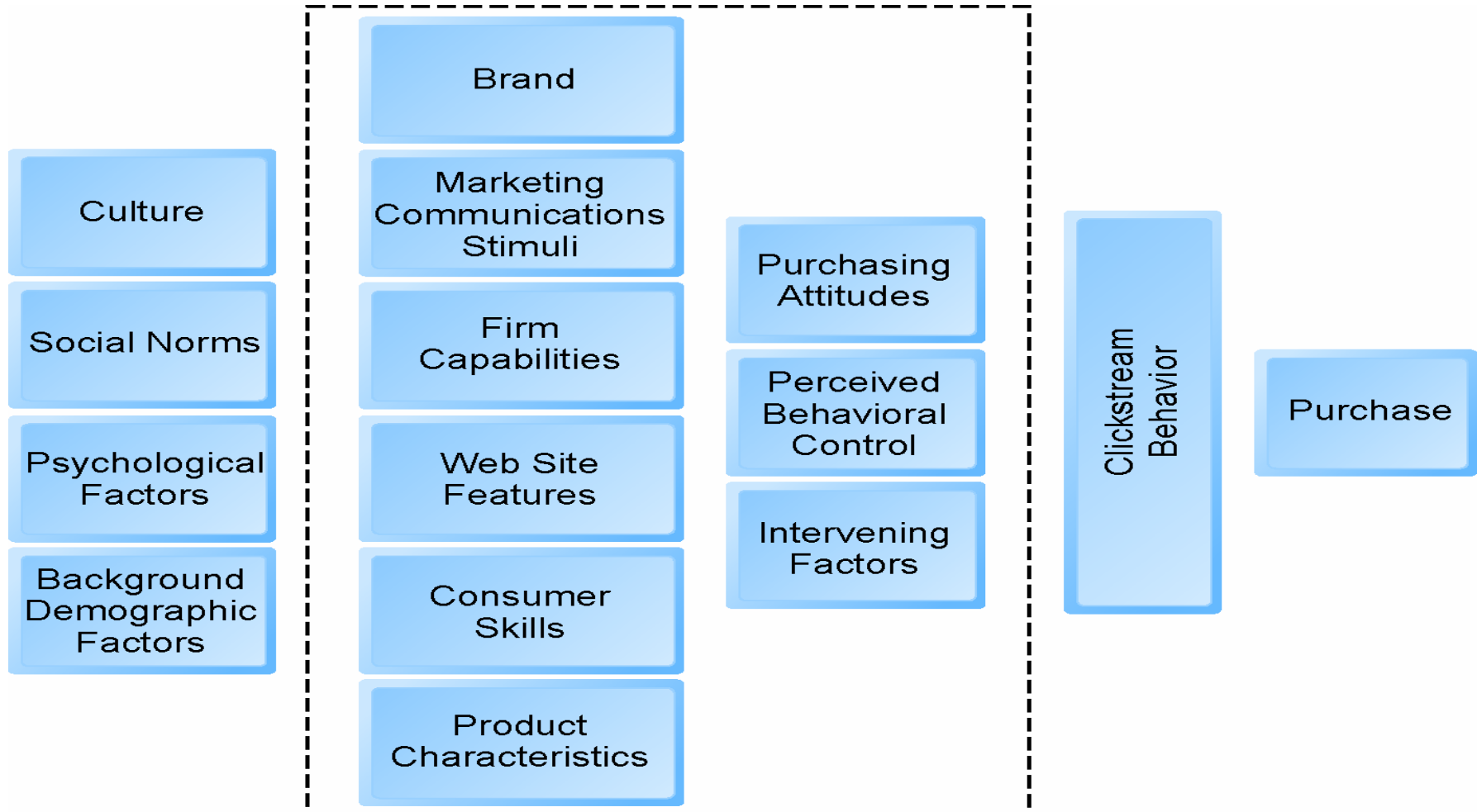


A Model of Online Consumer Behavior

- Adds two new factors:
 - Web site capabilities
 - Consumer clickstream behavior

