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## Learning Objectives

- Upon completion of this chapter, you will be able to:
1. Describe factors that influence online consumer behavior.
  2. Understand the decision-making process of online consumer purchasing.
  3. Discuss the issues of e-loyalty and e-trust in electronic commerce (EC).
  4. Understand segmentation and how companies are building one-to-one relationships with customers.
  5. Explain how consumer behavior can be analyzed for creating personalized services.
  6. Understand consumer market research in e-commerce.
  7. Describe the objectives and characteristics of Web advertising.
  8. Describe the major advertising methods used on the Web.
  9. Learn mobile marketing concepts and techniques.
  10. Describe various online advertising strategies and types of promotions.
  11. Understand some implementation issues.

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## **OPENING CASE: MARKET RESEARCH HELPS DEL MONTE IMPROVE DOG FOOD**

### **THE PROBLEM**

Del Monte operates in a very competitive global food industry. In addition to manufacturing canned fruits and vegetables for human consumption, Del Monte produces pet food such as Gravy Train, 9 Lives, and Meow Mix. Therefore, using market research, the company constantly looks for innovative ways to increase its competitive edge. The company noticed the fast growth of social media and decided to deploy social media projects. Their primary goal was to decide how best to use social media-based market research to support its diverse product line – in this case, dog food.

### **THE SOLUTION**

The basic idea was first to connect and collaborate with dog lovers via social networks. The corporate IT department was unable to conduct social network research; therefore, the Pet Products Division of Del Monte Foods decided to leverage Insight Networks, an offering from MarketTools, Inc., a provider of on-demand market research.

Through previous research, Del Monte Pet Products Division identified one segment of the dog owner community as their target, and they wanted to understand that segment more in depth. In order to connect with millions of dog owners, Insight Networks provided Del Monte Pet Products Division with a direct, interactive connection to their consumers. Using their proprietary software, Insight Networks monitors millions of relevant blogs in the blogosphere as well as forums in social networks, in order to identify key ideas in which consumers are interested. These ideas are then analyzed in order to predict consumer behavior trends. Such analysis is usually done by using computerized tools such as

monitoring consumer interactions, analyzing consumer sentiments, and using social analytics (e.g., see Jayanti 2010).

By utilizing social media, Del Monte can conduct better market research. The conventional approach was using questionnaires or focus groups that were expensive and difficult to fill with qualified participants. Using social media, Del Monte can gather much of the same data faster and at a lower cost. All that is required now is to monitor customer conversations, collect the data, and analyze the vast amount of information. The software also facilitates subgroup creation, idea generation, and panel creation. The results of the analysis help Del Monte understand its customers and consequently plan its marketing activities, communication strategies, and customer service applications. The results also help evaluate the success of marketing campaigns, how well the business processes accomplished the goals, and better justify proposed new activities.

### **THE EXPERIMENT**

The first implementation of the above application was used to help improve the company's dog treat, Snausages Breakfast Bites. For guidance, Del Monte relied on its dog lovers' social community. By monitoring customer blogs and by posting questions to customers to stimulate discussions, Del Monte used text analysis methods to investigate the relationship between dogs and their owners. Del Monte concluded from the analysis that people who own small dogs would be the major purchasers of Snausages Breakfast Bites. The company also found differences of opinions based on the age of owners. Next, a small sample of the improved dog food was produced and tested in the physical market. As a result of both social media and traditional research, the product design decisions were revised. In addition, marketing promotions were modified. The product sells better because dogs love it. Finally, the new approach solidified the community of dog lovers who are happy that their opinions are considered.

## THE RESULTS

Product cycle time was reduced by more than 50% to only six months, and Del Monte was able to develop a better marketing communication strategy. Furthermore, the analysis helped the company better understand customers and their purchasing activities, as well as predicting market trends and identifying and anticipating opportunities.

**Sources:** Based on Steel (2008), Greengard (2008), Jayanti (2010), Big Heart Pet Brands (2012), Wikinvest (2010), and MarketTools, Inc. (2008).

### LESSONS LEARNED FROM THE CASE

The opening case illustrates that market research can be useful in a competitive market by providing insights for better product development and marketing strategy. In this case, the company collected data online from its socially-oriented customers. MarketTools, Inc. monitored over 50 million conversations on blogs, message boards, and online media sites to find the “voice of the customers.” The collected data were then analyzed. The results of the analysis helped Del Monte improve its dog food and devise new marketing strategies. Online market research, as seen in the case, is related to consumer behavior, purchasing decision making, behavioral marketing, and advertising strategies. All these topics are addressed in this chapter.

## 9.1 LEARNING ABOUT ONLINE CONSUMER BEHAVIOR

Companies are operating in an increasingly competitive environment. Therefore, sellers try to understand customers’ needs and influence them to buy their products and services. Customer acquisition and retention are key success factors, both offline and online. This is particularly important for online businesses, as most interactions

with their customers are online. For a summary of factors affecting consumer behavior, see [aipmm.com/html/newsletter/archives/000434.php](http://aipmm.com/html/newsletter/archives/000434.php).

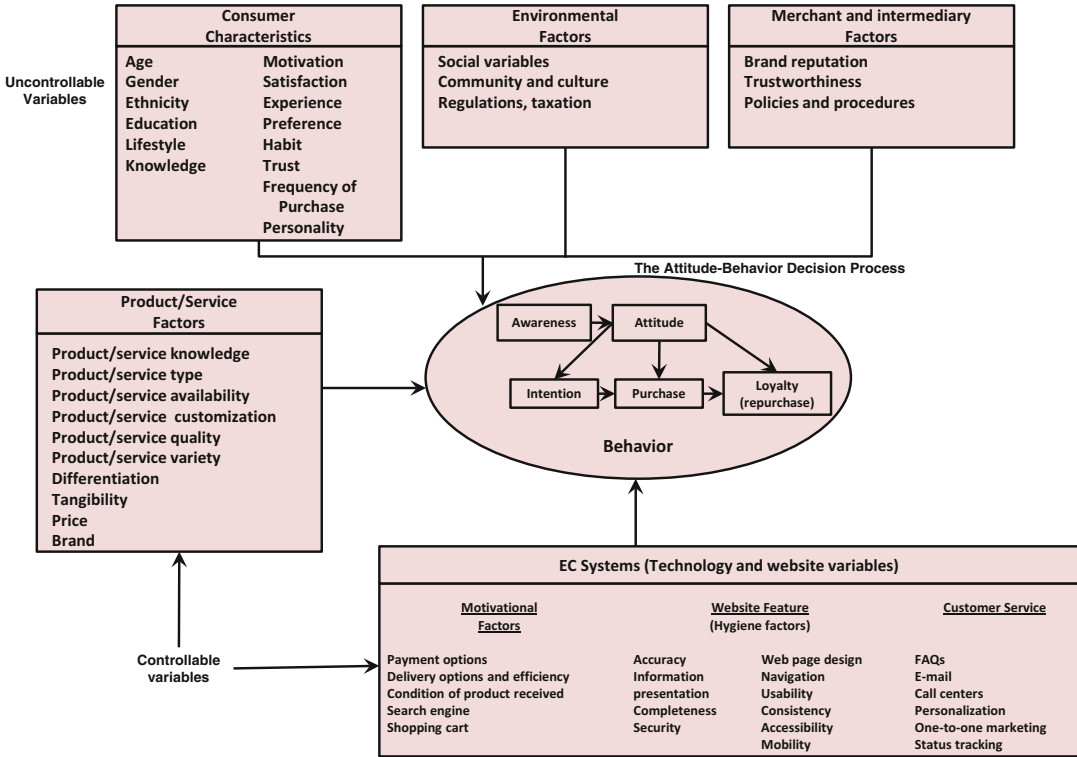
### A Model of Online Consumer Behavior

For decades, market researchers have tried to understand consumer shopping behavior, and develop various models to summarize their findings. A consumer behavior model is designed to help vendors understand how a consumer makes a purchasing decision. Through understanding the decision process, a business may be better able to influence the buyer’s decision through improved product design or advertising.

Consumers can be divided into two groups: individual consumers and organizational buyers including governments, private corporations, resellers, and nonprofit organizations. These two types of buyers tend to have different purchasing behaviors and usually are analyzed differently. In this chapter, we focus on individual buyers. A discussion on organizational purchasing can be found in Chapter 5 (e-procurement).

An individual consumer behavior model often includes *influential internal and external factors* that affect the buyer’s *decision process* and the process for making a purchasing decision. Figure 9.1 shows a consumer behavior model.

- **Influential factors.** Factors influencing purchasing decisions fall into five major dimensions. They are *consumer factors*, *environmental factors*, *merchant and intermediary factors*, *product/service factors* (which include market stimuli), and *EC selling systems*. The first three dimensions are not controllable by the sellers, while the last two are mostly controlled by the sellers. The dimensions are shown in Figure 9.1. The influential factors affect the buyers’ decision process.
- **The attitude-behavior decision process.** The second part in a consumer behavior model is the decision-making process, which usually starts with awareness of the situation and a positive attitude and ends with the buyer’s decision to purchase and/or repurchase (see the oval part in Figure 9.1). A *favorable attitude* would lead to a stronger *buying intention*,



**Figure 9.1** EC model of online consumer behavior

which in turn would result in the *actual buying behavior*. Previous research has shown that the links between attitude, purchase intention, and actual purchase behavior are quite strong.

## The Major Influential Factors

Major influential factors of consumer purchasing behavior fall into the following categories:

### Consumer Characteristics

Consumer (personal) characteristics, which are shown in the top-left portion of Figure 9.1, refer to demographic factors, individual preferences, and behavioral characteristics of the consumer. Several websites provide information on customer buying habits online (e.g., [emarketer.com](http://emarketer.com), [clickz.com](http://clickz.com), and [comscore.com](http://comscore.com)). The major demographics that such sites track are gender, age, marital status, education level, ethnicity, occupation, and household income, which can be correlated with Internet usage and EC data. Both men and women have been found to perceive information differently

depending on their levels of purchase confidence and internal knowledge. Several studies show that shopping experience has a significant effect on consumer attitude and intention to purchase and repurchase online (e.g., Crespo and Rodriguez del Bosque 2010; Chiu et al. 2014).

Marketers also study the psychological variables such as personality and lifestyle characteristics. These variables are mentioned briefly in several places throughout the text. To read about the impact of lifestyle differences on online shopping, see Wang et al. (2006).

### Merchant and Intermediary-Related Factors

Online transactions may also be affected by the merchant that provides the product/service. This group of factors includes merchant reputation, size of the transaction, trust in the merchant, and so on. For example, a customer may feel more secure when making a purchase from Amazon.com (due to its reputation) than from an unknown seller. Other factors such as marketing strategy and advertising can also play a major role.

### Product/Service Factors

The second group of factors is related to the product/service itself. The consumer's decision to make a purchase is affected by the nature of the product/service in the transaction. These may include the price, quality, design, brand, and other related attributes of the product.

### EC Systems

The EC platform for online transactions (e.g., security protection, payment mechanism, and so forth) offered by the merchant and the type of computing environment (e.g., mobile vs. desktop) may also have affects. EC design factors can be divided into payment and logistics support, website features, and consumer services. **Liang and Lai (2002) classified them into motivational and hygiene factors and found motivational factors to be more important than hygiene factors in attracting online customers.** Another factor that we include here is the type of EC. For example, consumer behavior in m-commerce may be unique and so is behavior during social shopping (see Turban et al. 2011).

- **Motivational Factors.** Motivational factors are the functions available on the website to provide direct support in the purchasing process (e.g., search engines, shopping carts, multiple payment methods).
- **Hygiene Factors.** Hygiene factors are functions available on the website whose objective is to make the website functional and serviceable (e.g., ease of navigation, show items added to the cart); their main purpose is to protect consumers from risks or unexpected events in the transaction process (e.g., security breaching and site technical failure).

### Environmental Factors

The environment in which a transaction occurs may affect a consumer's purchase decision. As shown in Figure 9.1, environmental variables can be grouped into the following categories:

- **Social Variables.** People are influenced by family members, friends, coworkers, and current styles. Therefore, social variables (such as customer endorsements, word-of-mouth) play an important role in EC. Of special importance in EC are Internet communities

and discussion groups, where people communicate via chat rooms, electronic bulletin boards, tweeting, and newsgroups. A study (by Liang et al. 2011–2012) shows that social support in online communities significantly enhances the intention to purchase online.

- **Cultural/Community Variables.** The influence of culture on buying behavior varies from country to country. It makes a big difference in what people buy if a consumer lives near Silicon Valley in California or in the mountains in Nepal. Chinese shoppers may differ from French shoppers, and rural shoppers may differ from urban ones. Bashir (2013) conducted a comprehensive study about online shopping for electronics in Pakistan.
- **Other Environmental Variables.** These include aspects such as available public information, government regulations, legal constraints, and situational factors. For example, tax rates (Chapter 15) may affect online shopping (see Einav et al. 2014).

Lately, attention has been given to customers' behavior in the mobile environment. For more information, see [mobilemarketer.com](http://mobilemarketer.com).

## SECTION 9.1 REVIEW QUESTIONS

1. Describe the major components of the model of online consumer behavior.
2. List some major personal characteristics that influence consumer behavior.
3. List the major environmental variables of the purchasing environment.
4. List and describe five major merchant-related variables.
5. Describe the relationships among attitude, intention, and actual behavior in the behavior process model.

## 9.2 THE CONSUMER PURCHASING DECISION PROCESS

The purchasing decision process is another major element in analyzing consumer behavior. It is composed of several steps, as discussed next. A generic model is introduced below.

## A Generic Purchasing-Decision Model

From the consumer's perspective, a general purchasing-decision model consists of five major phases (Hawkins and Mothersbaugh 2010). The phases are discussed next.

- **Need identification.** The first step in the purchasing process is for a consumer to recognize a need. This occurs when a consumer is faced with a gap between the current state of what the customer has and the desired state (e.g., his mobile phone needs a useful new feature, such as a bigger screen). A consumer can recognize a need in different ways (e.g., by internal stimuli, hunger or thirst, or external stimuli, exposure to an advertisement).
- A marketer's goal is to get the consumer to recognize such a gap and then convince the consumer that the product or service the seller offers will fulfill the need.
- **Information search.** Once the need has been recognized, the consumer seeks information on how to fulfill that need. Here, we differentiate between two decisions: what product to buy (**product brokering**) and from whom to buy it (**merchant brokering**). These two decisions can be separate or combined. In the consumer's search for information, catalogs, advertisements, promotions, and reference groups could influence decision making. During this phase, online product searches and comparison engines can be very helpful. (See examples at [shopping.com](http://shopping.com), [pricegrabber.com](http://pricegrabber.com), and [mysimon.com](http://mysimon.com), and 'decision aids' in Chapter 3.
- **Evaluation of alternatives.** The information search usually yields a few feasible options. From these, the would-be buyer will further evaluate the alternatives and, if possible, negotiate terms. In this

phase, a consumer needs to generate and rank criteria for making the final choice. For online consumers, the criteria may include product prices and features.

- **Purchase and delivery.** After evaluating the alternatives, the consumer will make the final buying choice, arrange for payment and delivery, purchase warranties, and so on.
- **Post-purchase activities.** The final phase is the post-purchase phase, which consists of customer service and evaluation of the usefulness of the product. Customer service and consumer satisfaction will result in a positive experience and word-of-mouth (e.g., "This product is really great!" or "We really received good service when we had problems"). If the customer is satisfied with the product and services, loyalty will increase and repeat purchases will occur.

Although these phases offer a general guide to the consumer decision-making process, one should not assume that every consumer's decision-making process will necessarily proceed in this order. In fact, some consumers may proceed to a specific phase and then revert to a previous phase, or they may skip a phase altogether.

Several other purchasing-decision models also exist. A classic (1925) model for describing consumer message processing is the Attention-Interest-Desire-Action (AIDA) model. It is a handy tool for ensuring that your copy, or other writing, grabs attention. Advertising plays a major role in consumers' purchasing decisions. Some researchers add another letter, to form AIDA(S), where:

1. **A – Attention (Awareness).** The first step is to get the customer's attention (e.g., be quick and direct; use powerful words or phrases to catch the customer's eye).



2. **I – Interest.** By demonstrating features, advantages, and benefits, the customer becomes interested in the product (e.g., engage the customers by getting them interested).
3. **D – Desire.** After evaluation, the consumer generates a desire to acquire the product or service (e.g., build the reader's interest and create a desire in them – a motivation to act).
4. **A – Action.** Finally, the consumer will take action toward purchasing (e.g., take action on their desires and buy the product/service).
5. **S – Satisfaction.** Customer satisfaction will generate higher loyalty and lead to repurchase after using a product/service.

A recent version of AIDA is the AISAS model proposed by the Dentsu Group that is tailored to online behavior. The model replaces “*decision*” with “*search*” and adds “*share*” to show the increased word-of-mouth effect on the Internet. It indicates that consumers go through a process of *Attention-Interest-Search-Action-Share* in their online decision process. This model is particularly suitable for social commerce.

### Players in the Consumer Decision Making Process

Several different people may play roles in various phases of the consumer decision process. The following are the five major roles:

1. **Initiator.** The person who recognizes and suggests the need to buy a specific product or service.
2. **Influencer.** The person who tries to convince other people to make a purchase.
3. **Decider.** The person who makes the final buying decision.
4. **Buyer.** The person who purchases the product or service and pays for it.
5. **User.** The customer that purchases and uses the product.