A Model of Online Consumer Behavior

Figure 7.4, Page 372

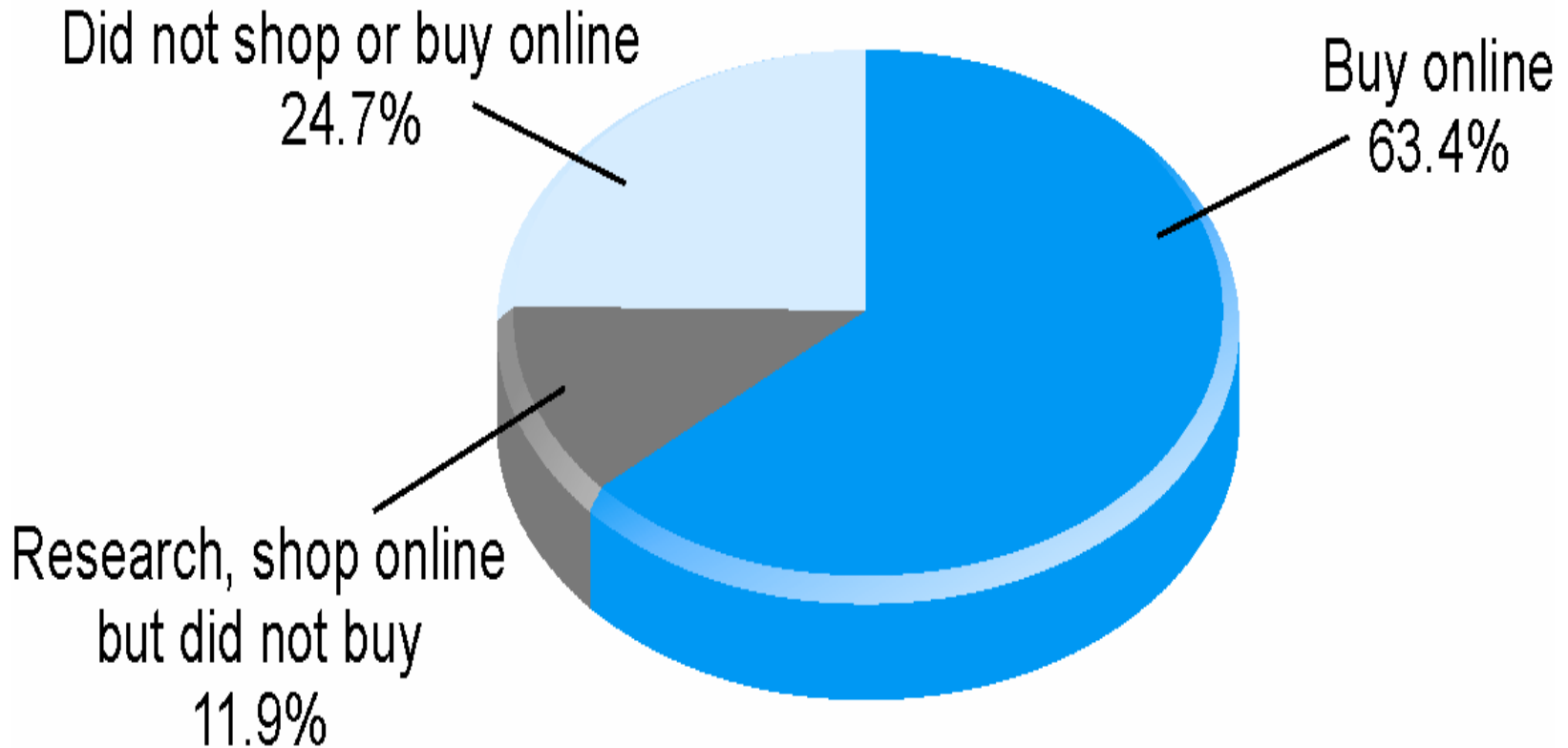


Shoppers: Browsers and Buyers

- About 63% of online users purchase online; an additional 12% research online, but purchase offline
- Significance of online browsing for offline purchasing and vice versa should not be underestimated
- E-commerce and traditional commerce are coupled and should be viewed by merchants and researchers as part of a continuum of consuming behavior

Online Shoppers and Buyers

Figure 7.5, Page 375



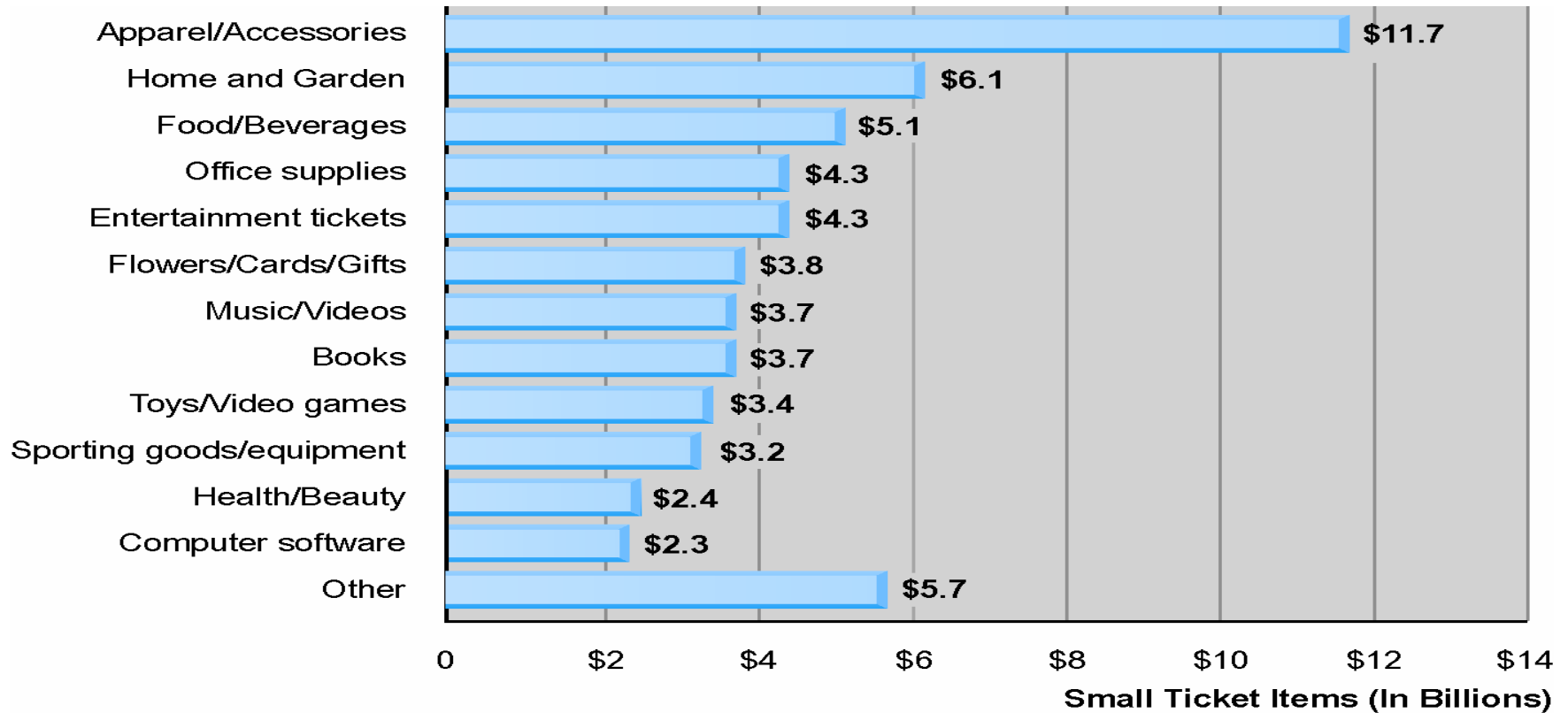
SOURCE: Based on data from eMarketer, Inc., 2005a; Shop.org, 2005; authors' estimates.

What Consumers Shop for and Buy Online

- Online sales divided roughly into small ticket and big ticket items
 - Top small ticket categories (apparel, books, office supplies, software, etc.) have similar characteristics—sold by first movers, small purchase price, physically small, high margin items, broad selection of products available
 - Purchases of big ticket items (travel, computer hardware, consumer electronics) expanding

What Consumers Buy Online—Small Ticket Items

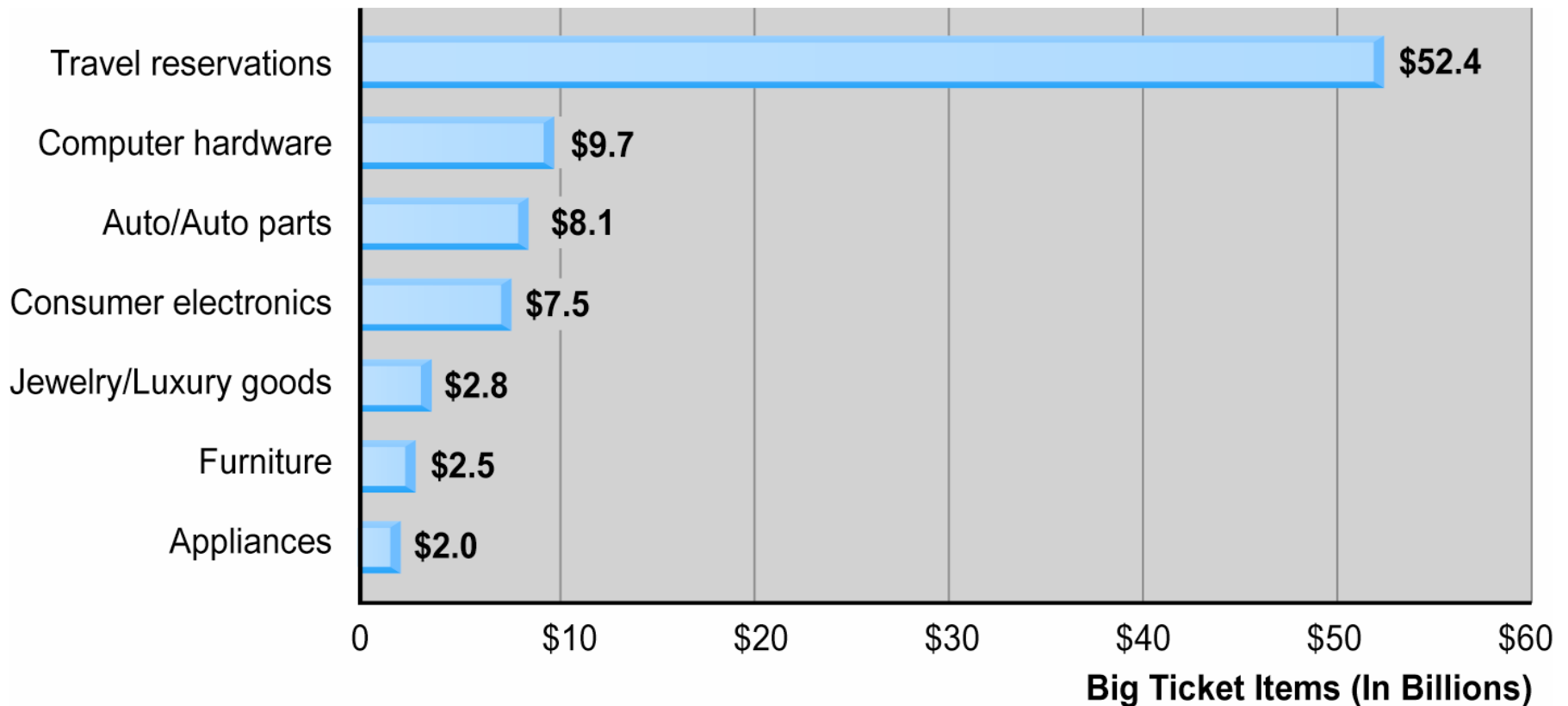
Figure 7.6, Page 376



SOURCE: Based on data from eMarketer, Inc., 2004b.

What Consumers Buy Online—Large Ticket Items

Figure 7.6, Page 376



SOURCE: Based on data from eMarketer, Inc., 2004b.

Intentional Acts: How Shoppers Find Vendors Online

- Over 85% of shoppers find vendor sites by typing product or store/brand name into search engine or going directly to the site
- Most online shoppers plan to purchase product within a week, either online or at a store
- Most online shoppers have a specific item in mind

Why More People Don't Shop Online

- Major online buying concerns:
 - Security
 - Privacy
 - Shipping costs
 - Return policy
 - Product availability
 - Shipping issues/delays

Trust, Utility, and Opportunism in Online Markets

- Trust and utility among the most important factors shaping decision to purchase online
- Consumers are looking for utility (better prices, convenience)
- Asymmetry of information can lead to opportunistic behavior by sellers
- Consumers also need to trust merchants before willing to purchase
- Sellers can develop trust by building strong reputations for honesty, fairness, delivery

Basic Marketing Concepts

- Marketing: The strategies and actions firms take to establish a relationship with a consumer and encourage purchases of products and services
- Internet marketing: Using the Web, as well as traditional channels, to develop a positive, long-term relationship with customers, thereby creating competitive advantage for the firm by allowing it to charge a higher price for products or services than its competitors can charge

Basic Marketing Concepts (cont'd)

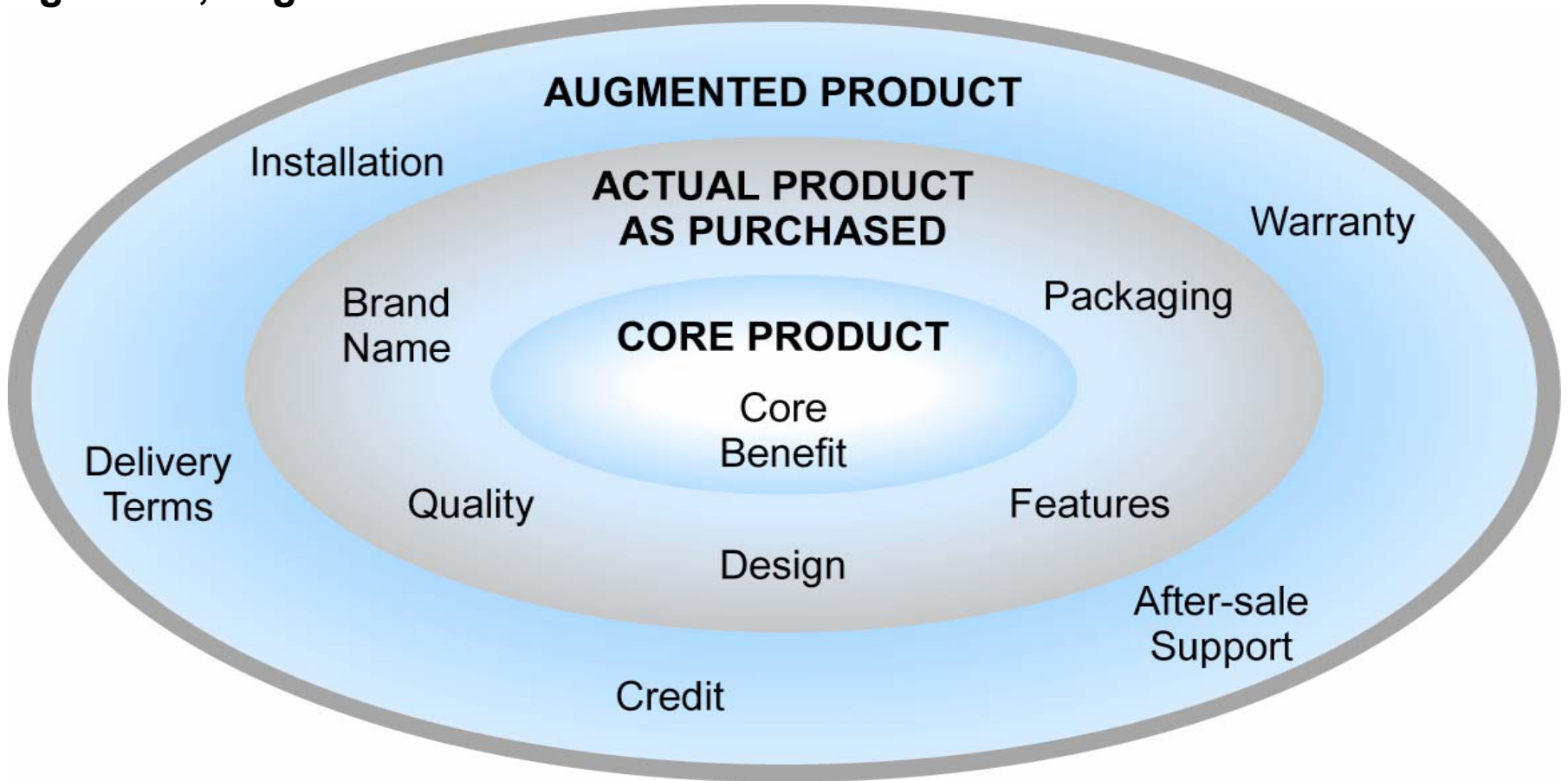
- Firms within an industry compete with one another on four dimensions:
 - Differentiation
 - Cost
 - Focus
 - Scope
- Marketing seeks to create unique, highly differentiated products or services that are produced or supplied by one trusted firm (“little monopolies”)