For more details, see [nptel.ac.in/courses/110105029/pdf%20sahany/Module4.\(7\)doc.pdf](https://nptel.ac.in/courses/110105029/pdf%20sahany/Module4.(7)doc.pdf) and a SlideShare presentation titled “The Consumer Buying Decision Process and Factors That Influence It” at [slideshare.net/dra-faraz/the-consumer-buying-decision-process](https://slideshare.net/dra-faraz/the-consumer-buying-decision-process).

### Shopping Cart Abandonment

The abandoning of online shopping carts by shoppers is of major concern to sellers. According to the Baymard Institute (reported by Li 2013), the results of 28 different studies showed that an average of about 68% of shoppers abandon their online shopping carts before payment (updated March 2014). The major reason discovered is: After filling the cart, buyers found that the shipping cost is too high (44%). Other reasons found are: (1) Not ready to purchase (41%); (2) high product price (25%); and (3) saving product for further consideration (24%). For an infographic and other statistics, see [salecycle.com/cart-abandonment-stats](https://salecycle.com/cart-abandonment-stats).

### SECTION 9.2 REVIEW QUESTIONS

1. List the five phases of the generic purchasing-decision model.
2. Use an example to explain the five phases in the generic purchasing-decision model.
3. Describe the AIDA and AISAS models and analyze their differences in illustrating online purchasing behavior.
4. Describe the major players in a purchasing decision and use buying a mobile phone as an example.
5. Describe why people abandon their online shopping carts. Do you have similar experiences while shopping online? Why or why not?

## 9.3 LOYALTY, SATISFACTION, AND TRUST IN E-COMMERCE

Effective online marketing activity can generate positive effects, which are generally observed as trust, customer satisfaction, and loyalty. Loyalty

is the goal of marketing, while trust and customer satisfaction are factors that may affect customer loyalty.

## Customer Loyalty

One of the major objectives of marketing is to increase *customer loyalty*. **Customer loyalty** refers to the chance that previous customers will continue to repurchase or repatronize a product/service from the same vendors over an extended period of time.

Increased customer loyalty can be accomplished by treating people in the way that they expected to be treated (or better). Loyalty can result in cost savings and increased revenue in various ways: lower marketing and advertising costs, lower transaction costs, and lower customer turnover expenses. The expense of acquiring a new customer can be more than \$100; even for Amazon.com, which has millions of customers, the marketing cost to bring in a new customer is more than \$15. In contrast, the cost of maintaining an existing customer at Amazon.com is \$2 to \$4.

Customer loyalty also strengthens a company's competitive advantage because loyal customers tend not to switch to competitors. In addition, customer loyalty can lead to an increase in favorable word of mouth. Obviously, most vendors are trying their best to find out what will make customers loyal (see eMarketer 2013).

Loyalty programs were introduced more than 100 years ago and are widely used among airlines, retailers, hotel chains, banks, casinos, car rentals, restaurants, and credit card companies. Now, however, loyalty programs have been computerized and expanded to all kinds of businesses. For example, the Hong Kong company Octopus Holdings ([octopuscards.com.hk](http://octopuscards.com.hk)), a global leader in stored-value smart card payment systems, launched a reward program for members to use their membership card to shop at any Octopus Rewards Partners. Users get an automatic discount when they pay with their "Membership Octopus;" cumulative rewards can be used to spend at the establishment of any Rewards partners.

However, the introduction of social networking has the potential to undermine brands and reduce customer loyalty. Social media makes it easier to compare the price of products and evaluate the quality of vendors. In addition, consumers can get price quotes from several sellers, get honest opinions from friends, and switch to other vendors based on such information. Customers become less loyal to specific vendors because of the lower switching costs for them. They can take advantage of special online offers and promotions and exploit opportunities to try new products or services.

It is interesting to note that loyal customers end up buying more when they have the option to peruse and purchase items from a company's website. For example, W.W. Grainger ([grainger.com](http://grainger.com)), a large industrial-supply company, found that loyal B2B customers increased their purchases substantially when they began using Grainger's website rather than their voluminous paper catalog. (See Chapter 4 for more information.) In addition, loyal customers may refer other customers to a website, especially through communication in social networks. Therefore, it is important for EC companies to offer Web-based programs to increase customer loyalty.

## E-Loyalty

**E-loyalty** refers to a customer's loyalty to an e-tailer or a manufacturer that sells directly online, or to online loyalty programs. Companies can foster e-loyalty by learning about their customers' needs, interacting with customers, and providing outstanding customer service. Another source of information is [colloquy.com](http://colloquy.com), which concentrates on loyalty marketing.

It is interesting to note that a percentage of positive customer reviews have considerable impact on increased repurchase intention and e-loyalty (see Vora 2009 for details). For reviews and recommendations in social networks, see Chapter 7.

Many factors may affect customer loyalty and e-loyalty. A typical factor is the quality of the relationship between retailers and their customers. Customer loyalty is composed of trust, satisfaction,



and commitment. Satisfaction and trust are particularly important because they will lead to commitment. For example, a study by Cyr (2008) found that e-loyalty is affected by satisfaction and trust across different cultures. The analysis of Sanz-Blas et al. (2014) showed how satisfaction, trust, and commitment can help strengthen customer loyalty toward websites selling accommodation services. For how to improve loyalty, build strong customer relationships, and persuade customers to share more information about themselves, see Pearson (2012).

## Satisfaction in EC

Satisfaction is one of the most important success measures in the B2C online environment. Bashar and Wasiq (2013) found that customer satisfaction positively and significantly influences the e-loyalty of cyber consumers.

Satisfaction has received considerable attention in studies of B2C e-commerce. A few measurement indices have been developed. For example, the University of Michigan developed the American Customer Satisfaction Index (ACSI; [theacsi.org](http://theacsi.org)), which measures customer satisfaction with the quality of various product and service sectors. The index is released quarterly. ForeSee ([foreseeresults.com](http://foreseeresults.com)) developed customer satisfaction analytics to measure customer experience, and publishes the ForeSee Experience Index, ForeSee Government Satisfaction Index, and ForeSee Word of Mouth Index (WoMI). Several models were developed to explore satisfaction with online shopping. For example, Cheung and Lee (2005) proposed a framework for online consumer satisfaction by correlating the end-user satisfaction perspective with the *service quality*, *system quality*, and *information quality*.

## Trust in EC

*Trust* in general conveys several meanings, yet it has been recognized as a major success factor in e-commerce that must be nurtured (e.g., see

Salam et al. 2005). In general, **trust** means the willingness of one person to believe in the actions taken by another person. It is a perception variable. There are several definitions of trust in e-commerce since there are different types of trust. Examples are:

- Consumer trust in sellers.
- Consumer trust in the computerized system.
- Trust between buyers and sellers.
- Trust in foreign trading partners.
- Trust in EC intermediaries.
- Trust in online advertisements (e.g., Richter 2014).

Most studies of trust in EC concentrate on consumer trust.

## EC Trust Models

Trust in e-commerce is often called **online trust**. Several models are available to explain the factors that may affect online trust. For example, comprehensive research by Lee and Turban (2001) examined the various aspects of EC trust and developed a cause-effect framework. According to this model, the level of trust is determined by three main categories of factors. They include trustworthiness of Internet merchants, shopping channels, and structural assurance associated with the business and regulatory environment.

## How to Increase Trust in EC

Because consumer trust is fundamental to successful e-retailing, retailers are looking for ways to enhance the trustworthiness in e-commerce. The following are representative strategies for building consumer trust in EC.

## Improve Your Website

A most important factor that affects online trust is the quality of the company's website. The ease of navigation, visual display, and information design of a website affects consumer trust. Gregg and Walczak (2010) reported a positive relationship between website quality and trust; based on a survey of 701 eBay users, they concluded that good website quality induces higher trust and price premium. Therefore, knowing how to design the EC website that delivers high-quality

information and provides easy and effective navigation is a key to increased consumer trust in the sellers and their websites.

### Objective Third-Party Seals

Webstores can be certified by third-party seals of approval such as TRUSTe ([truste.com](http://truste.com)) and BBBOnline ([bbbonline.org](http://bbbonline.org)), the online version of the Better Business Bureau. Escrow providers and reputation finders (e.g., [cyberalert.com](http://cyberalert.com)) also are useful. These agencies provide business-critical intelligence such as how brands are being used on the Internet as well as research on businesses spying on their competitors.

Stories about fraud on the Internet, especially when unknown parties are involved, may reduce EC trust. Reputation systems that were described in Chapter 7 can affect trust either positively or negatively.

### Establish Trustworthiness

Trustworthiness can be facilitated by the use of integrity, competence, and security.

### Other Methods for Facilitating Trust

Several other methods are used to facilitate trust on the Web. For example, relating cognitive style to communication with customers (Urban et al. 2009) is designed to build trust. Smith (2014) believes that customers should know that they can trust a website (e.g., businesses should set up a trusted payment gateway, provide security and privacy, and provide a well-designed website with a short load time). Another method is to build reputation. Trust can be facilitated by positive word of mouth.

### Reputation-Based Systems

A seller's reputation is important in online commerce. **Reputation-based systems** are used to establish trust among members of online trading systems where parties who have never done business with one another use feedback from others (e.g., reputations). For a comprehensive overview and how to manage online reputation systems, see Strauss and Frost (2014). For reputation management in agent mediated e-commerce (e.g., when the transaction is done by software agents,

for example at Amazon.com or Expedia.com), see Gaur et al. (2013).

Reputation is often influenced by examining a website's rating. A major player in this area is Yelp.com, which aggregates reviews that contain highly subjective judgments. A Harvard study, using data from all Yelp reviewed restaurants in Seattle, Washington during from 2003 to 2009, concluded that a one-star increase in a restaurant's Yelp rating led to an increase of 5% to 9% in revenues (Luca 2011).

### Online Word of Mouth

Due to the increase in online conversations and social networking, online word of mouth can influence the trust level and may impact reputation (positively or negatively).

Online word of mouth may occur in different forms, such as consumer online feedback or participation in social media forums. Hence, fostering positive word of mouth is an effective strategy to build stronger trust in a website. For more, see *viral marketing* in Section 9.8.

## SECTION 9.3 REVIEW QUESTIONS

1. Describe the concept of customer loyalty and e-loyalty.
2. What are the key factors that affect customer satisfaction with a webstore?
3. Describe the issue of trust in EC.
4. What influences consumer satisfaction online? Why do companies need to monitor the satisfaction?
5. How can trust be increased in EC?
6. Define reputation-based systems and relate them to trust in EC.

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## 9.4 MASS MARKETING, MARKET SEGMENTATION, AND RELATIONSHIP MARKETING

Online marketing is different from traditional marketing whereby online customers can be individually identified and targeted. This individually targeted marketing is called *one-to-one marketing*

or *personalized marketing*. It is a part of the relationship marketing that treats each customer in a unique way to fit the profile and needs of that customer (e.g., personalized interactions). Let us first see how the one-to-one approach evolved from traditional marketing approaches.

## From Mass Marketing to One-to-One Marketing

Three major marketing approaches have been widely adopted: mass marketing, market segmentation, and relationship (one-to-one) marketing.

### Mass Marketing and Advertising

Traditionally, marketing efforts were designed to attract everyone in the market (the “masses”). For example, using a newspaper or TV ad usually means one-way communication from the message provider to the recipients. Such an effort may be effective for brand recognition or for introducing a new product or service to the public. Putting banner ads on an Internet portal so that everyone who accesses the website can see the message is a typical example of online mass marketing.

### Example

In 2003, Ford Motor Company designed an online roadblock advertising campaign on the Internet to promote its F-150 trucks. A “roadblock” refers to running a commercial on all major TV or Internet channels at exactly the same time, so viewers cannot switch channels to escape the commercial. Ford advertised on the three major portals: AOL, MSN, and Yahoo! The campaign was a great success (see [clickz.com/clickz/news/1712283/ford-f-150-drives-away-with-online-success](http://clickz.com/clickz/news/1712283/ford-f-150-drives-away-with-online-success)).

### Market Segmentation

**Market segmentation** refers to the strategy that involves dividing a large group of consumers into smaller segments and then implementing suitable advertisements to target each segment. For example, cosmetics retailers may advertise in magazines geared mainly toward women. In this




instance, the market is segmented by the gender of consumers. The Internet enables more effective market segmentation, but it also improves relationship marketing, or one-to-one marketing.

### Criteria for Market Segmentation

For effective market segmentation, the following are common criteria that companies use:

- *Geographic.* Region; size of city, county, or Standard Metropolitan Statistical Area (SMSA); population density; climate; language.
- *Demographic.* Age, occupation, gender, education, family size, religion, race, income, nationality, urban (or suburban or rural).
- *Psychological (lifestyle).* Social class, lifestyle, personality, activities, values, and attitudes, (VALS; see [strategicbusinessinsights.com/vals/ustypes.shtml](http://strategicbusinessinsights.com/vals/ustypes.shtml)).
- *Cognitive, affective, behavioral.* Attitudes, benefits, loyalty status, readiness stage, usage rate, perceived risk, user status, innovativeness, usage situation, involvement, Internet shopping experience.
- *Profitability.* Valued customers are placed in a special category.
- *Risk core.* High or low-risk customers are placed in a special category.

Statistical, data, and text mining methods are often used to identify valuable segments for promotion or advertising. Modern companies assign a variety of segments to their customers, often dynamically defining segments and temporarily regrouping customers for specific campaigns. By segmenting customers, companies can implement targeted communications about their products to cohesive groups. Much of this relies on the company understanding its business strategies to the extent that they know their most desirable segments.

Factor	 <b>Mass Marketing</b>	 <b>Market Segmentation</b>	 <b>Relationship Marketing (One to One)</b>
Interactions	Usually none, or one-way	Usually none, or with a sample	Active, two-way
Focus	Product	Group (segment)	Customer-focused (one)
Recipient	Anonymous	Segment profiles	Individuals
Campaigns	Few	More	Many
Reach	Wide	Smaller	One at a time
Market Research	Macro in nature	Based on segment analysis or demographics	Based on detailed customer behaviors and profiles

**Figure 9.2** From mass marketing to segmentation to one-to-one

### ***Relationship (One-to-One) Marketing***

**Relationship marketing** is different from traditional marketing in that it focuses on building long-term relationships with customers. In order to do so, the seller must have a much deeper understanding of its customers on a one-to-one basis. Such information can be obtained faster, easier, and at a lower cost for online customers. When such information is analyzed, it becomes valuable for one-to-one marketing.

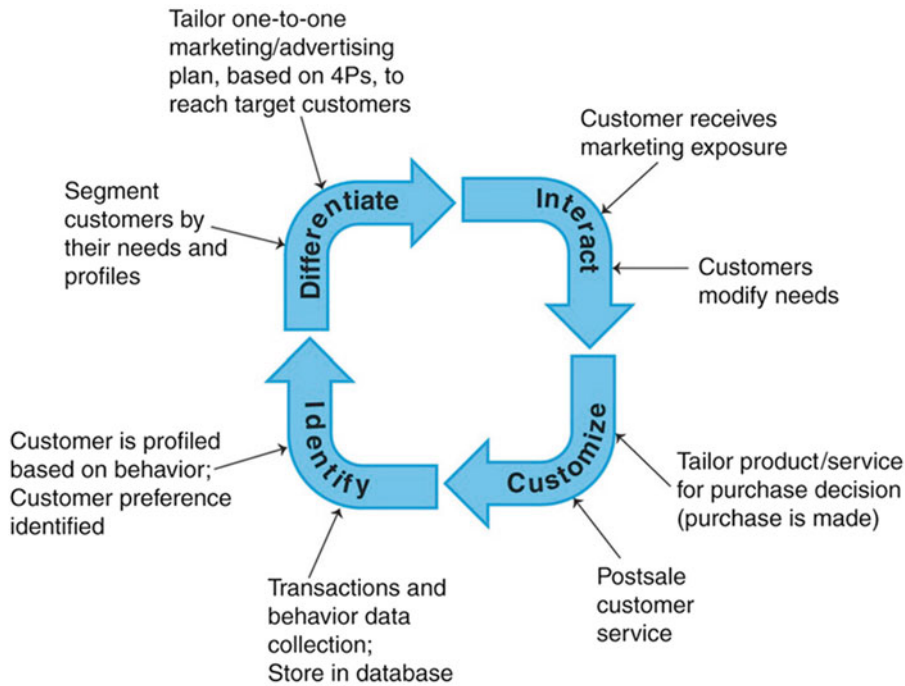
Although segmentation can focus on unified groups of customers, it may not be good enough because most competitors can adopt similar strategies. It may be advisable, therefore, to shift the target for marketing from a group of consumers to each individual customer. Instead of selling a single product to as many customers as possible, marketers are trying to sell as many products as possible to one customer – over a long period of time. To do this, marketers need to concentrate on building unique relationships with individual customers on a one-to-one basis.

One-to-one marketing is a way for marketers to get to know their customers more intimately by understanding their individual preferences and then providing them with personalized marketing communication.

One-to-one means not only communicating with customers as individuals, but also possibly providing customized products and tailored messages based on the customer's preferences. The major characteristics of one-to-one marketing as compared to those of mass marketing and market segmentation are illustrated in Figure 9.2.

### **How One-to-One Relationships are Practiced**

Although some companies have implemented one-to-one marketing programs for years, it may be much more beneficial to institute a corporate-wide policy of building one-to-one relationships on the Web. Since one-to-one marketing strategies are applied directly to a specific consumer, marketers



**Figure 9.3** The one-to-one marketing cycle (Sources: Compiled from Greenberg 2010 and the authors' experience)

should apply a cyclical, four phase process in order to fulfill their goals of managing relationships with the individual customer. Figure 9.3 shows the four phases. The four phases are: *identification of customer preference*, *differentiation of customers, one from another*, *interaction with customers*, and *customization (personalized service)* (see [linkedin.com/today/post/article/20140103113441-17102372-building-customer-relationships-in-four-steps](https://www.linkedin.com/today/post/article/20140103113441-17102372-building-customer-relationships-in-four-steps)).