Feature Sets

- Defines as the bundle of capabilities and services offered by the product or service
- Includes:
 - Core product
 - Actual product
 - Augmented product

Feature Set

Figure 7.7, Page 379



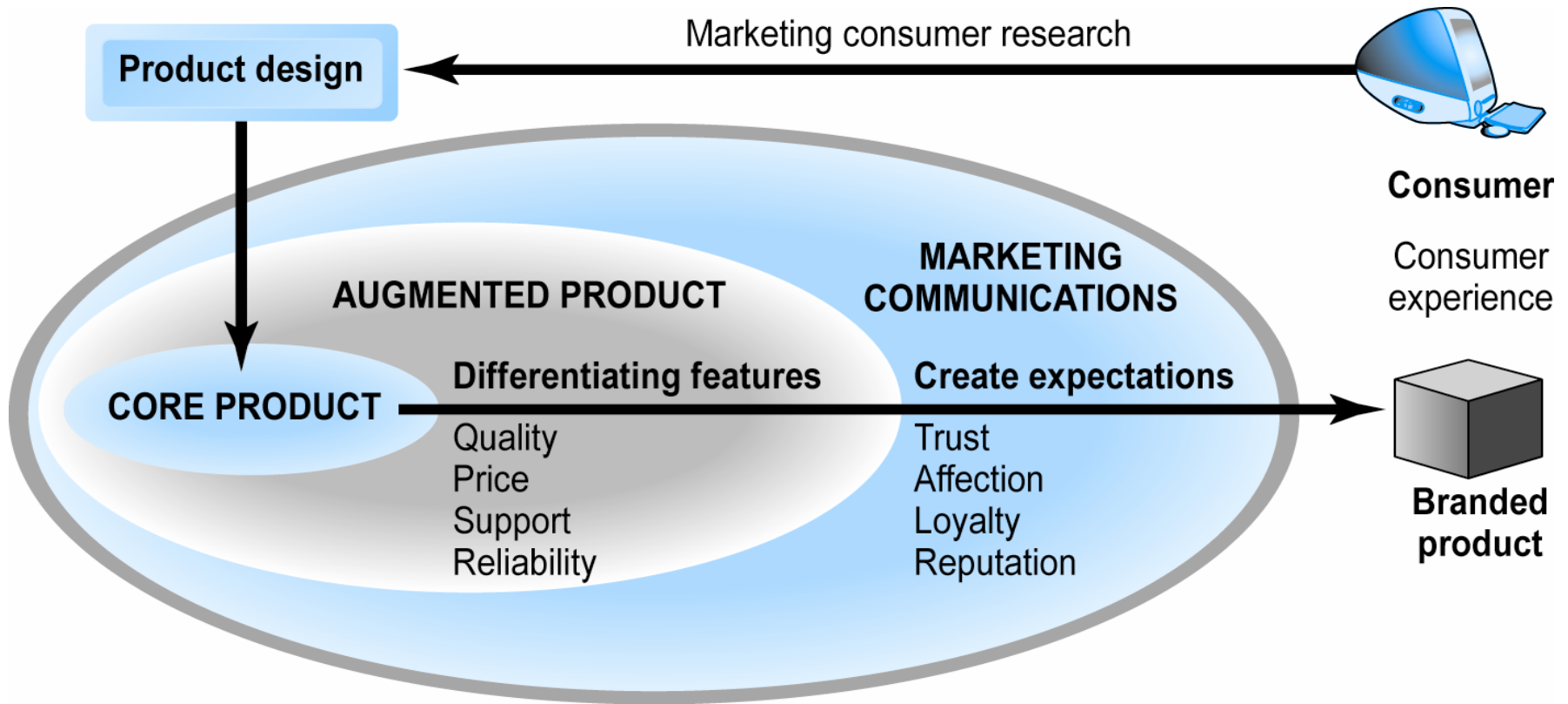
SOURCE: Kotler and Armstrong, 2006.

Products, Brands and the Branding Process

- Brand: A set of expectations that consumers have when consuming, or thinking about consuming, a product or service from a specific company
- Branding: The process of brand creation
- Closed loop marketing: When marketers are able to directly influence the design of the core product based on market research and feedback
 - E-commerce enhances the ability to achieve
- Brand strategy: Set of plans for differentiating a product from its competitor, and communicating these differences to the marketplace
- Brand equity: estimated value of the premium customers are willing to pay for a branded product versus unbranded competitor

Marketing Activities: From Products to Brands

Figure 7.8, Page 381



Are Brands Rational?