A marketer can start the process at any point in the cycle, but usually the beginning is “identification.” However, for new customers, it usually starts with “Customer receives marketing exposure” (top right side of figure). The customer then decides how to respond to the marketing exposure and makes the purchase decision (e.g., whether to buy the product online or offline; if online, whether to buy as an individual or to use group purchasing). After a sale is completed, customer information is collected (lower left corner) and then placed in a database. A customer’s profile is developed, and then the so-called four P’s of marketing (product, place, price, and

promotion) are planned based on the profile, on a one-to-one basis. All of this can be done in the Web environment.

One of the benefits of one-to-one e-commerce is that companies can better interact with customers and understand their needs. These improvements, in turn, enable companies to enhance and frequently personalize their future marketing efforts. For example, Amazon.com can e-mail announcements of new books in the customers’ areas of interest even before the books are published; Expedia.com asks consumers where they wish to travel, and then e-mails them information about special discounts to their desired destinations. Details on these key concepts that are part of personalization are discussed in Section 9.5.

#### SECTION 9.4 REVIEW QUESTIONS

1. Define and describe mass marketing.
2. Define market segmentation. How is segmentation done?
3. What is one-to-one marketing and what are its advantages?

4. Describe the major steps in the one-to-one marketing process.
5. How do advertisers use their knowledge about customer profiles?

## 9.5 PERSONALIZATION AND BEHAVIORAL MARKETING

As the Internet provides a huge amount of data for customer profiling, one-to-one marketing becomes effective. There are three generic strategies for one-to-one marketing: *personalization*, *behavioral targeting*, and *collaborative filtering*.

### Personalization in E-Commerce

**Personalization** refers to the matching of advertising content and vendors' services with customers based on their preferences and individual needs. Personalized content on a website has been found to increase conversion rates (see [searchenginewatch.com/article/2334157/How-Personalizing-Websites-With-Dynamic-Content-Increases-Engagement](http://searchenginewatch.com/article/2334157/How-Personalizing-Websites-With-Dynamic-Content-Increases-Engagement)). The matching process is based on the *user profile*. The **user profile** describes customer preferences, behaviors, and demographics. It can be generated by getting information directly from the users; for example, observing what people are doing online through the use of tools such as a **cookie** – a data file that, frequently without the knowledge of users, is placed on their computer's hard drives. Alternatively, profiles can be built from previous purchase patterns. Profiles can be structured from market research or by making inferences from information known about similar consumers.

One-to-one matching can be done by methods such as *collaborative filtering* (discussed later in this section). Many vendors provide personalization tools that help with customer acquisition and retention. Examples of such vendors are Sidecar ([hello.getsidecar.com](http://hello.getsidecar.com)) and Magnify360 ([magnify360.com](http://magnify360.com)).

### Using Personalized Techniques to Increase Sales

It has become a common practice for vendors to provide personalized services to customers in order to increase customer satisfaction and loyalty. A prime example is Amazon.com, which provides many personalized services where the most common activity is product recommendations. Amazon.com automatically generates such recommendations based on the buyers' purchasing and browsing histories, and upon the purchasing history of other customers with similar purchasing histories.

Personalized services can be facilitated when the companies know more about their customers. Rapleaf ([rapleaf.com](http://rapleaf.com)) offers a service that helps businesses learn more about their customers so they can personalize content (go to [rapleaf.com/developers/personalization-api](http://rapleaf.com/developers/personalization-api)). For a free e-book about the 40 best ways to personalize website, see [qubitproducts.com/content/40-best-ways-to-personalize](http://qubitproducts.com/content/40-best-ways-to-personalize).

### Web Cookies for Data Collection

Cookies are small files sent from a website and stored in a designated area in your computer. They allow companies to save certain information for future use. The use of cookies is a popular method that allows computers to look smarter and simplifies Internet access. According to Webopedia, "the main purpose of cookies is to identify users and possibly prepare customized Web pages for them" (per [webopedia.com/TERM/C/cookie.html](http://webopedia.com/TERM/C/cookie.html)).

Are cookies bad or good? The answer is "both." When users revisit Amazon.com or other sites, they are greeted by their first name. Amazon.com knows the users' identity by using cookies. Vendors can provide consumers with considerable personalized information if they use cookies that signal a consumer's return to a site. Cookies can provide marketers with a wealth of information, which then can be used to target specific ads to them. Thus, marketers get higher rates of "click-throughs," and customers can view information that is relevant to them. Cookies can also prevent repetitive ads because vendors can arrange for a consumer not to see the same ad twice. Finally, advanced data min-



ing companies (e.g., provided by SPSS and Sift), can analyze information in cookie files so companies can better meet their customers' needs.

However, some people object to cookies because they do not like the idea that "someone" is watching their activity on the Internet. Users who do not like cookies can disable them. On the other hand, some consumers may want to keep the "friendly" cookies. For example, many sites recognize a person as a subscriber by accessing their cookies so that they do not need to re-register every time they visit the site.

Cookies can be removed if the user does not like them. For instructions on deleting cookie files from your Internet browser (e.g., Internet Explorer, Google Chrome, Firefox), see [whitecanion.com/delete-cookie](http://whitecanion.com/delete-cookie).

## Behavioral Marketing and Collaborative Filtering

A major goal of marketing is to enhance customer value through delivering the right product or service to the customer. One of the most popular ways of matching ads with customers is *behavioral marketing*, which is identifying customer behavior on the Web and designing a marketing plan accordingly.

### Behavioral Targeting

**Behavioral targeting** uses consumer browsing behavior information, and other information about consumers, to design personalized ads that may influence consumers better than mass advertising does. It also assumes that users with similar profiles and past shopping behavior may have similar product preferences. Google tests its "interest-based advertising" to make ads more relevant and useful. Representative vendors of behavioral targeting tools are [predictad.com](http://predictad.com), [twcmedia.com/adlink](http://twcmedia.com/adlink); a service of Time Warner Cable Media, [boomerang.com](http://boomerang.com), [criteo.com](http://criteo.com), and [conversantmedia.com](http://conversantmedia.com). A major method of behavioral targeting is *collaborative filtering*.

### Collaborative Filtering

When new customers come to a business, it would be useful if a company could predict what products or services are of interest to them without asking or viewing their previous records. A method that attempts to do just that is **collaborative filtering**. Using proprietary formulas, collaborative filtering automatically connects the preferences and activities of many customers that have similar characteristics to predict preferences of new customers and recommend products to them. For a free tutorial of 119 slides about collaborative filtering from Carnegie Mellon University, see Cohen (Undated). Many commercial systems are based on collaborative filtering.

Amazon's "Customers who bought this item also bought..." is a typical statement generated by collaborative filtering, which intends to persuade a consumer to purchase the recommended items by pointing to preferences of similar consumers.

### Other Methods

In addition to collaborative filtering, a few other methods for identifying users' profiles are described below:

### Rule-based Filtering

A company queries consumers about their preferences via multiple choice questions and uses the collected information to build patterns for predicting customers' needs. From this information, the collaborative filtering system derives behavioral and demographic rules such as, "If the customer's age is greater than 35, and the customer's income is above \$100,000, show the Jeep Cherokee ad; otherwise, show the Mazda Protégé ad."

### Content-based Filtering

This technique allows vendors to identify customer preferences by the attributes of the product(s) they buy or intend to buy. Knowing the customers' preferences, the vendor will recommend products with similar attributes to the user. For instance, the system may recommend a

text-mining book to customers who have shown interest in data mining, or recommend more action movies after a consumer has rented one in this category.

### **Activity-based Filtering**

Filtering rules can also be built by logging the user's activities on the Web. For example, a vendor may want to find potential customers who visit bookstores more than three times a month. This can be done by analyzing the website's visiting level and activities. For a comprehensive discussion and more information about data collection, targeted advertising, and 104 companies that catch data, and so forth (including an infographic), see Madrigal (2012).

### **Legal and Ethical Issues in Collaborative Filtering**

A major issue in using collaborative filtering for personalization is the collection of information from users without their consent or knowledge. Such a practice is illegal in many countries (e.g., the U.S.) because of the violation of privacy laws. Permission-based practices solve this problem. (See Chapter 15 for more on privacy issues, and Section 9.10 for information about permission marketing.) In fact, empirical research indicates that permission-based practices are able to generate better positive attitude in mobile advertising (Tsang et al. 2004).

The negative effect of behavioral targeting can be seen in the Facebook case. In November 2010, Facebook announced the possibility of creating a Web-based advertising network that targets ads based on the recipients' behavior and the behavior of their Facebook friends. Privacy groups were unhappy and pressured Facebook to cancel the project. While there is an opt-out option, the practice is still in use and people are still unhappy.

### **Social Psychology and Morphing in Behavioral Marketing**

Cognitive styles that define how people process information has become a subject of research in Internet marketing and advertising. The underlying rationale is that people with different cognitive styles have different preferences in website

design and marketing messages. Specifically, an attempt is made to connect the Web with users in their preferred cognitive style. This can make one-to-one advertising messages more effective. MIT designed an empathetic Web that is utilized to figure out how a user processes information and then responds to each visitor's cognitive style. For a comprehensive description, see Urban et al. (2009).

### **Use of Customer Database Marketing**

Personalized services are often based on consumer information that the merchant gets from commercial database marketing services (e.g., see Strauss and Frost 2014). A unique example of such a service is Rapleaf ([rapleaf.com](http://rapleaf.com)).

According to their website, Rapleaf aggregates data across multiple sources and makes it available to the client. They provide demographic and lifestyle (e.g., gender, income, etc.) information on all U.S. consumer e-mail addresses. The information gathered on each customer enables merchants to provide personalized services. For how companies collect information, what they know about you, how they use the information, and what privacy concerns exist, see Steel (2010), Madrigal (2012), and [rapleaf.com](http://rapleaf.com).

## **SECTION 9.5 REVIEW QUESTIONS**

1. Define and describe the benefits and costs of personalization.
2. Define cookies and describe their values and drawbacks.
3. Define behavioral targeting and find a sample application on the Internet.
4. Define collaborative filtering and find a sample application on the Internet.
5. Explain how one-to-one advertising is done using cookies and behavioral targeting.

## **9.6 MARKET RESEARCH FOR E-COMMERCE**

In order to sell more effectively, it is important to conduct proper market research to find information and knowledge about consumers and products. The market researcher's goal is to identify marketing

opportunities and problems, to provide input for marketing planning, to find out how to influence the purchasing process, and to evaluate the success of promotions and advertisements. Market research aims to investigate the behavior of customers on the Web (see Strauss and Frost 2014). Market researchers gather information about competition, regulations, pricing, strategies, and consumer behavior. For the theoretical aspects of e-commerce market research, see the 2013 slide show presentation “E-Commerce Market: Theoretical Aspects and Market Research” at [slideshare.net/SellOnlinePractive/e-commerce-market-research-26327400](http://slideshare.net/SellOnlinePractive/e-commerce-market-research-26327400).

## Objectives and Concepts of Online Market Research

Investigation of EC markets can be conducted through conventional methods (e.g., in-person surveys; focus groups) or it can be done by using the Internet. Internet-based market research is frequently faster, allowing researchers to reach remote or diverse audiences. In addition, market researchers can conduct very large studies on the Web at a much lower price than using offline methods. Telephone surveys can cost as much as \$50 per interview and their quality may be poor. Such cost can accumulate to thousands of dollars when several hundred respondents are needed. An online survey will cost a fraction of a similarly sized telephone survey and can expedite research considerably. On the other hand, the increased sample size in online surveys can increase the accuracy of the results. McDaniel and Gates (2012) provide a comprehensive review of online market research technologies, methods, tools, issues, and ethical considerations.

### What are Marketers Looking for in EC Market Research?

By looking at a customer’s personal profile that includes observed behaviors on the Web, it is possible for marketers to predict online buying behavior. For example, companies want to know why some customers are online shoppers, and why others are not. Major factors that are used

for predicting customer online purchasing behavior are (in descending order of importance): product information requested, number of related e-mails, number of orders made, products/services ordered, and gender.

Typical questions that online market research attempts to answer are: What are the purchase patterns for typical individuals, and what are the patterns for specific groups? How can we identify those who are real buyers from those who are just browsing? What is the optimal Web page design? Knowing the answers to these questions can help a vendor advertise properly, price items, design a website, and provide appropriate customer service. Online marketing research can provide data to help answer these questions. More information about market research on the Web can be found in the tutorials at [webmonkey.com](http://webmonkey.com).

## Representative Market Research Approaches

To conduct online marketing, it is necessary to know what the customer wants or needs. Such information can be collected by:

- Soliciting information from customers online (e.g., via interviews, questionnaires, use of focus groups, or blogging).
- Observing what customers are doing on the Web by using transaction logs and cookies.
- Using data, text, and Web mining, or collaborative filtering techniques to analyze the available data.

### Data Collection and Analysis

Specific methods for collecting online data include e-mail communication with individual customers, questionnaires placed on websites, monitoring conversations in social networks, and tracking customers’ movements on the Web.

### Online Surveys

An online survey is a major method for collecting EC data and it is considered the most cost-effective mode of survey research. It has several other advantages, including lower overall preparation and administration costs, better control of

the process of filling out the questionnaire (which may lead to fewer response errors, and easier follow-up), and more flexibility in the questionnaire design. In addition, the cycle time can be much shorter. However, online surveys also have some limitations, including the lack of anonymity, data errors due to non-responses, reporting biases, and poor data privacy. For a comprehensive review, see Groves et al. (2009).

### Web-Based Surveys

A special type of online survey is done by placing questions on selected websites and inviting potential consumers to reply. For example, Mazda North America used a Web-based survey to help design its Miata line. Web surveys may be passive (a fill-in questionnaire) or interactive (respondents download the questionnaires, add comments, ask questions, and discuss issues). The surveys may include both approaches. For online survey software and a questionnaire see [surveymonkey.com](http://surveymonkey.com).

### Online Focus Groups

Several research firms create panels of qualified Web visitors to participate in online focus groups. For example, see NPD Group, Inc. (go to [npd.com/wps/portal/npd/us/about-npd/consumer-panel](http://npd.com/wps/portal/npd/us/about-npd/consumer-panel)). This panel consists of 2 million consumers recruited online and verified by telephone to provide information for NPD's consumer tracking services. The use of preselected focus group participants helps to overcome some of the research limitations (e.g., small sample size and partial responses) that sometimes limit the effectiveness of Web-based surveys. See [us.toluna.com](http://us.toluna.com). To create free online surveys, quizzes, and polls (a free to use online survey builder), see [kwiksveys.com](http://kwiksveys.com).

### Hearing Directly from Customers

Instead of using focus groups, a company may ask customers directly what they think about a product or service. Companies can use chat rooms, social network discussion groups, blogs, wikis, podcasts, and electronic consumer forums to interact with consumers. For example, toymaker LEGO used a market research

company to establish a direct survey on an electronic bulletin board where millions of visitors read each other's comments and share opinions about LEGO toys. The researchers analyzed the responses daily and submitted the information to LEGO. Netflix is using this approach extensively by encouraging customers to report their likes and dislikes (see Online File W9.1). Software tools can facilitate obtaining input directly from customers. For examples, see [insightexpress.com](http://insightexpress.com), a leading provider of media analytics and marketing solutions. Finally, as described in Chapter 7, social networks provide several methods to hear directly from customers.

### Data Collection in Social Networks and Other Web 2.0 Environments

Collecting data in social networks and Web 2.0 environments provides new and exciting opportunities. Here are some methods:

- **Polling.** People like to vote (e.g., the U.S. television show *American Idol*), expressing their opinions on certain issues. People provide opinions on products, services, performances of artists and politicians, and so forth. Voting is popular in social networks.
- **Blogging.** Bloggers can raise issues or motivate others to express opinions in blogs.
- **Chatting.** Community members love to chat in public chat rooms. By following the chats, you can collect current data.
- **Tweeting.** Following what travels on Twitter can be enlightening.
- **Live chat.** Here, you can collect interactive data from customers in real time.
- **Chatterbots.** These can be partially interactive. You can analyze logs of communications. Sometimes people are more honest when they chat with an avatar.
- **Collective wisdom (intelligence).** This is a type of community brainstorming.

It is used in crowdsourcing where communication is encouraged.

- **Find expertise.** Expertise is frequently found in the Web 2.0 environment; many times it is provided for free (e.g., the Yahoo! Answers).
- **Folksonomy.** This social tagging makes data easier to find and access.
- **Data in videos, photos, and other rich media.** Places where these media are shared contribute to valuable data collection.
- **Discussion forums.** Subgroups in social networks use a discussion format where members exchange opinions on many topics.

### Example: Xiaomi's Data Collection from Social Media in China

Xiaomi, Inc. ([mi.com/en](http://mi.com/en)) is a Chinese company that designs and sells smartphones and consumer electronics. The company has grown unprecedentedly to become one of the top five smartphone brands in China in three years. It sold 18.7 million smartphones in 2013, only three years after its launch. A key to its success story is the effective use of social media as a marketing research tool. Xiaomi engages fans on social media sites. For example, the company organized a flash sale in 2014, using social media to notify their fans about their upcoming sale. According to the company's global director of marketing, social media is very important to Xiaomi, as it is the most direct and effective way to interact with its fans. Within a year, the market research website had enrolled over 6 million registered users (called Mi Fen). The company analyzed user contributions on the Xiaomi website to design a user interface called MIUI. Xiaomi's first smartphone model was released in August 2011, which received more than 300,000 pre-orders. Two years later, its sales reached US\$ 5 billion in 2013 and started entering the market of other electronic products. Xiaomi's success story shows the importance of market research on

social media. By November 2014, the Millet Forum ([bbs.xiaomi.cn](http://bbs.xiaomi.cn)), called the Millet Community, had more than 221 million posts from its 30 million members. For more information about Xiaomi and its social media engagement, see [thenextweb.com/asia/2014/04/09/xiaomis-social-media-strategy-drives-fan-loyalty-books-it-242m-in-sales-in-12-hours](http://thenextweb.com/asia/2014/04/09/xiaomis-social-media-strategy-drives-fan-loyalty-books-it-242m-in-sales-in-12-hours).

### Observing Customers' Movements Online

To avoid some of the problems of online surveys, especially the reporting bias that occurs when people give false or biased information, some marketers choose to learn about customers by observing their behavior rather than by asking them questions. Keeping track of consumer's online behavior can be done by using transaction logs (log files) or cookie files. This allows activity-based filtering to be done.

### Transaction Logs

A **transaction log** (for Web applications) is a user file that records the user's activities on a company's website from the computer log. A transaction log can be further analyzed with log file analysis tools (e.g. from Oracle) to get a good idea about online visitors' activities, such as how often they visit the site.

Note that, as customers move from site to site, they establish their **clickstream behavior**, a pattern of their movements on the Internet, which can be seen in their transaction logs (see upcoming discussion of clickstream analysis).

### Cookies and Web Bugs

Cookies and Web bugs can be used to supplement transaction-log methods. Cookies allow a website to store data on the user's personal device. When the customer returns to a site visited previously, the website can find what the customer did in the past from the cookie. The customer can be greeted by his(her)name, or a targeted ad can be sent to her(him). For a comprehensive description of cookies, including examples and privacy concerns see the Indiana University Knowledge Base ([kb.iu.edu/d/agwm](http://kb.iu.edu/d/agwm)). Cookies are frequently combined with **Web bugs** that are tiny

(usually invisible) objects concealed in a Web page or in e-mail messages. Web bugs transmit information about the user and his or her movements to a monitoring site (e.g., to find out if the user has viewed certain content on the web page). Many believe that cookies and Web bugs are an invasion of a user's privacy.

**Spyware** is software that enters your computer like a virus does, without your knowledge. It then enables an outsider to gather information about your browsing habits. Originally designed to allow freeware authors to make money on their products, spyware applications are typically bundled together with freeware that is downloaded onto users' computers. Many users do not realize that they are downloading spyware with the freeware. The best defense against spyware is to install anti-virus software, which should detect and remove any viruses or other harmful intrusions.

### **Web Analytics and Mining**

Web analytics deal with the monitoring, collecting, measuring and evaluating, and reporting tasks related to Internet data and activities (e.g., see Provost and Fawcett 2013). Web analytics help us understand and optimize Web usage. Such analysis is done, for example, by retailers for market research. For example, see IBM Coremetrics ([ibm.com/software/marketing-solutions/coremetrics](http://ibm.com/software/marketing-solutions/coremetrics); now part of IBM Enterprise Marketing Management). A company can also use Web analytics software to improve its website's look and operation. Web analytics can provide quick feedback from customers to help marketers decide which products to promote. For tutorials on data, text, and Web mining, see [mydatamine.com](http://mydatamine.com), [tutorialspoint.com/data\\_mining/index.htm](http://tutorialspoint.com/data_mining/index.htm), and the video "Introduction to Data Mining 1/3" at [youtube.com/watch?v=EtFQv\\_B7YA8](https://www.youtube.com/watch?v=EtFQv_B7YA8).

For details and methods used, see Clifton (2012). A special type of Web Analytics is *clickstream analysis*, or just *click analysis*.

### **Clickstream Analysis**

**Clickstream data** are data that describe which websites users visit, in what order, and the time spent on each. This is done by tracking the

succession of "clicks" each visitor makes. By analyzing clickstream data, which can be maintained in a special database or data warehouse, a business can find out, for example, which promotions are effective and which population segments are interested in specific products.

Several companies offer tools that enable such an analysis. For example, Analytics 10 from Webtrends, Inc. ([analytics.webtrends.com](http://analytics.webtrends.com)) features several advanced tools for analyzing clickstream data ([webtrends.com/solutions/digital-measurement/streams](http://webtrends.com/solutions/digital-measurement/streams)). Finally, [clickstreamr.com](http://clickstreamr.com) configures Google Analytics standards and can be used for such analysis.

### **Web Mining**

**Web mining** refers to the use of data mining techniques for both Web content and usage in Web documents in order to discover patterns and hidden relationships. Web mining has the potential to change the way we access and use the information available on the Web. For mining the social web, see Russell (2013).

## **Limitations of Online Market Research and How to Overcome Them**

Online market research has technical and behavioral limitations. One technical problem with online market research is that there may be an abundance of data. To use data properly, one needs to organize, edit, condense, and summarize them. However, such a task may be expensive and time-consuming. One solution to this problem is to automate the process by using data warehousing and data mining. The essentials of this process, known as business intelligence, are provided in Online Tutorial T3 and in Sharda et.al. (2015).

Behavioral limitations of online research methods are responding biases, sample representatives that are hard to control, and the ethics and legality of Web tracking. As Web-based surveys often use an "open call" to recruit respondents, the response rate is hard to know and the respondent control is limited. Anonymity in Web-based surveys may encourage people to be



more honest in their replies. However, anonymity may result in the loss of valuable information about the demographics, preferences, and behaviors of the respondents. To overcome some of the above limitations, online market research methods need to be designed carefully and rigorously. Small companies without proper expertise may outsource their market research to large and experienced companies that have specialized market research departments and expertise.

### **Privacy Issues in Market Research**

Collecting data from customers, sometimes without their knowledge, may constitute an invasion of privacy. For an overview, guidelines, and standards, see [esomar.org/knowledge-and-standards/codes-and-guidelines.php](http://esomar.org/knowledge-and-standards/codes-and-guidelines.php), and [marketingresearch.org/standards](http://marketingresearch.org/standards).

Note: Stores may be tracking you through your phone: Some retailers are tracking their customers' shopping movements by monitoring shoppers' smartphones. While retailers are claiming that this is anonymous, consumer advocates disagree, claiming that this practice is spying, and shoppers who have their smartphone turned on while shopping should be given the option whether or not to being tracked. See Kerr (2014) and the accompanying video titled "Stores May be Tracking You through Your Phone" (1:11 minutes) at [landing.newsinc.com/shared/video.html?vclid=25637862&freewheel=90392&sitection=jcntribune](http://landing.newsinc.com/shared/video.html?vclid=25637862&freewheel=90392&sitection=jcntribune). Retailers are using technology to track shoppers' location and movements in physical stores and malls by identifying the shoppers' smartphones (finding the MAC address). This information is used by advertisers and marketing planners. To avoid being monitored while at the mall, just turn off your smartphone. (For the opt-out website, see [smartstoreprivacy.org](http://smartstoreprivacy.org)).

### **Biometric and Smartphone Marketing Helps Market Research**

Many households have several users; thus, the data collected may not represent any one person's preferences (unless, of course, we are sure that

there is one user per device, as in the case of smartphones). Potential solutions are using biometric marketing or smartphones to access individuals.

A **biometric** is one of an individual's unique physical or behavioral trait that can be used to authenticate an individual (e.g., more precisely fingerprints; see list in Chapter 10). By applying the technology to computer users, we can improve security and learn about the user's profile. The question is how to do it. Indeed, there are programs by which users identify themselves to the computer by biometrics, and these are spreading rapidly. Note that utilizing the technology for market research involves social and legal acceptability.

**Mobile market research** is a method of collecting data through mobile devices including mobile phones, smartphones, and tablets. Typical methods for collecting information are through apps, short message systems (SMS), WAP, mobile Web, and location-based services. A major advantage of mobile market research is that it can be conducted virtually anywhere at any time. However, it does suffer from the limitation that it is hard to define the sampling frame and cannot access the sample without the users' mobile devices. Privacy protection is another key concern for conducting mobile market research. Hence, an organization called ESOMAR has released guidelines for conducting mobile market research ([esomar.org](http://esomar.org)).

### **SECTION 9.6 REVIEW QUESTIONS**

1. Describe the objectives of market research.
2. Define and describe market segmentation.
3. Describe the role of transaction logs and clickstream analysis.
4. Define cookies, Web bugs, and spyware, and describe how they can be used in online market research.
5. Describe how the issue of privacy relates to online market research.
6. Describe the limitations of online market research.
7. Describe how biometrics and smartphones can improve market research.

## 9.7 WEB ADVERTISING

Advertising on the Web plays an extremely important role in e-commerce. Internet advertising is growing very rapidly, especially in B2C, and companies are changing their advertising strategies to gain a competitive edge. Since the Internet provides interactivity, online ads are also useful for brand building directly through response ads. Based on a 2014 IAB Internet Advertising Report conducted by the professional service network PricewaterhouseCoopers ([pwc.com](http://www.pwc.com)), online ad revenue reached a record high of \$42.8 billion in 2013 in the United States alone, which is a 17% increase from the previous year, while mobile advertising increased by 110% to 7.1 billion in the United States in 2013 (see [about\\_the\\_iab/recent\\_press\\_releases/press\\_release\\_archive/press\\_release/pr-041014](http://about.the_iab/recent_press_releases/press_release_archive/press_release/pr-041014)). The Internet advertising revenue surpassed \$40.1 billion of broadcast television and \$34.4 billion of cable television.

Search, display/banner ads, and mobile ads are the three most popular types of Internet ads. Social media advertising is another fast growing area. A market research organization, eMarketer, reported social media advertising revenue in 2013 to be \$4.4 billion, a 42.9% increase over 2012 and predicted a 30% increase in 2014. All these numbers indicate the fast growing trend in online and mobile advertising. In this section, we concentrate on generic Web advertising. We cover social media advertising in Chapter 7.

### Overview of Web Advertising

Advertising is the delivery of ads to Internet users in order to influence people to buy a product or a service. Traditional advertising (also known as marketing communication) is an impersonal, one-way mass communication. Telemarketing and direct mail ads attempted to overcome the deficiencies of mass advertising, but they are expensive and their response rate was not too high. For example, a direct mail campaign costs about \$1 per person and has a response rate of

only 1% to 3%. This makes the cost per responding person in the range of \$20 (for a 5% response) to \$100 for 1% response. Such an expense can be justified only for high-ticket items (e.g., cars).

One of the problems with direct mail advertising was that the advertisers knew very little about the recipients. Market segmentation by various characteristics (e.g., age, income, gender) helped a bit but did not solve the problem. The concept of **interactive marketing** enables marketers and advertisers to interact directly with customers.

On the Internet, a consumer can click an ad to obtain more information or send an e-mail to ask a question. The customer can chat live with the merchant (person or avatar), or with peers in a social network chat room. The Internet enables truly one-to-one advertising.

### The Advertising Cycle

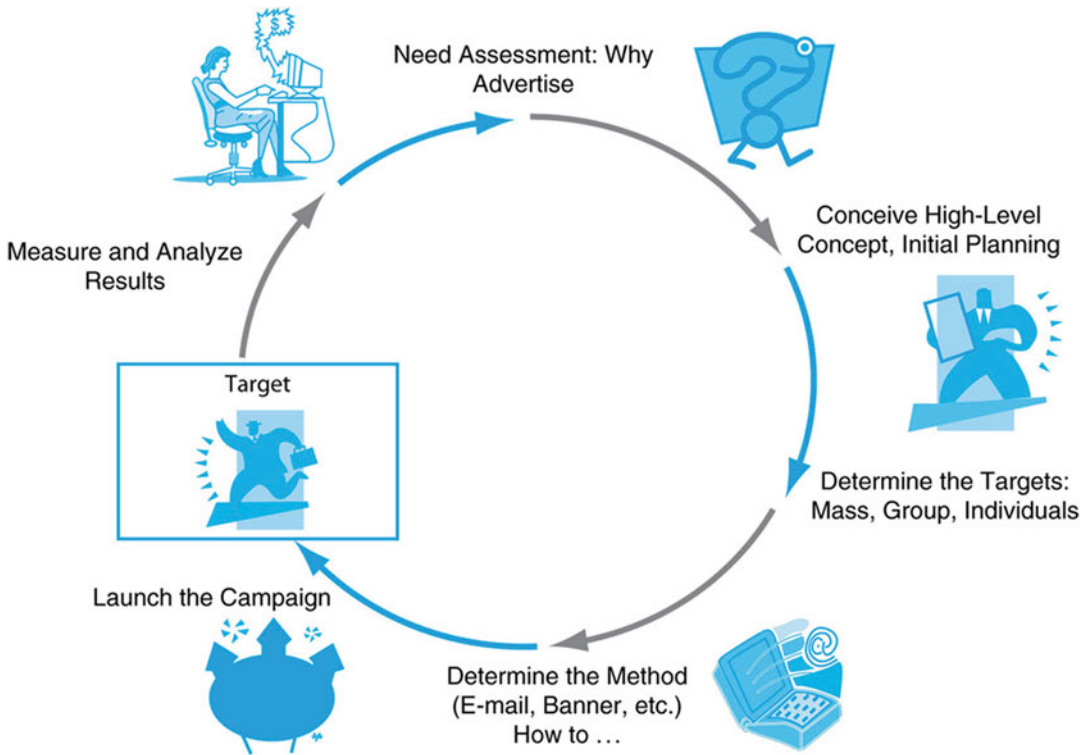
Many companies are treating advertising as a cyclical process, as shown in Figure 9.4. The cyclical process requires a plan to determine the target audience of a campaign and how to reach that audience. Analyzing a campaign after its completion assists a company in understanding the campaign's success or failure. This knowledge is then used for planning future campaigns.

Before we describe the steps in the cycle as it is implemented in Web advertising, let us learn some basic Internet advertising terminology.

### Basic Internet Advertising Terminology

The following terms and their definitions will be of use as you read about Web advertising.

- **Ad views:** The number of times users call up a page that has a banner on it during a specific period; known as *impressions* or *page views*.
- **Button:** A small banner that is linked to a website; may contain downloadable software.
- **Click (ad click):** A count made each time a visitor clicks on an advertising banner to access the advertiser's website.
- **CPM (cost per mille, i.e., thousand impressions):** The fee an advertiser pays for each 1,000 times a page with a banner ad is shown.



**Figure 9.4** The advertising cycle

- **Conversion rate:** The percentage of clickers who actually make a purchase.
- **Click-through rate/ratio (CTR):** The percentage of visitors who are exposed to a banner ad and click on it.
- **Hit:** A request for data from a Web page or file.
- **Landing page:** The page a viewer is directed to after having clicked on a link. In online marketing, this page is used to convert the person from a viewer to a buyer.
- **Page:** An HTML (Hypertext Markup Language) document that may contain text, images, and other online elements, such as Java applets and multimedia files; may be generated statically or dynamically.

### Why Internet Advertising?

The major traditional advertising media are television, newspapers, magazines, and radio.

However, the market is changing, as many consumers are spending more time on the Internet (about a 25% annual growth) and using mobile devices. Internet advertising is getting more attention. The advertising revenue of Internet advertising exceeded that of broadcast TV, cable TV and newspapers in 2013, and we can foresee this trend continuing. Hence, online advertising is a clear choice for the future.

### Advertising Online and Its Advantages

The major advantages of Internet ads over traditional media advertising are the ability to interact one-to-one with customers and the ability to use rich media (e.g., videos) to grab attention. In addition, ads can be changed easily and campaigns are usually less costly. In comparison with traditional media, the Internet is the fastest growing communication medium by far. Worldwide, as of June 2014, the number of Internet users was getting close to 3 billion in 2013 (see [internetworldstats.com](http://internetworldstats.com)).

[com/stats.htm](#)). Of course, advertisers are interested in such a fast growing community.

Other reasons why Web advertising is growing rapidly include:

- **Cost.** Online ads usually are cheaper than ads in traditional media.
- **Media richness.** Web ads can include rich and diversified media (e.g., videos, animation). In addition, ads can be combined with games and entertainment.
- **Easy updating.** Updating can be done quickly and inexpensively.
- **Personalization.** Web ads can be either one-to-one or addressed to population segments.
- **Location-based.** Using wireless technology and GPS, Web advertising can be location based (see Chapters 6 and 7).
- **Linking to shopping.** It is easy to link from an online ad to a vendor's web-store. Usually, it can be done in one click.

### Traditional Versus Online Advertising

Each advertising medium, including the Internet, has its advantages and limitations. Pfeiffer and Zinnbauer (2010) compared traditional advertising against Internet advertising (including social networks). They concluded that, not only is Internet advertising more cost efficient, the business impact of Internet ads is larger than traditional ads. For a summary of a comparison, see Online File W9.2.

The synergy between TV and online advertising can help attract more attention than either medium on its own. It has been found that a TV campaign increases brand awareness by 27%, whereas a combined TV and online campaign increases it by 45%. A TV campaign increases intent to purchase by 2%, whereas a combined TV and online campaign increases it by 12%.

The impact of Internet ads on newspaper viability is devastating. Many newspapers are disappearing, merging, or losing money. One

solution is to increase their digital ads, as the *New York Times* is doing (see Vanacore 2010).

Internet ads are subject to limitations such as screen size, space, and policies.

## SECTION 9.7 REVIEW QUESTIONS

1. Define Web advertising and the major terms associated with it.
2. Describe the reasons for the growth in Web advertising.
3. Describe emerging Internet advertising approaches.
4. List the major benefits of Web advertising.
5. Draw and explain the advertising cycle.
6. What is the impact of online advertising on the viability of newspapers and TV?