- For consumers, a qualified yes:
 - Brands introduce market efficiency by reducing search and decision-making costs
- For business firms, a definite yes:
 - Brands lower customer acquisition cost
 - Brands increase customer retention
 - Successful brand constitutes a long-lasting (although not necessarily permanent) unfair competitive advantage

Can Brands Survive the Internet? Brands and Price Dispersion

- Researchers initially postulated that Web would result in “Law of One Price”
 - Did not occur, and e-commerce firms continue to rely heavily on brands to attract customers and charge premium prices
- Price dispersion – the difference between the highest and lowest prices in a market
- Research evidence indicates that brands are alive and well on the Internet, and that consumers are willing to pay premium prices for products and services they view as differentiated

Internet Marketing Technologies

- Web transaction logs
- Cookies and Web bugs
- Databases, data warehouses, and data mining
- Advertising networks
- Customer relationship management (CRM) systems

The Revolution in Internet Marketing Technologies

- Three broad impacts:
 - Internet has broadened the scope of marketing communications
 - Internet has increased the richness of marketing communications
 - Internet has greatly expanded the information intensity of the marketplace

Web Transaction Logs

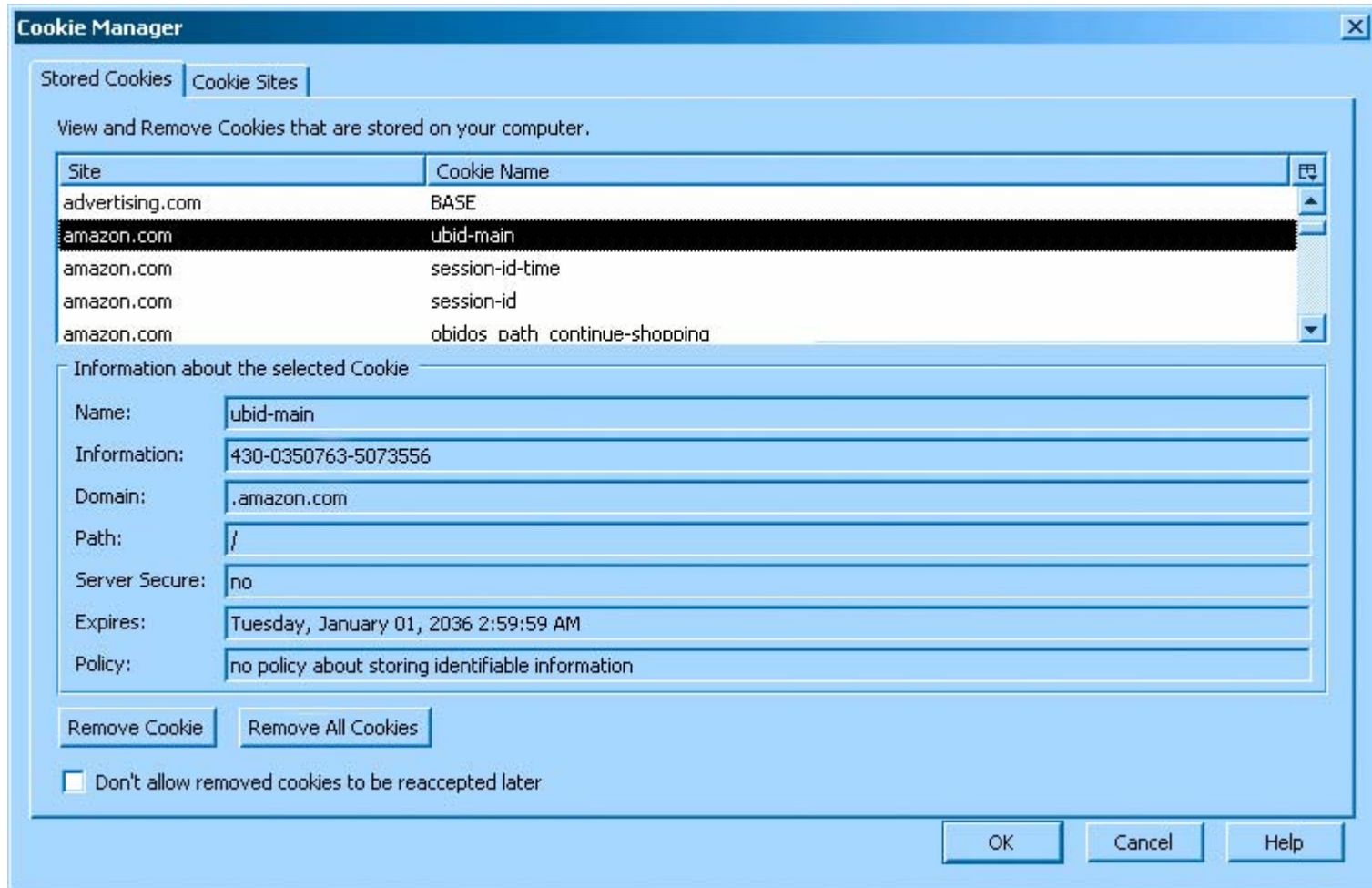
- Built into Web server software
- Records user activity at a Web site
- WebTrends a leading log analysis tool
- Can provide treasure trove of marketing information, particularly when combined with:
 - Registration forms
 - Shopping cart database

Cookies

- Small text file that Web sites place on a visitor's client computer every time they visit, and during the visit as specific pages are accessed
- Cookies provide Web marketers with a very quick means of identifying the customer and understanding his or her prior behavior
- Location of cookie files on computer depends on browser version

Netscape Cookie Manager

Figure 7.11, Page 391



Web Bugs

- Tiny (1 pixel) graphic files embedded in e-mail messages and on Web sites
- Used to automatically transmit information about the user and the page being viewed to a monitoring server

Insight on Society: Should Web Bugs Be Regulated?

Class Discussion

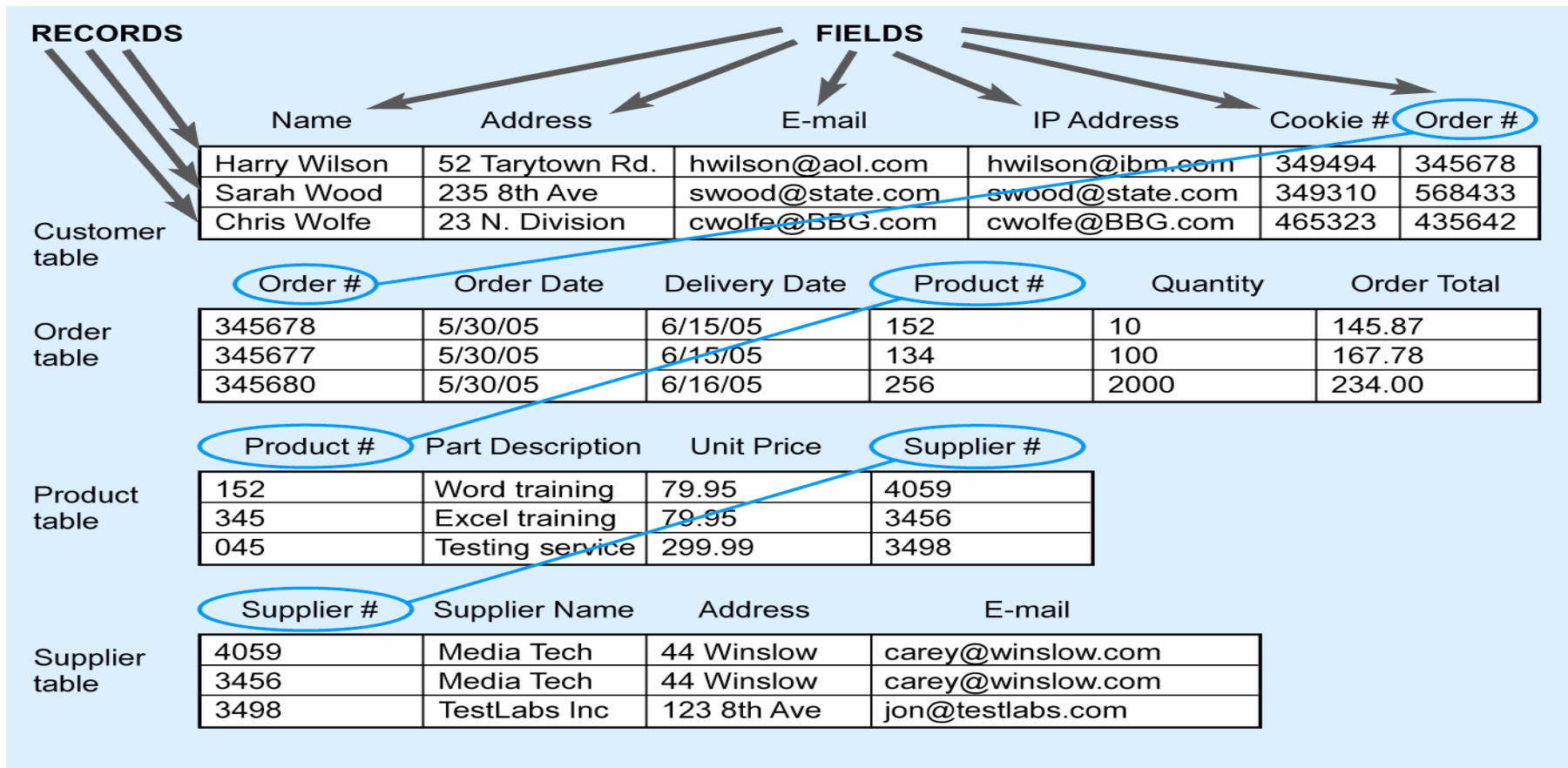
- Are Web bugs innocuous? Or are they an invasion of personal privacy?
- Do you think your Web browsing should be known to marketers?
- What are the different types of Web bugs?
- What are the Privacy Foundation guidelines for Web bugs?
- What protections are available?

Databases and Data Warehouses

- Database: Software that stores records and attributes
- Database management system (DBMS): Software used to create, maintain, and access databases
- SQL (Structured Query Language): Industry-standard database query and manipulation language used in a relational database
- Relational database: Represents data as two-dimensional tables with records organized in rows and attributes in columns; data within different tables can be flexibly related as long as the tables share a common data element
- Data warehouse: Database that collects a firm's transactional and customer data in a single location for offline analysis by marketers and site managers

A Relational Database View of E-commerce Customers

Figure 7.12, Page 395

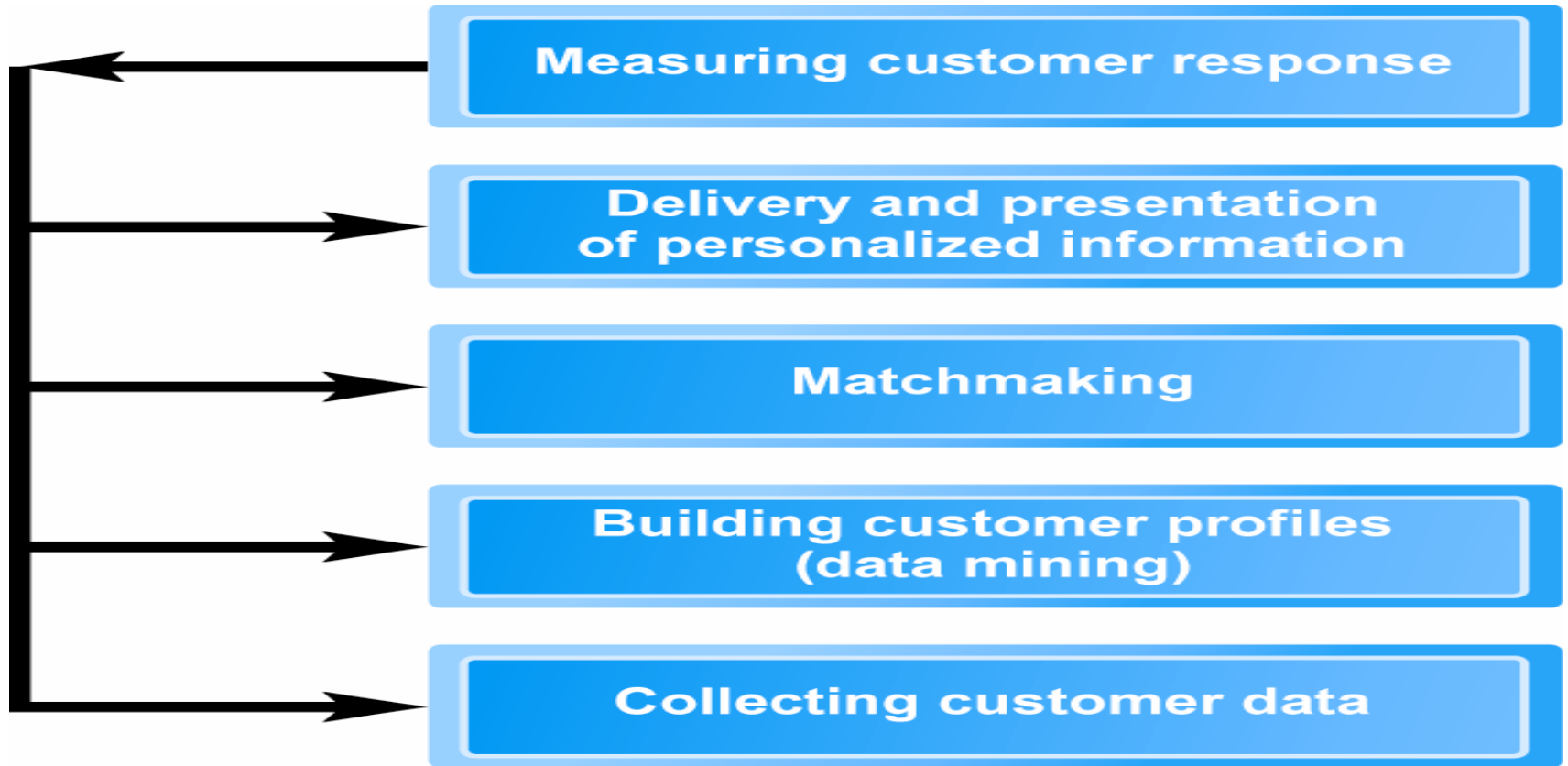


Data Mining

- Set of analytical techniques that look for patterns in data of a database or data warehouse, or seek to model the behavior of customers
- Types include:
 - Query-driven
 - Model-driven
 - Rule-based
 - Collaborative filtering

Data Mining and Personalization

Figure 7.13, Page 397



SOURCE: Adomavicius and Tuzhilin, 2001b ©2001 IEEE.