## 9.8 ONLINE ADVERTISING METHODS: FROM E-MAIL TO SEO AND VIDEO ADS

A large number of online advertising methods exist. For a list and description, please see [en.wikipedia.org/wiki/Online\\_advertising](http://en.wikipedia.org/wiki/Online_advertising). Next, we discuss the three major categories of ads.

### Major Categories of Ads

Ads can be classified into three major categories: *classified*, *display*, and *interactive*.

#### Classified Ads

These ads usually use text, but lately may include photos. The ads are grouped according to classification (e.g., cars, rentals). They are the least expensive.

Classified ads can be found on special sites (e.g., see classified ads at [craigslist.org](http://craigslist.org) and [superpages.com](http://superpages.com)), as well as on online newspapers, e-markets, and portals. In many cases, posting regular-size classified ads is free, but placing them in a larger size, in color, or with some other noticeable features is done for a fee. For examples, see [traderonline.com](http://traderonline.com) and [advertising.microsoft.com](http://advertising.microsoft.com).

### Display Ads

These are illustrated advertisements that use graphics, logos, colors, or special designs. These ads are usually not classified, but they can be combined. Display ads are popular offline in billboards, yellow pages, and movies. They are becoming very popular on the Internet as well. All major search-based advertising companies (e.g., Google, Yahoo!, Microsoft, AOL) are leveraging their online positions in search advertising into the display ad business.

### Interactive Ads

These ads use online or offline interactive media to interact with consumers and to promote products, brands, and services. This is most commonly performed through the Internet, often using video as a delivery medium.

There are several variations in each of these categories. The major methods are presented next.

## Banners

A **banner** is a display that is used for advertising on a Web page (words, logos, etc. embedded in the page). A banner ad is frequently linked to an advertiser's Web page. When users "click" on the banner, they are transferred to the advertiser's site. A banner must be designed to catch a consumer's attention. Banners often include images, and sometimes video clips and sound. Banner advertising, including pop-up banners, is a popular advertising method on the Web.

There are several sizes and types of banners. The sizes, which are standardized by the Interactive Advertising Bureau (IAB) ([iab.net](http://iab.net)), are measured in pixels. **Random banners** appear randomly, not as a result of some action by the user. Companies that want to introduce their new products (e.g., a new movie or CD) or promote their brand use random banners. **Static banners** stay on a Web page regularly. Finally, **pop-up banners** appear in a separate window when its affiliated Web page is activated.

If an advertiser knows something about a visitor, such as his/her user profile, or area of interest, the advertiser will try to match a specific banner with that visitor. Obviously, this kind of targeted, personalized banner is usually most effective. Such **personalized banners** that are tailored to meet the need of target customers are being developed, for example, by Conversant ([conversantmedia.com](http://conversantmedia.com)).

**Live banners** are ads where the content can be created or modified at the time the ads pop up instead of being preprogrammed like banner ads. They usually are rich media. For details and examples, see [en.wikipedia.org/wiki/Live\\_banner](http://en.wikipedia.org/wiki/Live_banner).

### Benefits and Limitations of Banner Ads

The major benefit of banner ads is that, by clicking on a banner, users are transferred to an advertiser's site, frequently directly to the shopping page of that site. Another advantage of using banners is the ability to customize them for individual surfers or a market segment of surfers. In many cases, customers are forced to see banner ads while waiting for a page to load, or before they can get the page they requested (a strategy called *forced advertising*). Finally, banners may include attention-grabbing rich multimedia.

The major disadvantage of banners is their cost. If a company demands a successful marketing campaign, it will need to pay high fees for placing banners on websites with high traffic.

However, it seems that viewers have become somewhat immune to banners and simply ignore them. The click-through rate has been declining over time. Because of these drawbacks, it is important to decide where on the screen to place banners (e.g., right side is better than left side, top is better than bottom). Companies such as QQ.com and Taobao.com in China have built behavior labs to track eye movements of consumers to understand how screen location and Web page design may affect viewer attention. Ad blocking tools are also available to install on a browser to remove all banner ads when a Web page is accessed. This also reduces the number of click-throughs.

### **Banner Swapping and Banner Exchanges**

**Banner swapping** means that company A agrees to display a banner of company B in exchange for company B's displaying company A's banner. This is probably the least expensive form of banner advertising, but it is difficult to arrange. A company must locate a site that will generate a sufficient amount of relevant traffic. Then, the company must contact the owner/Webmaster of the site and inquire if the company would be interested in a reciprocal banner swap. Because individual swaps are difficult to arrange, many companies use banner exchanges.

**Banner exchanges** are marketplaces that allow multiple websites to barter space for banners. Such an intermediary finds partners for such trades. A multi-company banner match may provide a better match, and it will be easier to arrange than a two-company swap. For example, company A can display B's banner effectively, but B displays A's banner with poor results. However, B can display C's banner, and C can display A's banner both successfully. Such bartering may involve many companies.

### **Pop-Up and Similar Type Ads**

One of the most annoying phenomena in Web surfing is the increased use of pop-ups and similar ads. A **pop-up ad**, also known as *ad spawning*, appears due to the automatic launching of a new browser window when a visitor accesses or leaves a website, when a delay occurs. Pop-ups cover the user's current screen and may be difficult to close. They can gain a user's immediate attention, but their use is controversial. Many users strongly object to this advertising method, which they consider to be intrusive. Most browsers provide an option that allows the viewer to block pop-up windows. Legal attempts have also been made to control pop-ups because they are basically a form of spam.

Several other tactics, some of them very aggressive, are being used by advertisers, and their use is increasing. These tactics may be accompanied by music, voice, and other rich multimedia.

### **Pop-Up Videos**

Along with the increase in popularity of free viral videos (e.g., on YouTube) comes the pop-up commercial before them. Some can be skipped; others cannot. These commercials usually last for 10 to 20 seconds. These pop-ups may or may not be related to the content of the video you want to watch. Sometimes, video ads come with an incentive, called *incentivized video ads*, which will be described later.

### **E-Mail Advertising**

**E-mail marketing** refers to the use of e-mails for sending commercial messages to users. E-mail marketing may occur in different formats and for different purposes. Typical e-mail marketing formats are:

1. Using **e-mail advertising** means that ads are attached to e-mails.
2. Sending e-mail messages for facilitating vendor-customer relationships (CRM types).
3. Sending e-mail messages for attempting to acquire new customers.
4. Sending messages via microblogs or other social media platforms.

E-mail messages may be combined with brief audio or video clips to promote a product; some messages provide links that users can click on to make a purchase. Sending coupons and special offers is done by all major retailers, including department stores and supermarkets. Airlines, banks, educational institutions, and anyone else who can get your e-mail will send you e-mail ads.

### **Major Advantages and Limitations of E-Mail Advertising**

The major advantages of e-mail advertising are:

- It is a low-cost and effective method.
- Advertisers can reach a large number of consenting subscribers.



- Most Internet users check or send e-mail on a daily basis. Therefore, ads reach customers quickly.
- E-mail is an interactive medium that can combine advertising and customer service.
- E-mail ads can include a direct link to any website, so they act like banners. A consumer may be more likely to respond to relevant e-mail messages, especially when links to discounts or special sales are provided.

Using an infographic, Ellis (2013) explains the benefits of e-mail marketing for customer acquisition and retention, increased sales, and CRM.

### Limitations

A major limitation of e-mail ads is that these messages are often treated as spam and are blocked by the user's spam control software. In general, using e-mail to send ads (sometimes floods of ads) without the receivers' permission is considered *spamming*.

As the volume of e-mail increases, consumers' tendency to screen and block messages is on the rise as well. Today, most e-mail services permit users to block messages from specific sources or automatically filter certain ads as junk mail.

### Implementing E-Mail Advertising

A segmented list of e-mail addresses can be a very powerful tool for a company, helping it to target a group of people that share common characteristics. In many cases, the mailing list is based on membership and loyalty programs, such as an airline's frequent flyer program. For information on how to create a mailing list, consult [topica.com](http://topica.com).

E-mail can also be sent to mobile devices. Mobile phones, in particular, offer advertisers a real chance to advertise interactively and on a one-to-one basis with consumers – anytime, anyplace. Now e-mail ads are targeted to individuals based not only on their user profiles, but also on their physical location at any point in time.

### E-Mail Hoaxes

E-mail hoaxes are very popular; some of them have been going on for years (e.g., Neiman Marcus's cookie recipe, the Nigerian Letters, the Homeland Security cashier check hoax). Some of these are scams. For details, see U.S. Federal Trade Commission ([ftc.gov](http://ftc.gov)) and Chapter 10.

### Fraud

Fraud may happen in e-mail ads. For example, a person may receive an e-mail stating that his or her credit card number is invalid or that his or her MSN service will be terminated unless another credit card number is provided by the recipient of the mail. For protection against such fraudulent practices, see [scambusters.org](http://scambusters.org) and Chapters 10 and 15.

### Search Engine Advertisement and Optimization

Search engines are a good mechanism for most people to find information, and therefore, a good platform for online advertising. Placing online ads on Web pages that show results from querying a search engine is known as **search advertising**. If the search result includes your company and product, it is a free advertisement for you. The problem is that the results of a search may include thousands of items, and your product may be not on the first or second page of the results. Note that, search advertising includes mobile search and social network search (see e.g., [wink.com](http://wink.com)) or [pipl.com](http://pipl.com)). Two major forms of search engine advertising are *keyword advertising* and URL listing.

### Keyword Advertising

Keyword advertising links the appearance of ads with keywords specified by the advertiser. It includes “pay per click.” Businesses select the keywords to which they want their advertisements to be searched and matched. Advertisements appear on the screen along with the search results when the chosen keywords are searched. This can substantially increase the likelihood that the advertisement will be viewed and possibly acted on because of its high relevance to user interests.

For an example of how this works, see [google.com/adwords/how-it-works/ads-on-google.html](https://google.com/adwords/how-it-works/ads-on-google.html). Google is using two major methods (to be described later) to implement its advertisement strategy. In fact, more than 90% of Google's revenue is generated from advertising (2014).

### URL Listing

Most search engine companies allow businesses to submit their URLs for free, so that these URLs can be searched for by the search engines. Search engine spiders crawl through each site, indexing its content and links. The site is then included as a candidate for future searches. Because there are quite a few search engines, advertisers who use this method should register their URL with as many proper search engines as possible. In some cases, URLs may be searched even if they are not submitted to the search engines.

The major advantage of URL listing is that the listing can be very relevant to the subject of the search. This is the key to Google's success, as we will describe later. The second major advantage of using a search engine as an advertising tool is that it is free. Anyone can submit a URL to a search engine and be listed. People searching for a certain product will receive a list of sites that mention the products.

However, the URL method has several drawbacks. The major one is that it is difficult (or expensive) to get your ad to appear in a good location on the list generated by the search engine. Search engines find a very large number of related Web pages for each inquiry made by a user. The chance that a specific company's site will be found and included at the top of a search engine's display list (say, in the first 10 items) is very slim. Hence, many companies provide a service to help advertisers improve the location (usually targeting the first page) of the search result. This is called *search engine optimization*.

### Search Engine Optimization (SEO)

**Search engine optimization (SEO)** is a process that improves the visibility of a company or brands on the results page displayed by a search

engine. Ideally, the results should be in the top five to ten on the first page. Companies hire search optimizers or try to optimize by themselves. SEO can increase the number of visitors to a website, and therefore companies are willing to pay for this service. For how to do this, see Harris (2014). SEO is performed in all types of online searches, including video search, social network search, and image search. According to Google AdWords, "to get your ads to appear when people search for your product or service, the keywords you choose need to match the words or phrases that people use, or should be related to the content of the websites your customers visit." Figure 9.5 shows the general process of SEO. For further details, see Amerland (2013) and [blog.kissmetrics.com/minimalist-seo](http://blog.kissmetrics.com/minimalist-seo).

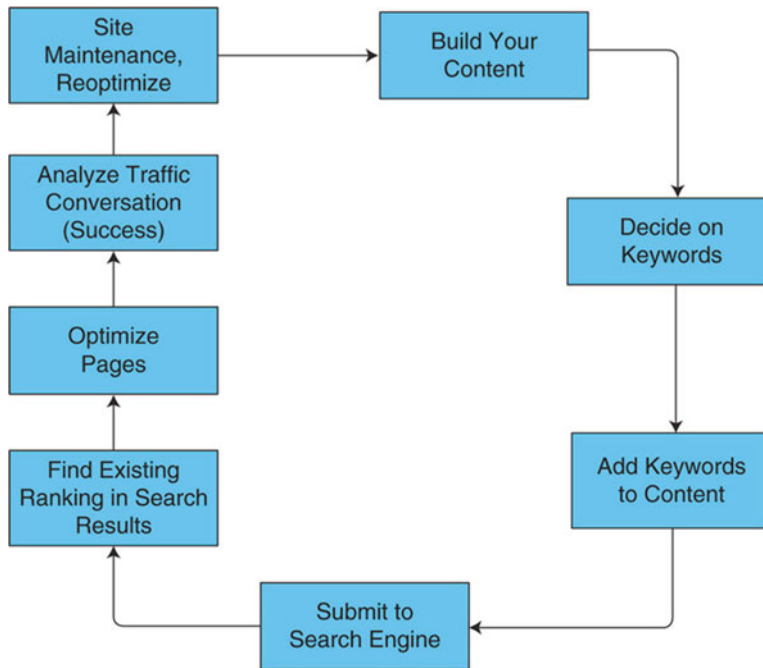
### Sponsored Ads (Paid Inclusion)

In addition to optimizing your Web pages so that they will appear on the first page of the search results, you can buy keyword ads to appear on the first page of the results. This is referred to as *paid inclusion* or *sponsored ads*. Your ads will show up on the first page of the results, at the top of the page or on the right side based on the amount you decide to spend. Google uses auctions (first page bids) to sell the best locations to advertisers. For how keywords work, see [support.google.com/adwords/answer/1704371?hl=en](https://support.google.com/adwords/answer/1704371?hl=en).

WebPosition ([webposition.com](http://webposition.com)) provides such a service. More tips for improving a site's listing in various search engines can be found at [searchenginewatch.com](http://searchenginewatch.com).

## Google: The Online Advertising King

Google provides several methods of search engine advertising to their clients, generating most of its billions of dollars in revenue and profits from them. Google uses a behavioral marketing algorithm to determine users' interests while they search for information, and then targets (matches) advertisements to them. Google is continuously improving its matching algorithms (see Williams 2013).



**Figure 9.5** The process of search engine optimization

Google’s major advertising platform is composed of two programs: Google’s AdWords and AdSense, and it can be supported by Google Analytics.

### **Google’s Major Advertising Methods: AdWords and AdSense**

The mechanisms of how AdWords and AdSense work are described below:

#### **Google AdWords**

AdWords is an advertising program for sponsored ads. Whenever you use Google to search for something, you will notice URLs with colored backgrounds, titled “sponsored links” on the right hand side or on the top of the page. These include Google AdWords participants. According to Google.com, these URLs are created by advertisers who select a few key terms related to their brands. They also choose how much they want to spend to “buy” these key terms (up to a daily dollar limit). Google uses ranking algorithms to match the advertisers’ selected key terms with the searchers’ search

activities. Typically, if a searcher types in a selected keyword, a banner ad will appear in the sponsored links column. Then, if the searcher clicks on the ad (to go to the advertiser’s page), the sponsor vendor is billed according to the agreed upon rate (payments are made from the prepaid budget). For details and success stories, see [adwords.google.com](http://adwords.google.com). Google AdWords is a “pay-per-click” type of advertising. You pay only if people click on your ads. How it works: You create your ads and choose your keywords (you can also target your ads); when someone searches on Google using your keyword, your ad may appear next to the search results; you gain more customers.

Since all advertisers like their ads to appear on the first page of the search results, Google devised a bidding system that determines which ads are shown where and how fees are calculated.

Despite its success, AdWords by itself does not provide the best one-to-one targeting. Better results may be achieved in many cases through a complementary program – AdSense (both are offered on mobile devices).

## Google AdSense

Google's AdSense is an *affiliate program*. In other words, website publishers can earn money by displaying targeted Google ads on their website. In collaboration with Google, participating website owners (publishers) can add search engines to their own sites. Then, when someone is searching for a term related to the content of the affiliated websites, she(he) can see the Google ad and, if interested, will be directed to the advertisers' text, video, or image ads, which are crafted by Google.

The matching of the displayed ad to content of the affiliates is based on Google's proprietary algorithm. This matching algorithm is known to be fairly accurate. The key for success is the quality and appearance of both the affiliate's pages and the ads, as well as the popularity of the affiliate's sites. Hundreds of thousands of companies and individuals participate in the affiliate program. Google provides the affiliates with analytic tools and procedures that help convert visitors to customers (see the information at [google.com/adsense](http://google.com/adsense)). Google's affiliates earn money when visitors click on the ads. The advertisers pay Google. Google shares the revenue generated from advertisers with the affiliates.

AdSense has become a popular method of advertising on websites because the advertisements are less intrusive than in other programs, and the content is often better targeted. For an example of a site using AdSense, see [rtcmagazine.com](http://rtcmagazine.com).

Google's success is attributed to the accuracy of the matches, the large number of advertisers in its network, the ability to use ads in many languages, and the clarity of the ads. Google offers several types of AdSense programs. See details at [webopedia.com/TERM/A/adsense.html](http://webopedia.com/TERM/A/adsense.html). Competing programs are offered by eBay and Yahoo! (see eBay AdContext at [affiliates.ebay.com.au/adcontext](http://affiliates.ebay.com.au/adcontext); as of 2014, available only in select countries including Australia, the U.S., and the UK; also available only in few countries). For an overview on how AdSense works, see [google.com/adsense/start/how-it-works.html](http://google.com/adsense/start/how-it-works.html).