Insight on Technology: The Long Tail: Collaborative Filtering and Recommender Systems

Class Discussion

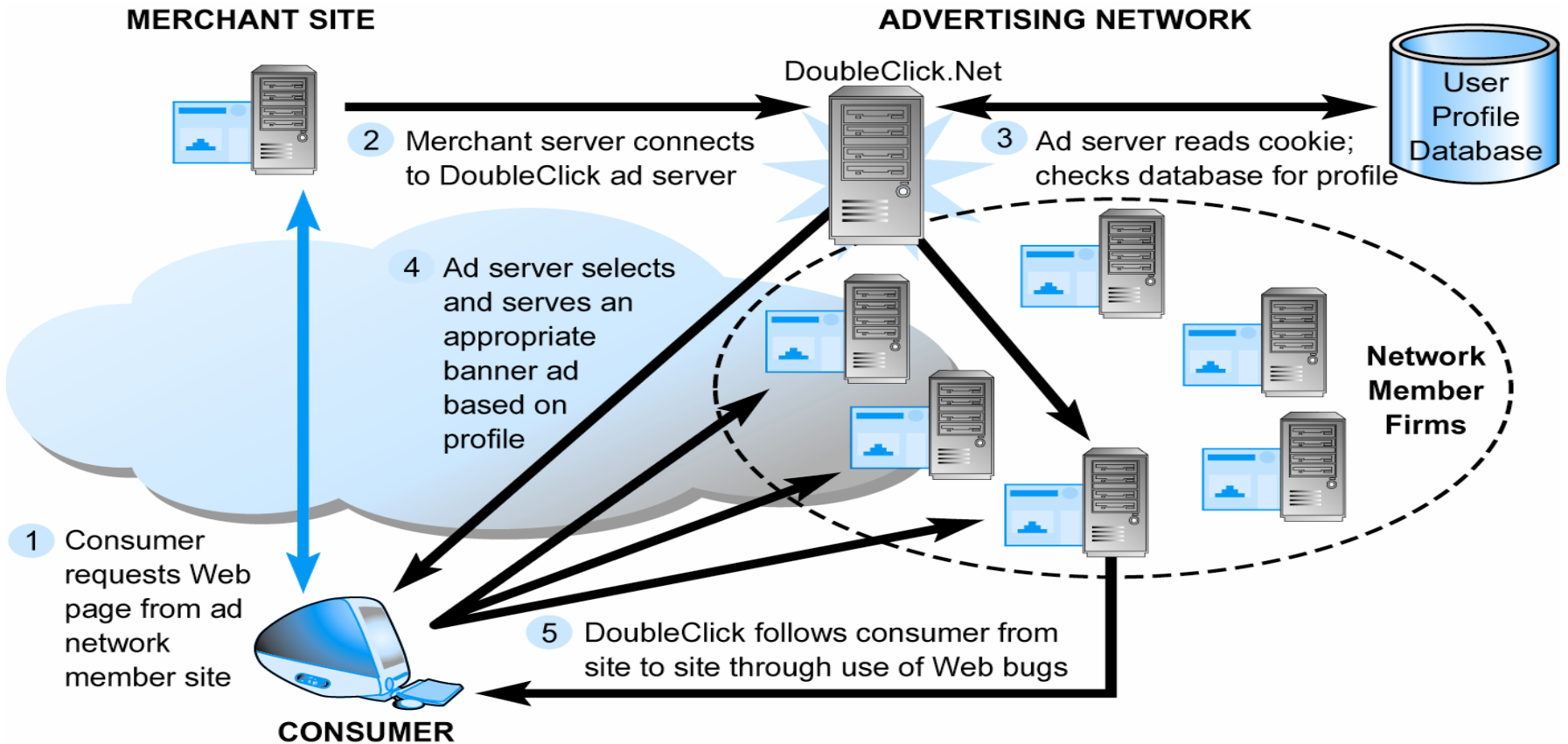
- What are “recommender systems.” Give an example you have used.
- What is “collaborative filtering?”
- What is the “long tail” and how do recommender systems support sales of items in the tail?
- What are some of the reasons that collaborative filtering fails?
- How can human editors, including consumers, make recommender systems more helpful?

Advertising Networks

- Best known for ability to present users with banner advertisements based on a database of user behavioral data
- DoubleClick best-known example
- Ad server selects appropriate banner ad based on cookies, Web bugs, backend user profile databases

How an Advertising Network such as DoubleClick Works

Figure 7.14, Page 401

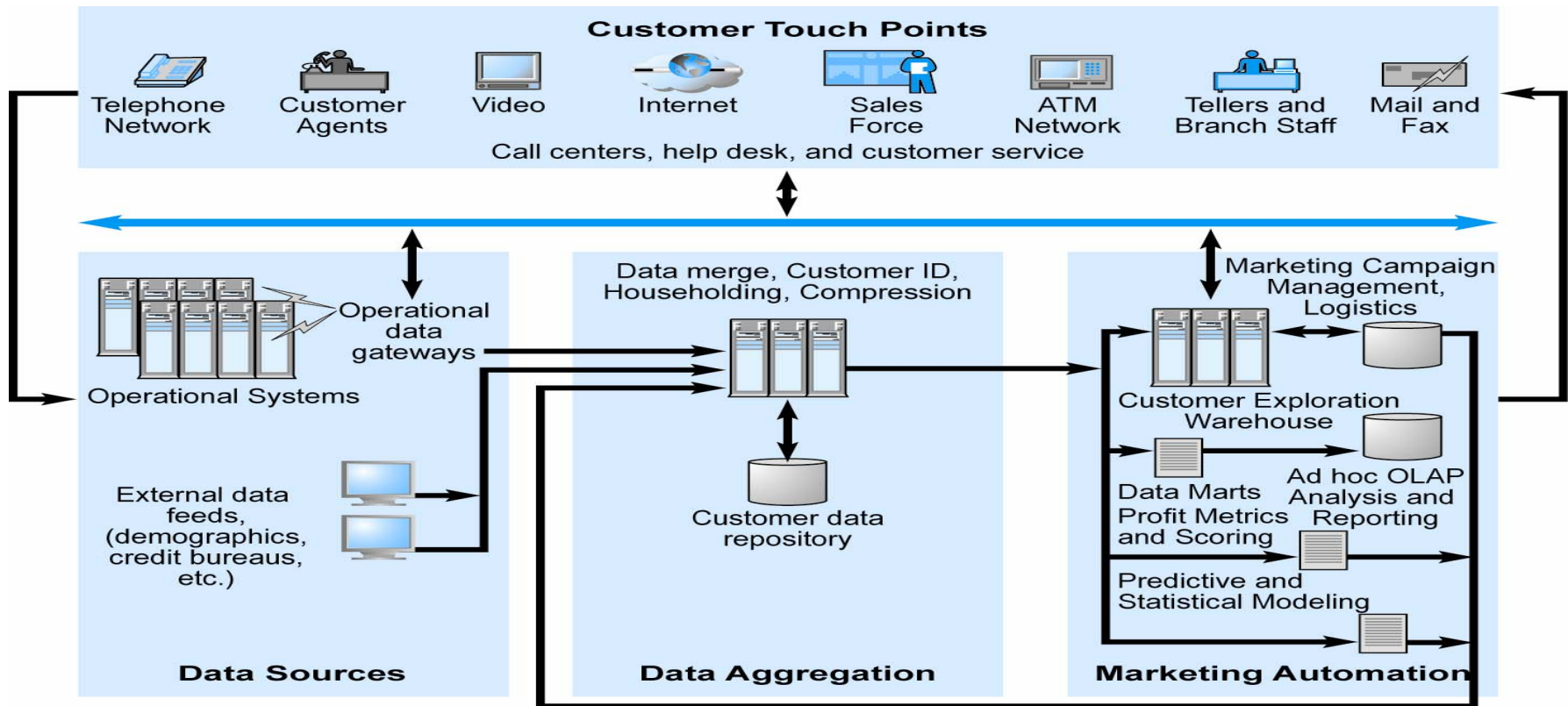


Customer Relationship Management (CRM) Systems

- Repository of customer information that records all of the contacts that a customer has with a firm and generates a customer profile available to everyone in the firm with a need to “know the customer”
- Customer profiles can contain:
 - Map of the customer’s relationship with the firm
 - Product and usage summary data
 - Demographic and psychographic data
 - Profitability measures
 - Contact history
 - Marketing and sales information

A Customer Relationship Management System

Figure 7.15, Page 403



SOURCE: Compaq, 1998.

Market Entry Strategies

- For new firms:
 - Pure clicks/first mover
 - Mixed “clicks and bricks”/alliances
- For existing firms:
 - Pure clicks/fast follower
 - Mixed “bricks and clicks”/brand extensions

Generic Market Entry Strategies

Figure 7.16, Page 404

	NEW FIRM	EXISTING FIRM
“CLICKS” PURE PLAY	First mover Amazon.com eBay.com eTrade.com 1	Fast follower Barnes & Noble RiteAid-Drugstore.com Toys R Us 3
“BRICKS AND CLICKS” MIXED PLAY	Alliances KBKids.com (BrainPlay.com/KB Toys) 2	Brand extender REI L.L.Bean Wal-Mart 4

Establishing the Customer Relationship

- **Permission marketing:** Obtain permission before sending consumer information or promotional messages (example: opt-in e-mail)
- **Affiliate marketing:** Relies on referrals; Web site agrees to pay another Web site a commission for new business opportunities it refers to the site
- **Viral marketing:** Process of getting customers to pass along a company's marketing message to friends, family, and colleagues

Establishing the Customer Relationship (cont'd)

- Blog marketing: Using blogs to market goods through commentary and advertising
- Social network marketing: Similar to viral marketing
- Brand leveraging: Process of using power of an existing brand to acquire new customers for a new product or service

Customer Retention: Strengthening the Customer Relationship

- Mass market-personalization continuum ranges from mass marketing to direct marketing to micromarketing to personalized, one-to-one marketing
- One-to-one marketing: Involves segmenting the market on a precise and timely understanding of an individual's needs, targeting specific marketing messages to these individuals and then positioning the product vis-à-vis competitors to be truly unique

The Mass Market-Personalization Continuum

Figure 7.17, Page 411

MARKETING STRATEGIES	MARKETING ATTRIBUTES			
	Product	Target	Pricing	Techniques
Mass Marketing	Simple	All consumers	One nation, one price	Mass media
Direct Marketing	Stratified	Segments	One price	Targeted communications, e.g., mail and phone
Micromarketing	Complex	Micro-segments	Variable pricing	Segment profiles
Personalized, One-to-one Marketing	Highly complex	Individual	Unique pricing	Individual profiles

Other Customer Retention Marketing Techniques

- Customization: Changing the product (not just the marketing message) according to user preferences
- Customer co-production: Allows the customer to interactively create the product
- Transactive content: Results from the combination of traditional content with dynamic information tailored to each user's profile

Other Customer Retention Marketing Techniques (cont'd)

- Customer service tools include:
 - Frequently asked questions (FAQs)
 - Real-time customer service chat systems (intelligent agent technology or bots)
 - Automated response systems

Net Pricing Strategies

- Pricing (putting a value on goods and services) an integral part of marketing strategy
- Traditionally, prices based on:
 - Fixed cost
 - Variable costs
 - Market's demand curve
- Price discrimination: Selling products to different people and groups based on their willingness to pay

Net Pricing Strategies (cont'd)

- Free products/services: Can be used to build market awareness
- Versioning: Creating multiple versions of a good and selling essentially the same product to different market segments at different prices
- Bundling: Offers consumers two or more goods for one price
- Dynamic pricing:
 - Auctions
 - Yield management

Channel Management Strategies

- Channel: Refers to different methods by which goods can be distributed and sold
- Channel conflict: Occurs when a new venue for selling products or services threatens or destroys existing venues for selling goods
- Examples: online airline/travel services and traditional offline travel agencies
- Some manufacturers are using partnership model to avoid channel conflict

Online Market Research

- Market research: Involves gathering information that will help a firm identify potential products and customers
- Two general types:
 - Primary research
 - Secondary research

Insight on Business: Zoomerang

Class Discussion

- What are the advantages of an online survey service?
- What features make Zoomerang surveys easy to implement when compared to traditional survey instruments?
- What are some of Zoomerang's weaknesses?