## Viral Marketing (Advertising)

**Viral marketing (viral advertising)** refers to electronic *word-of-mouth* (WOM) marketing – the spreading of a word, story, or some media. It is a marketing strategy where a company encourages the spreading of information and opinions from person to person about a product or service. This can be done by e-mails, text messaging, in chat rooms, via instant messaging, by posting messages on social network walls (e.g., Facebook), and in discussion groups or by microblogging (e.g., using Twitter). It is especially popular in social networks. Having people forward messages to friends, telling them about a good product is an example of viral marketing. Viral marketing has been used offline for generations, but now, being online, its speed and reach are multiplied and is done at minimal cost to vendors, because the people who transmit the messages are usually paid nothing. The process is analogous to the spread of computer (or regular) viruses using a self-replication process. Viral messages may take the form of text messages, video clips, or interactive games.

An ad agency supplies Internet users with something of value for free, which encourages them to share with others, so as many people as possible can see the message. For example, advertisers might distribute a small e-game or a video embedded within a sponsor's e-mail sent to thousands of people hoping that they will forward it to tens of thousands of people. Viral marketing also was used by the founder of Hotmail, a free e-mail service that grew from zero to 12 million subscribers in its initial 18 months and to more than 50 million subscribers in about four years. Each e-mail sent via Hotmail carried an embedded advertisement to the recipient to sign up for a free Hotmail account. Facebook's initial reputation was achieved in a similar way, but much faster. Viral marketing can be effective, efficient, and relatively inexpensive when used properly. eWOM can also influence consumer judgment about products. For further details, see [learnmarketing.net](http://learnmarketing.net). For six simple steps to an effective viral marketing strategy, see Wilson (2012).

According to a 2010 survey conducted in Chinese markets, word of mouth has become an

important factor in consumers' purchasing decisions. In 2010, 64% of respondents said that word of mouth influenced their purchasing decisions, while in 2008, only 56% of consumers preferred word of mouth advertising. Incidentally, researching a product or service online, rather than relying on traditional advertisements, was also found to be an important factor for people before they make the final purchase decision (see Atsmon and Magni 2010).

eWOM constitutes a multitude of activities, which can be divided into specific categories (see Eaton 2006). One category is a "higher degree" of e-word of mouth (e.g., viral marketing, e-referral marketing), and the other is "lower degree" marketing (e.g., social networks, brand communities).

One of the downsides of eWOM marketing is that many customers complain about receiving unsolicited e-mails, comparing them to telemarketing calls. Consumers may use spam blockers to filter out unsolicited e-mails, which may appear to be spam. For a comprehensive review, see Eaton (2006).

The message circulated in viral marketing may be in different formats and for different purposes. A typical one is a text message about a product or service for persuading consumers. Another format is video ads, a topic we will discuss next. Online videos are also discussed by Scott (2013) and in Chapter 7.

### **Line and Mobile Activities**

Mobile messaging platforms such as LINE and WeChat have created a non-game app featuring cute and funny "chat stickers." These stickers are localized and tailored to the taste of individual markets. Line generates its revenue from in-game apps (60%), followed by sticker purchases (20%), which are essentially big "emoicons" (Q3 2013 data). A sticker is downloaded from Line, which is a free download (available for Android and iPhones), and is attached as part of a text or chat message. Users can get stickers from the Line Store ([store.line.me](http://store.line.me)), and now the "Line Creators Marketplace" is available for those who wish to design, create, and sell their own stickers in the shop.

## **Video Advertising**

Video advertising refers to the insertion of video ads into advertisements or regular online contents. The Internet Advertising Bureau (IAB) believes in the importance of video ads, and created a guide to the topic; see [slideshare.net/hardnoyz/iab-guide-to-video-advertising-online](http://slideshare.net/hardnoyz/iab-guide-to-video-advertising-online) and the accompanying document transcript. Video ads are common in Internet TV programs.

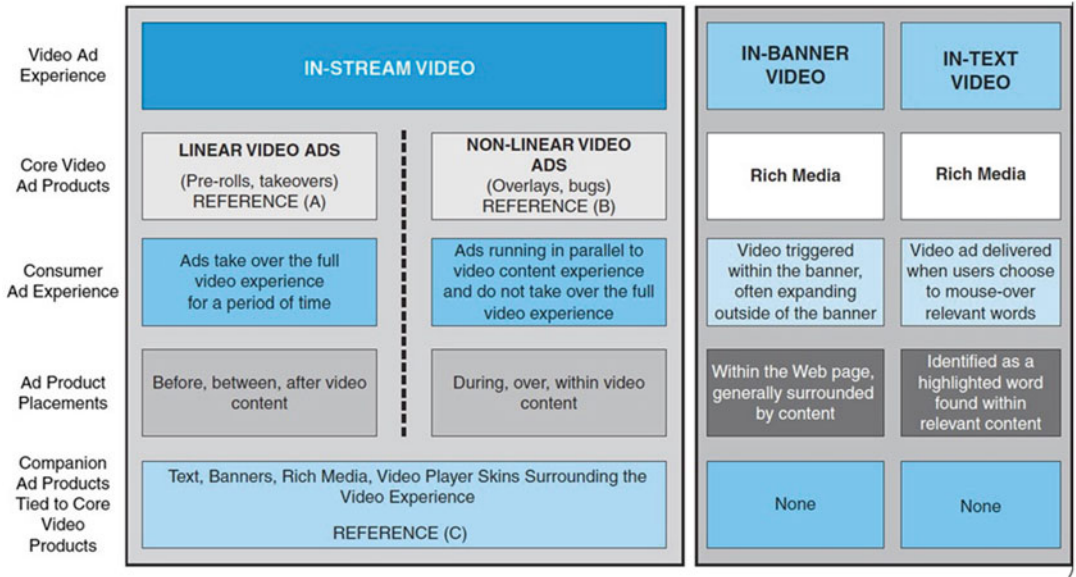
Video ads are growing rapidly, mainly due to the popularity of YouTube and similar sites. Online video is growing nearly 40% annually while TV viewing continues to fall. For statistics, see [marketingcharts.com](http://marketingcharts.com).

Video ads appear all over the Web, both as unsolicited pop-ups, or when you give permission to see a demo or information about a product. Video ads have become very popular in the Web 2.0 environment and in social networking. The impact of video ads can be seen in Psy's "Gangnam Style" video, which the video was viewed more than 1.2 billion times within six months of its publication on YouTube. Any ad sponsor receives huge exposure in such a case. A 2013 IAB report shows a growth of digital video ads revenue from 721 million in 2012 to 807 million in 2013 in the United States.

The major reason for the popularity of videos is that almost everyone who uses the Internet now watches online videos. Videos are also viewed on all mobile devices (e.g., smartphones, tablets), and they can be posted on Twitter. Social media and the accessibility to increased broadband mobile access are also reasons for the growth of online video usage. Watching videos on mobile devices has become very popular on airplanes and other public transportation.

There are primarily two approaches to incorporating videos in Web advertising: (1) per-product videos that are embedded in regular product pages, adding product details; and (2) editorial-style videos that allow consumers to discover such products.. Many retailers are adding product-specific videos to their e-commerce sites. For a complete overview of video marketing and advertising, see [webvideomarketing.org/video-advertising](http://webvideomarketing.org/video-advertising) and Daum et al. (2012).





**Figure 9.6** IAB model of video advertising (Source: Interactive Advertising Bureau. “A Digital Video Advertising Overview.” January 2008. [iab.net/media/file/dv-report-v3.pdf](http://iab.net/media/file/dv-report-v3.pdf) (accessed July 2014). Used with permission

According to a Cisco survey, most large online retailers are using videos to help sell products. Forrester Research found that most major retailers are making product videos central to their marketing strategies. According to a comScore study (per McGee 2012), Americans watched more than 10 billion video ads in May 2012 and according to comScore, 28.7 billion in March 2014.

Some of the leading companies in this area are YouTube, Metacafé, VEVO, and Hulu. Figure 9.6 illustrates the IAB Model of video advertising. For information on Google’s video advertising platform, see [google.com/ads/video](http://google.com/ads/video).

Almost any video that you click on is preceded by a 10 to 30 second commercial that can be skipped only some of the time. This kind of “forced view” commercial has been found to be effective because people are used to seeing commercials when watching TV programs. More TV shows are coming to the Internet, frequently with video ads.

**Viral Videos**

A **viral video** is a video that is spread rapidly through the process of online information

sharing. These videos become popular when they are circulated via e-mail, SMSs, blogs, discussion forums, and so forth. This way, people share videos that receive more attention, sometimes drawing millions of viewers in a short time. Popular sites that are used for sharing viral videos include YouTube ([youtube.com](http://youtube.com)) and VEOH ([veoh.com](http://veoh.com)). For the top viral video ad campaigns, see [www.visiblemeasures.com/insights/charts/adage](http://www.visiblemeasures.com/insights/charts/adage).

Viral videos are liked (or disliked) so much that viewers send them to others, spreading the word about them quickly across the Internet. Marketers are using viral videos by inserting ads in videos or by using ads as pop-ups prior to the start of presentations; see [adage.com/section/the-viral-video-chart/674](http://adage.com/section/the-viral-video-chart/674). Note that, if the reactions to a video are positive, the buzz can be useful, but negative reactions can hurt the brand (see the discussion on reputation systems). *Baseline* magazine periodically provides a list of the 10 best viral marketing videos. For viral video marketing case studies (the best virals of 2013), see [digitalstrategyconsulting.com/intelligence/2013/12/viral-video-marketing-case-studies-the-best-virals-of-2013.php](http://digitalstrategyconsulting.com/intelligence/2013/12/viral-video-marketing-case-studies-the-best-virals-of-2013.php).



### Consumer-Generated Videos

Many companies are utilizing user-generated videos for their online ads and even for their TV commercials.

YouTube is the largest advertising platform for video ads. It has billions of videos and is growing rapidly. YouTube permits selected marketers to upload videos with ads to the site. Google's AdSense ad distribution network also offers ad-supported video clips. Another way for advertisers to use viral video is by creating contests (see [onlinevideocontests.com](http://onlinevideocontests.com) and [zooppa.com](http://zooppa.com)).

#### Example: Crash the Super Bowl

Doritos runs an annual online contest, inviting fans to create their own Doritos ads. The winner gets a bonus prize of up to \$1 million and their ad airs during that year's Super Bowl. In 2010, Doritos invited Pepsi Max to be a part of their fourth contest, receiving over 3,000 entries. In 2013, the contest was moved to Facebook, attracting over 3,500 submissions and over 100 million views. In 2013, for the first time, Doritos took its contest global, opening it to fans worldwide. This resulted in a huge advertising effect.

### Interactive Videos

The term **interactive video** refers to a technique that is used to mix user interaction with videos. The interaction is controlled by a computer for entertainment, advertisement, or educational activities. Interactive videos are popular because:

- Increased bandwidth enables rapid downloading of videos
- Good search engines find videos that have been developed
- Both the media and advertisers have increased the use of videos
- Incentives such as contests and gifts are offered for the use interactive videos

The following are representative types of interactive videos.

#### Video Click-Throughs

VideoClix.tv and Clickthrough.com have developed tools that allow people who watch

videos to click on any person, place, banner ad, and so forth in the video.

### Live Interactive Videos

In live interactive videos, you can see certain events in real time, and sometimes interact with those in the video. For example, GE presented the company's annual report in a banner ad during a live Webcast of its annual meeting. Viewers were able to interact with the presenters, asking questions or making comments.

#### Example: Interactive Dressing Room

Knickerpicker.com created an interactive online video dressing room (for lingerie). It is loaded with many designer brands. The animated models appear with your selected brands, and you can control their movements (e.g., turn them around). For details, see [knickerpicker.com](http://knickerpicker.com).

### Advergaming and In-Game Advertising

**Advergaming (in-game advertising)** refers to the insertion of advertising into video games, especially computer-based ones, to advertise a product or a service. Such games are popular in social networks and give advertisers a chance to reach millions of players. Advergaming falls into one of three categories (per Obringer 2007):

1. A company places brand-related games on its website or Facebook page in order to attract players and introduce them to the brand. An example of in-game advertising is shown on Intel's gaming page ([itmanagerduels.intel.com](http://itmanagerduels.intel.com)).
2. Games that are specifically designed to enable players to engage in certain activities can lead to brand exposure. Examples include PepsiCo brands partnering with leading video game platforms ([pepsico.com/Media/Story/Winning-with-Video-Games041520141420.html](http://pepsico.com/Media/Story/Winning-with-Video-Games041520141420.html)), and America's Army ([americasarmy.com](http://americasarmy.com)), which is intended to help boost U.S. Army recruitment.

3. With some free online games, advertising appears within the actual game (like banner ads). An example is the free version of online Monopoly (see [pogo.com/games/monopoly](http://pogo.com/games/monopoly)) that contains ads. (Players can pay for an upgraded ad-free version.) Prizes are won in daily drawings.
4. For details on advergames, see [adverblog.com/category/advergaming](http://adverblog.com/category/advergaming). Finally, Camaret (2013) provides several examples of serious and successful advergames.

### Augmented Reality in Advertising

*Augmented reality (AR)*, which was introduced in Chapter 2, can be utilized by advertisers and marketers, especially in the fashion industry.

#### Examples of AR Applications

Several examples of interactive applications are provided at [en.wikipedia.org/wiki/Augmented\\_reality](http://en.wikipedia.org/wiki/Augmented_reality). These include real estate and architecture, product and industries design, tourism, and more. Companies such as Nissan, Best Buy, Walt Disney, and Burger King have experimented with using AR in advertising. For more examples, see Russell (2012).

Retailers in the clothing, fashion, and jewelry industries are using this technology, because in their industries, visualization is critical. For example, ClothiaCorp. combines AR and with real-time merchandise recommendations. It allows shoppers to “try on” clothing and share the ‘how they look’ with family and friends, in real time.

#### Virtual Dressing Rooms

These are becoming popular (e.g., see Amato-McCoy 2010). You can dress an avatar, or you can dress yourself when a Webcam is used to take your picture and upload it while you are in the dressing room. Zugara provides the technology for the latter application. According to its website, Zugara “leverage[s] the power of gestures, voice and Augmented Reality to create innovative and compelling experiences for retailers and brands” (watch the video titled “Zugara Virtual Dressing Room Technology: An Overview” at [youtube.com/watch?v=tNabSnBwBz0](http://youtube.com/watch?v=tNabSnBwBz0)).

### Advertising in Chat Rooms and Forums

Chat rooms can be used for advertising. For example, Mattel Corp. sells about one-third of its Barbie dolls to collectors. These collectors use chat rooms to make comments or ask questions that are subsequently answered by Mattel’s staff. The Xiaomi case in this chapter runs a smartphone forum for its product design and advertising.

Advertisers sometimes use online fantasy sports (e.g., available at Yahoo!, ESPN and more) to send ads to specific sports fans (e.g., fans of the National Football League or Major League Baseball). Online fantasy sports attract millions of visitors every month.

### SECTION 9.8 REVIEW QUESTIONS

1. Define banner ads and describe their benefits and limitations.
2. Describe the difference between banner swapping and banner exchanges.
3. Describe the issues surrounding pop-ups and similar ads.
4. Explain how e-mail is used for advertising.
5. Describe the search engine optimization technique and what it is designed for.
6. Describe Google’s AdWords and AdSense.
7. Describe video ads and their growing popularity.
8. Define advergames and describe how it works.
9. Describe augmented reality advertising.

## 9.9 MOBILE MARKETING AND ADVERTISING

The rapid growth of mobile devices provides another arena for EC marketing and advertising. For example, the ratio of mobile handsets, including smartphones, to desktop and laptop computers is approximately 2 to 1 and growing. A 2013 estimation by eMarketer indicates that the global annual mobile ad spending has an increase of 105%, reaching US\$18 billion in 2013 and is predicted to reach US\$31.5 billion in 2014, a 75% growth. This represents a great opportunity for online mobile marketing and advertising. (See [emarketer.com/Article/Driven-by-Facebook-Google-Mobile-Ad-Market-Soars-10537-2013/1010690](http://emarketer.com/Article/Driven-by-Facebook-Google-Mobile-Ad-Market-Soars-10537-2013/1010690).)

## Mobile Marketing and Mobile Commerce

Mobile marketing and advertising are generally considered a subset of both mobile commerce (Chapter 6) and mobile marketing. Mobile marketing takes several forms, such as using SMS (e.g., Twitter), as well as games and videos. Their major elements are described next.

### Defining Mobile Marketing

**Mobile marketing** is frequently defined as the use of mobile devices and wireless infrastructure as a means of marketing and advertising. The marketer intends to access potential customers through wireless information channels. The Mobile Marketing Association ([mmaglobal.com](http://mmaglobal.com)) provides definitions of advertising, apps, messaging, m-commerce and CRM on all mobile devices, including smartphones and tablets. For a detailed description, see Krum (2010).

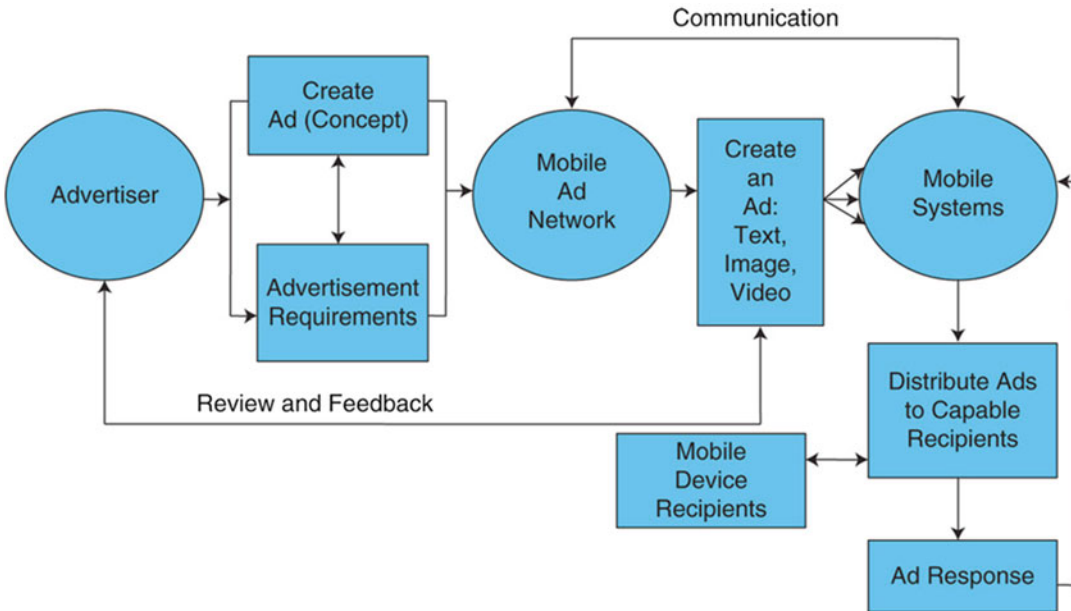
Mobile marketing includes sales, market research, customer service, and advertising, all supported by mobile computing. Companies can devise contests where customers describe the

quality of a new product, and the sellers can post coupons and promotions. You can make ads interactive since mobile computing provides a direct link between vendors and consumers.

### Mobile Advertising

**Mobile advertising (m-advertising)** is defined by the IAB (2014) as “Advertising tailored to and delivered through wireless mobile devices such as smartphones (e.g. Blackberry, iPhone, Android, etc.), feature phones (e.g. lower-end mobile phones capable of accessing mobile content), and media tablets (e.g. iPad, Samsung Galaxy Tablet, etc.).” Mobile advertising ranges from simple text messaging to intelligent interactive messaging on mobile devices. It involves several key players, such as the advertisers, mobile ad networks, mobile apps, and mobile devices.

Figure 9.7 shows how mobile ads work. A company hires a mobile advertiser to create a mobile ad and specifies the promotional criteria. The mobile ad is then sent to a mobile advertising network. The original network forwards these ads to multiple mobile networks and keeps track



**Figure 9.7** Process of mobile advertising

of the distribution and responses to these ads. The ad will reach the mobile user through proper mobile devices and apps. The user's response is then transmitted to the advertiser and the company through mobile networks.

### **Interactive Mobile Advertising**

*Interactive mobile advertising* refers to the delivery of interactive marketing contents via mobile devices, mostly tablets and smartphones. The inclusion of the word “interactive” points to the fact that this is a two-way communication that may include a customer response (e.g., placing an order or asking a question). For a comprehensive guideline, see the IAB Mobile Web Advertising Measurement Guidelines at [iab.net/iab\\_products\\_and\\_industry\\_services/508676/guidelines/mobilewebmeasurementguidelines](http://iab.net/iab_products_and_industry_services/508676/guidelines/mobilewebmeasurementguidelines).

### **Examples of Interactive iPad Ads**

Econsultancy provides nine examples of great interactive iPads ads posted by D. Moth with a demonstration video for each (see [econsultancy.com/blog/10455-nine-examples-of-great-interactive-ipad-ads#1.1e2xw4r10pkflo](http://econsultancy.com/blog/10455-nine-examples-of-great-interactive-ipad-ads#1.1e2xw4r10pkflo)).

These include:

- VW ran an ad in the iPad version of *Auto Esporte* magazine (highlighting the VW Tiguan Park Assist feature). Users were engaged by being prompted to touch two targets on the screen and scroll through information about the VW cars.
- Visa presented users with a virtual wallet, enabling them to plan vacations, buy movie tickets, and so forth. By connecting to links on other sites, Visa added extra interactivity to its ads.
- Hyatt Hotel promoted its loyalty card using an iPad app. By visiting various virtual cities and finding more information about the city and the location of the nearest Hyatt, visitors were able to sign up for the loyalty card.
- Liberté of Canada created an interactive game within an ad to promote its blueberry Greek yogurt. Users rolled the blueberries around the screen and collected them in a yogurt pot.

An extension of interactive services is the use of Apple's iAds mobile advertising platform which is part of the iOS system. It facilitates integrating apps sold in the iOS App Store. It is developed for its iPhone, iPad, and iPod touch mobile devices, and allows third party developers to embed advertisements directly into their applications. For more information, see [advertising.apple.com](http://advertising.apple.com).

### **Types of Mobile Ads**

Mobile ads may appear in different forms. The most popular one is short text messages. Other forms include rich media advertising, advergames, and ads appearing during TV shows and movies on mobile devices.

### **Short Message Ads**

SMS ads are commercial messages sent in the form of short text messages. They are quite popular and SMS mobile banner ads are growing rapidly due to the increased popularity of smartphones and 4G networks. Several major advertising portals have been launched by both private mobile advertisers and portals (e.g., D2 in Japan).

One advantage of SMS is that users can send them quickly and privately from any place and almost any time. A major drawback, however, is that short messages may interrupt and annoy the recipients.

### **Location-Based Ads**

Delivering location-based ads to mobile devices was presented in Chapters 6 and 7. Location-sensitive businesses can take advantage of this feature to deliver location-based ads. A good example is a Google Map that can show nearby convenience stores, gas stations, hotels, and restaurants when a location is searched. Some of these are paid ads (see Chapter 7 for details).

### **Viral Mobile Marketing**

Viral marketing can also be deployed to the mobile platforms. This is called viral mobile marketing. A typical approach is to develop and distribute apps for mobile devices. A successful

example is provided by Malibu Bowling Game company. Their 2009 multi-channel campaign included a free bowling game called “Get Your Island On,” available on iPhones and other smartphones. The game had over two million downloads the first six months. The managing director of the Great Works ad agency said that a phone app is a perfect way of branding, since the key to the product is the game (the bowling pins are replaced by Malibu rum bottles). For details, see [mobilemarketer.com/cms/news/advertising/3178.html](http://mobilemarketer.com/cms/news/advertising/3178.html).

### **Mobile Marketing and Advertising Campaigns**

There are basically four classes of online campaigns: Information, entertainment, raffles, and coupons. These classes focus on one or more of the following six objectives:

1. **Building brand awareness.** Increase customers’ ability to recognize and recall a brand.
2. **Changing brand image.** Change the customers’ perception of the brand.
3. **Promoting sales.** Stimulate quicker or greater purchase of products or services.
4. **Enhancing brand loyalty.** Increase consumers’ commitment to repurchase the brand.
5. **Building customer databases.** Collect data about the mobile device, data network, or profiles of customers.
6. **Stimulating mobile word of mouth.** Encourage customers to share ads with other customers via their mobile devices.

Obviously, these are the same types of campaigns and objectives underlying traditional marketing approaches. Currently, SMS and e-mails are the principal technologies used to deliver advertisements to mobile devices. However, richer content and advertising is expanding with improved bandwidth.

Recent mobile marketing campaigns conducted by retailers have been very successful. For example, the “Singles Day” (November 11, 2013) sales resulted in over \$9 billion, with 43% generating from mobile devices. (See [marketwatch.com/story/alibabas-singles-day-bigger-than-black-friday-2014-11-10](http://marketwatch.com/story/alibabas-singles-day-bigger-than-black-friday-2014-11-10).) Of these, over \$2 billion were sold at Alibaba companies Tmail and TaoBao.

For interesting mobile ad case studies in 2014, involving Facebook, Coca-Cola, FOX’s Family, Hotel Tonight and Oscar Mayer, see [moosylvania.com/tracker/category/mobile/mobile-ads](http://moosylvania.com/tracker/category/mobile/mobile-ads).

### **Mobile Marketing Implementation Guidelines**

Although organizations such as the Direct Marketing Association have established codes of practice for Internet marketing, including the use of mobile media, most industry pundits agree that the codes are not well suited for the dynamic nature of mobile commerce. Therefore, the mobile media industry has established a set of guidelines and “best practices” for mobile advertising. The Global Code of Conduct from the Mobile Marketing Association (MMA; [mmaglobal.com](http://mmaglobal.com)) is indicative of the types of practices promoted by the industry. The basic principles of the code include four sections: Notice, choice and consent, customization and constraints, and enforcement and accountability. For practical tactics by large advertising companies, see Eslinger (2014). See also Rowles (2013).

### **Tools to Support Mobile Advertisement**

A large number of applications, tools, and methods are available to support advertising in m-commerce. There are millions of applications (apps) that have been developed for iPhone and Android-based mobile devices that can be downloaded from app stores (e.g., Google Play and Apple store). Applications include features such as: finding products, places, or events. For details and a marketing glossary, see [where2getit.com](http://where2getit.com).

## Mobile Ad Trends

Several positive predictions have been made about the future of mobile ads. According to a mobile trend series (sponsored by Samsung), the following are the current five important trends that advertisers need to watch:

1. Continued importance of SMS
2. Experimenting with rich media
3. Mobile vs. mobile apps
4. Interest in geolocation (see Chapters 6 and 7)
5. The growth of mobile video

### Example: Innovative Sticker Advertising

In addition to these five trends, we also see the increasing importance of mobile social media, such as [whatsapp.com](https://www.whatsapp.com), [wechat.com](https://www.wechat.com), and [line.me/en/](https://line.me/en/). Creative advertising methods such as stickers offer new ways of advertising. A funny sticker is a small image (like an “emoticon”) that can be used to show certain emotions such as great, love, hate, and so forth. It is very popular for Line users. Line allows a business to develop a set of eight sponsored fun stickers (with company logo or advertising messages) at a fixed cost. Line users can download free chat stickers from Google Play and iTunes. For example, in the case of Tatung Electronics (of Taiwan), its *Boy character stickers and emoticons* generated more than one million active users within one hour of being introduced online.

Note: For a comprehensive collection of articles about mobile advertising, see [mashable.com/category/mobile-advertising](https://mashable.com/category/mobile-advertising) and Mobile Commerce Daily ([mobilecommercedaily.com](https://mobilecommercedaily.com)).

## SECTION 9.9 REVIEW QUESTIONS

1. Define mobile marketing (provide at least three definitions). Why are there several definitions?
2. What drives mobile advertising?
3. What is the role of SMS in mobile ads?
4. Define interactive mobile advertising.
5. Describe the process of mobile advertising.
6. Define viral mobile marketing.
7. What are the similarities and differences between traditional media and mobile marketing/ad campaigns?
8. What are the trends in mobile advertising in the near future?

## 9.10 ADVERTISING STRATEGIES AND PROMOTIONS

Several advertising strategies can be used on the Internet. In this section, we present some major strategies and implementation concerns.

### Permission Advertising

One solution to the flood of ads that people receive via e-mail that is used by advertisers is **permission advertising** or *permission marketing* (or the *opt-in approach*), in which users register with vendors and agree to accept advertisements (see [returnpath.com](https://returnpath.com)). For example, one of the authors of this book agreed to receive a number of e-commerce newsletters via e-mail, knowing that some would include ads. This way, the authors of this book, for example, can keep abreast of what is happening in the field. The authors also agreed to accept e-mails from certain research companies, newspapers, travel agencies, and more. These include ads. The vendors publish and send valuable (and usually free) information to us. Note that, some vendors ask permission from consumers to send them other users’ recommendations, but they do not ask whether they can use historical purchasing data to create the recommendations.

### Other Advertising Strategies

Many advertising strategies exist both for wired and wireless advertisement systems. For examples, see [www.opentracker.net/article/online-advertising-strategies](https://www.opentracker.net/article/online-advertising-strategies) and [ultracart.com/resources/articles/ecommerce-advertising](https://ultracart.com/resources/articles/ecommerce-advertising).

### Affiliate Marketing and Advertising

In Chapters 1 and 3, we introduced the concept of *affiliate marketing* – the revenue sharing model in which an organization refers consumers to a seller’s website. *Affiliate marketing* is a type of ‘performance-based-marketing’ used mainly as a revenue source for the referring organization and as a marketing tool for the sellers. Earlier in this



chapter, we introduced Google's AdSense. This is an example of **affiliate marketing**. However, the fact that the vendor's logo is placed on many other websites is free advertising as well. Consider Amazon.com, whose logo can be seen on more than 1 million affiliate sites! Moreover, CDNow (a subsidiary of Amazon.com) and Amazon.com both are pioneers in the "get paid to view" or "listen to" commercials also used in affiliate marketing.

### **Affiliate Networks**

A key to successful affiliate advertising is to have a good affiliate partner network. An **affiliate network** is a network created as a marketplace where publishers (affiliates) and merchants (affiliate programs) can collaborate. Examples of affiliate networks are: Rakuten LinkShare ([linkshare.com](http://linkshare.com)) and CJ Affiliate by Conversant ([cj.com](http://cj.com)). For the Top Affiliate Marketing Networks of 2014, see [monetizepros.com/blog/2014/the-top-affiliate-marketing-networks](http://monetizepros.com/blog/2014/the-top-affiliate-marketing-networks).

### **Ads as a Commodity: Paying People to Watch Ads**

In some cases, people are paid by advertisers (money or discounts) to view ads (also called "*ads as a commodity*"). This approach is used, for example, at Bing Rewards (get rewards for watching videos, playing games), CreationsRewards.net, and others. The HitBliss app pays you to watch commercials (but you must pay attention!). Consumers usually need to show some personal interest in the material viewed and then they receive targeted ads based on their personal interests. Each banner is labeled with the amount to be paid if the consumer reads the ad. If interested, the consumer clicks the banner to read it, and after he or she passes some tests to assure they read the content, the customer is paid for the effort. Readers can sort and choose what they read, and the advertisers can vary the payments to reflect the frequency and enthusiasm of the readers. Payments may be cash (e.g., 50¢ per banner), credit, or product discounts. This method is used with smartphones, too.

### **Selling Space by Pixels**

The Million Dollar Homepage ([milliondollarhomepage.com](http://milliondollarhomepage.com)) was created by Alex Tew, a student in the United Kingdom. The website sold advertising spaces on one page (1 million pixels), similar to the way classified ads in a newspaper are sold. Once you clicked on a logo, you were taken to a website. The site sold out in five months (the last 1,000 pixels were auctioned on eBay). Within a short time, people in other countries started to sell pixels, cloning the idea (e.g., [millionaustraliandollarhomepage.com](http://millionaustraliandollarhomepage.com), one of several Australian sites). Additionally, people who bought pixels at \$1 each were selling them at higher prices through auctions. This is an innovative way of owning ad space because once you buy it, it remains there forever. Incidentally, The MillionDollarHomepage.com was the victim of a distributed denial-of-service (DDoS) attack (see Chapter 10) in January 2006. Malicious hackers tried to blackmail the site's owner. Mr. Tew ignored the demands, the site was eventually shut down.

### **Personalized Ads**

Since the Internet contains too many irrelevant ads, customized ads can help. The heart of e-marketing is a customer database, which includes registration data and information gleaned from site visits. Companies use the one-to-one approach to send customized ads to consumers. Using this feature, a marketing manager can customize display ads based on user profiles.

### **Advertising as a Revenue Model**

Many of the dot-com failures from 2000 to 2002 were caused by a revenue model that contained advertising income as the only or the major revenue source. Many small portals failed, but several large ones are dominating the field: Google, Facebook, AOL, and Yahoo!. However, even these heavy-traffic sites only started to show a significant profit after 2004. Too many websites are competing with limited advertising money. Thus, almost all portals are adding other sources of revenue.

However, if careful, a small site can survive by concentrating on a niche area. For example, NFL Rush ([nflrush.com](http://nflrush.com)) is doing it well. It generates millions of dollars in advertising and sponsorship fees by concentrating on NFL fans, mostly kids 6 to 13 years old. The site attracts millions of visitors by providing comprehensive and interactive content and a chance to win prizes. It directs you to the NFL Shop for each team where sponsors such as Visa and U.S. Bank pay for the free games and the prize.

An important component in a revenue model is the *pay-per-click (PPC)* formula.

**Pay per click (PPC)** is a popular Internet advertising payment formula where advertisers pay sites only when someone clicks on their ad. Payments are made to search engines and other sites (e.g., affiliates). For tips on how to economize the cost of using PPC, see [advertise.com/ad-solutions/contextual/overview](http://advertise.com/ad-solutions/contextual/overview). For further information, see [webopedia.com/TERM/P/PPC.html](http://webopedia.com/TERM/P/PPC.html) and [wordstream.com/pay-per-click-campaign](http://wordstream.com/pay-per-click-campaign).

### **Choose-Your-Own-Ad Format**

*AdSelector* is a format created in 2010, which lets viewers choose their own ads. The AdSelector allows consumers to select what ads they like to view within the video clips (they are presented with 2 or 3 options). This model has been in use mostly for online videos with Hulu leadership. Users like this option and, according to research, are twice as likely to click on an ad. The AdSelector is used by publishers like Yahoo! For details, see Learmonth (2010).

## **Online Events, Promotions, and Attractions**

In the winter of 1994, the term *EC* was hardly known, and people were just starting to discover the Internet. One company, DealerNet, which was selling new and used cars from physical lots, demonstrated a new way of doing business: It started a virtual car showroom on the Internet. The virtual showroom let people “visit” dozens of dealerships and compare prices and features.

At that time, this was a revolutionary way of selling cars. To promote their website, DealerNet gave away a car over the Internet as the incentive for attracting viewers.

This promotion received a lot of offline media attention and was a total success. Today, such promotions are common on many websites. Contests, quizzes, coupons (see [coolsavings.com](http://coolsavings.com)), and giveaways designed to attract visitors are as much a part of online marketing as they are of offline commerce.

### **Live Web Events for Advertising**

Live Web events (concerts, shows, interviews, debates, webcasts, videos), if done properly, can generate tremendous public excitement and drive massive traffic to a website. Some of the best practices for successful live Web events are:

- Carefully planning content, audiences, interactivity levels, and schedules
- Including as much rich media as possible
- Conducting appropriate promotions via e-mails, social media sites, and streaming media, as well as conducting proper offline and online advertisements
- Preparing for quality delivery
- Analyzing audience feedback so that improvements can be made

A global event can allow a product to debut in different locations.

\* Web-based seminars, often called *webinars*, are becoming more popular to promote more knowledge-intensive products.

## **Localization in Advertising**

The reach of Internet marketing is quite broad. An ad may be viewed around the world. This is an advantage, but could also be a drawback because culture differences may cause different interpretations of the same message in different communities. Hence, localization of ad messages is an important consideration for advertisers.

**Localization** in EC refers to the transformation and adaptation of Web content media products and advertising materials to fit the Web

environment of a certain region or country (see Chapter 13). It is usually done following a set of international guidelines. An important aspect is that of language localization. Web page translation (see Chapter 13 and [lionbridge.com](http://lionbridge.com)) is just one aspect of localization. However, several other aspects, such as culture, are also important. For example, a U.S. jewelry manufacturer that displayed its products on a white background was astonished to find that this display might not appeal to customers in some countries where a blue background is preferred.

If a company aims at the global market where there are millions of potential customers, it must make an effort to localize its Web pages. This may not be a simple task because of the following factors:

- Many countries do business in English, but the English used may differ in terminology, spelling, and culture (e.g., United States versus United Kingdom versus Australia).
- Without a proper translation program, accented characters cannot be converted to English and other languages. Thus, the translation may be inaccurate. If text includes an accented character, the accent will disappear when converted into English, which may result in an incorrect translation.
- Hard-coded text and fonts cannot be changed, so they will stay in their original format in the translated material.
- Graphics and icons look different to viewers in different countries. For example, a U.S. mailbox resembles a European trashcan.
- When translating into Asian languages, and so forth, significant cultural issues must be addressed; for example, how to address older adults in a culturally correct manner.
- Date formats that are written as mm/dd/yy (e.g., June 8, 2013) in the United States are written as dd/mm/yy (e.g., 8

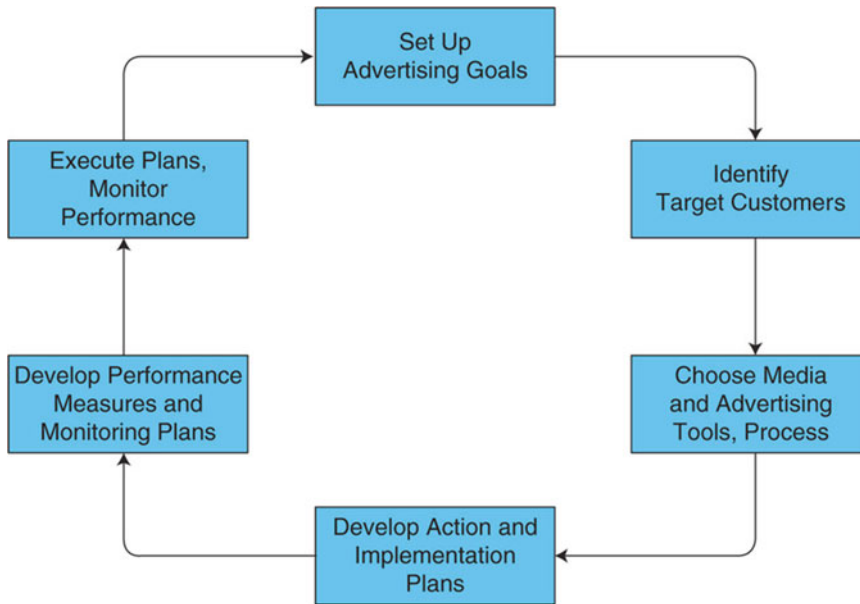
June 2013) in many other countries. Therefore, “6/8” would have two meanings (June 8 or August 6), depending on the location of the writer.

- Consistency in document translation in several different documents can be very difficult to achieve. (For free translation in most languages, see [freetranslation.com](http://freetranslation.com).)

## Developing an Online Advertising Plan

Advertising online is a competitive necessity for most businesses these days. With so many different media and advertising methods available, a challenge is to develop an effective advertising plan within budget constraints. A life cycle process composed of six steps to build and maintain an advertising plan is illustrated in Figure 9.8.

- (1) **Determine the goal of the advertising project:** The goal needs to be specific – is it for gaining brand awareness, traffic to the website, or higher revenue?
- (2) **Identify target customers:** A group of target customers must be determined for the advertising plan. As we have discussed in this chapter, customer segmentation is useful for reducing costs and increasing effectiveness. Depending on the nature of the campaign, segmentation may be based on demographics or other criteria.
- (3) **Choose media and advertising tools:** Once the target customer is chosen, the advertising plan should select proper media and tools that can access the target customers. For instance, many firms use mobile social media to enhance their brand awareness in the younger generation in Taiwan.
- (4) **Develop action and implementation plans:** After choosing media and tools, a number of implementation issues must be planned, such as budget, time frame for advertising, advertising (e.g., video), and so on.



**Figure 9.8** Life cycle of advertising plans

- (5) **Develop performance measurement and monitoring plans:** In order to ensure that the money spent on advertising is not wasted, performance measurement and monitoring plans must be developed before the plan is put into action. The performance measurement must be clearly defined and objectively measurable.
- (6) **Execute plans and evaluate performance:** After the advertising plan is approved, attention must be given to its execution, and finally, its performance must be evaluated to see whether the originally planned goals are achieved. For preparing a promotion plan, see Sauer (2013), and for mobile marketing, see Brocato and Fairbrother (2013).

Advertising on social media is a trend in online marketing.

#### SECTION 9.10 REVIEW QUESTIONS

1. Describe permission advertising.
2. Describe video ads and their sudden increase in appearance.
3. Discuss the process and value of affiliate marketing.
4. How does the ads-as-a-commodity strategy work?
5. Describe other kinds of online advertising methods.
6. What is localization? What are the major issues in localizing Web pages?
7. Describe choose-your-own-ad format.
8. Describe the six-step process life cycle for an advertising plan.

### Advertising on Facebook

In 2012, Facebook began generating billions of dollars from advertising. For example, users' 'Likes' can appear in ads targeted to friends. For 45 'tips and tricks' see Marrs (2014). Note that other social networking sites such as Google+, Instagram, Twitter, and Pinterest also advertise.

### MANAGERIAL ISSUES

Some managerial issues related to this chapter are as follows:

1. **Do we focus on value-creating customers?** Understanding customers, specifically what

they need and how to respond to those needs, is the most critical part of consumer-centered marketing. This was not possible before the solutions for database marketing, one-to-one marketing, and customer relationship marketing became available. What tools do we use to satisfy and retain customers, monitor the entire process of marketing, sales, maintenance, and follow-up services? Do we focus resources effectively on VIP customers (e.g., giving them high priority)?

2. **Which Internet marketing/advertising channel(s) do we use?** An increasing number of online methods are available from which advertisers can choose. These include banners, search engines, video ads, blogging, social networks, and more. Angel (2006) proposed a methodology for Internet marketing channel selection with a matrix for selection and implementation that might be adopted to assess these alternatives.
3. **What metrics do we use to guide advertisers?** A large amount of information has been developed to guide advertisers as to where to advertise, how to design ads, and so on. Specific metrics such as CPM (cost per million impressions), click-through rate, stickiness, and actual purchase rate may be used to assess the effectiveness of advertising and calculate the return on investment from an organization's online advertising campaign. The metrics can be monitored by third-party monitoring companies. For example, the Mobile Marketing Association and IAB developed the industry standards for measuring mobile ad delivery.
4. **What is our commitment to Web advertising?** Once a company has committed to advertising on the Web, it must remember that a successful program requires the collaboration of the marketing, legal, and IT departments. In addition, coordination with non-Web advertising as well as support from top management is needed.
5. **Should we integrate our Internet and non-Internet marketing campaigns?** Many companies are integrating their TV and Internet marketing campaigns. For example, a company's TV or newspaper ads direct the viewers/

readers to their website, where short videos and sound ads, known as *rich media*, are used. With click-through ratios of banner ads down to less than 0.5% at many sites, innovations such as the integration of offline and online marketing are needed to increase click-through rates/ratios.

6. **Who will conduct the market research?** B2C requires extensive market research that may be costly and difficult to conduct. Thus, it may be necessary to outsource some or all of the marketing research activities. If a company owns a large-scale customer database, the research on the internal database itself can be an important market research activity, and data mining techniques may be helpful.
7. **Should we use mobile coupons?** Consumers and advertisers are curious about mobile coupons, but current usage is still low. Advertisers do not yet feel pressured to launch a nationwide coupon effort, but they should start to plan for it. Forrester Research Corp. claims that Instagram is the king of social engagement. Mobile coupons are gaining more popularity. The advantage of mobile coupons is that you can see them when you need them. Showing the coupon to a vendor may be sufficient to get the discount (there is no need to print the coupons). In general, the benefits of mobile coupons are larger than their limitations.

Many large retailers (e.g., Walmart) offer coupons on their websites. Smaller companies may use intermediaries that have coupons of many companies in their database.

8. **What ethical issues should we consider in online marketing?** Several ethical issues relate to online advertising. One issue that receives a great deal of attention is spam (Chapters 9 and 15). Another issue is the selling of mailing lists and customer information. Some people believe that not only does a company need the consent of customers before selling a list, but that the company should also share the profits derived from the sale of such lists with the customers. Using cookies without an individual's consent is considered by many to be unethical. The negative impacts of advertising need to be considered.

## SUMMARY

In this chapter, you learned about the following EC issues as they relate to the chapter's learning objectives.

1. **Factors influencing online consumer behavior.** Consumer behavior in EC is similar to that of any consumer behavior, but it has some unique features. It is described in a stimuli-based decision model that is influenced by factors that include the consumer's personal characteristics, environmental characteristics, product/service features, merchants and intermediaries, and the EC systems (logistics, technology, and customer service). All of these characteristics and systems interact to influence the decision-making process and produce an eventual buyer decision.
2. **The online consumer decision-making process.** The purchasing decision making process and purchasing online involves fairly standard steps that have been studied extensively. For each step in the process, sellers can develop appropriate strategies. The Attention-Interest-Desire-Action (AIDA) model can help in designing ad and marketing efforts for different purposes. The Attention-Interest-Search-Action-Share (AISAS) model is tailored to the online behavior in the decision process. This model is particularly suitable for social commerce.
3. **Increasing loyalty and trust.** Customers can switch e-loyalty from one company to a competitor easily and quickly. Therefore, enhancing e-loyalty (e.g., through e-loyalty programs) is a must. Similarly, trust is a critical success factor that must be nourished. Creating loyalty is difficult when customers can easily switch to competitors with a few keystrokes. Building trust is very difficult since sellers and buyers usually do not know or cannot see each other. With the knowledge of factors that affect online trust, organizations should increase trust through website design and other actions.
4. **Market segmentation and building one-to-one relationships with customers.** In order to make online marketing and advertising more effective, customers are segmented so that attention can be focused on a subset of the population (e.g., female customers, young customers, or customers in a different country). EC provides companies with the chance to build strong one-to-one relationships with customers. In addition, advertising can be matched with customer profiles so that ads can be presented on a one-to-one basis.
5. **Online personalization.** Using personalized Web pages, customers can interact with a company, learn about its products or services in real time, or receive customized products or services. Companies can allow customers to self-configure the products or services they want. Customization also can be done by matching products with customer profiles. Personalization includes the recommendation of products (services) and delivering content that customers want.
6. **EC consumer market research.** Several fast and economical methods of online market research are available. The two major approaches to data collection are (1) soliciting voluntary information from customers, and (2) using cookies, transaction logs, or clickstream data to track customer movements on the Internet and discover their interests. Understanding market segmentation by grouping consumers into categories is also an effective EC market research method. However, online market research has several limitations, including data accuracy and representation of the statistical population generated by using an incorrect sample.
7. **Objectives and characteristics of Web advertising.** Web advertising attempts to attract surfers to an advertiser's site. Once at the advertiser's site, consumers can receive information, interact with the seller (e.g., chat with an online representative), and in many cases, are given a chance to easily place an order. With Web advertising, ads can be customized to fit groups of people with similar interests (segmentation) or even individuals (one-to-one). In addition, Web



advertising can be interactive, is easily updated, can reach millions at a reasonable cost, and offers dynamic presentation and rich multimedia.

**8. Major online advertising methods.**

Banners are the most popular online advertising method. Other frequently used methods are pop-ups and similar ads, e-mail (including e-mail sent to mobile devices), classified ads, registration of URLs with search engines, and advertising in chat rooms. Some of these are related to search results obtained through search engines, such as keyword advertising (especially on Google). Social network communities provide new opportunities for marketing by enabling segmentation, viral marketing, user-generated ads, and more. Advertising in videos is gaining popularity as well.

**9. Mobile marketing.** With the increased use of mobile devices comes the opportunity to reach individuals wherever they are at any time. Despite the small screen size, advertisers use clever designs to show not only banners but video ads as well. Mobile ads are designed for the young generation and some of these are interactive. The younger generation is especially active in viral advertising.

- 10. Various advertising strategies and types of promotions.** The major advertising strategies are ads associated with search results (text links), affiliate marketing, monetary or other types of incentives for customers to view ads, viral marketing, ads customized on a one-to-one basis, and online events and promotions. Web promotions are similar to offline promotions. They include giveaways, contests, quizzes, entertainment, coupons, and so on. Customization and interactivity distinguish Internet promotions from conventional ones. It is also important that marketing projects are localized to meet the unique needs of different cultures.
- 11. Implementation topics.** In permission marketing, customers are willing to accept ads in exchange for special (personalized) information or monetary incentives. Ad management deals with planning, organizing, and control-

ling ad campaigns and ad use. Ads can be localized to culture, country, and so forth. Market research can be facilitated by feedback from bloggers, chats in social networks, recommendations of friends, reading members' opinions, and so forth. Advertising is enhanced by user-generated ad content, viral marketing, and better segmentation.

## Key Terms

Ad views  
 Advergaming (in-game advertising)  
 Affiliate marketing  
 Affiliate network  
 Banner  
 Banner exchange  
 Banner swapping  
 Behavioral targeting  
 Biometrics  
 Button  
 Click (ad click)  
 Clickstream behavior  
 Clickstream data  
 Click-through rate/ratio (CTR)  
 Collaborative filtering  
 Conversion rate  
 Cookie  
 CPM (cost per mille, i.e., thousand impressions)  
 Customer loyalty  
 E-loyalty  
 E-mail advertising  
 E-mail marketing  
 Hit  
 Interactive marketing  
 Interactive video  
 Landing page  
 Live banner  
 Localization  
 Market segmentation  
 Merchant brokering  
 Mobile advertising (m-advertising)  
 Mobile marketing  
 Mobile market research  
 One-to-one marketing  
 Online trust  
 Page

Pay per click (PPC)  
 Permission advertising  
 Personalization  
 Personalized banner  
 Pop-up ad  
 Pop-up banner  
 Product brokering  
 Random banners  
 Relationship marketing  
 Reputation-based systems  
 Search advertising  
 Search engine optimization (SEO)  
 Spyware  
 Static banner  
 Transaction log  
 Trust  
 User profile  
 Viral marketing (viral advertising)  
 Viral video  
 Web bugs  
 Web mining

### Discussion Questions

- How can you describe the buying decision process when the customer is online and looking for an iPhone? What can a webstore do to attract this customer to purchase from their store?
- Why is personalization becoming an important element in EC? What techniques can be used to learn about consumer behavior? How can personalization be used to facilitate customer service? Give an example.
- Watch the videos “Wherever You Want to Go” (from BMW; [youtube.com/playlist?list=PL53450A123A3ADCE2](https://youtube.com/playlist?list=PL53450A123A3ADCE2)), “One Million Heineken Hugs” ([youtube.com/watch?v=smO1onPkA3Q](https://youtube.com/watch?v=smO1onPkA3Q)), and Burger King’s “Sign and Race” ([youtube.com/watch?v=qab5PH43sok](https://youtube.com/watch?v=qab5PH43sok)) and also find articles about them. Write a report on what made these videos so successful.
- Discuss why banners are popular in Internet advertising. What kinds of products may or may not be suitable for banners?
- Discuss the advantages and limitations of registering a company’s URL with various search engines.
- How might a chat room be used for advertising?
- Explain why online ad management is critical. What are the major concerns for a company managing its own online ad program?
- Explain the advantages of using chatterbots. Are there any disadvantages? Find information about their influence on online consumer shopping behavior.
- Discuss the benefits of using software agents in marketing and advertising. Discuss whether a bargaining agent online (an agent that can interact with potential customers to settle a discount price) can help the webstore’s sales.
- Discuss SRI Consulting’s VALS tool. Enter [strategicbusinessinsights.com/vals](http://strategicbusinessinsights.com/vals). View their offerings and discuss how they can facilitate online market segmentation.
- When you buy a banner ad, you actually lease space for a specific time period. On [million-dollarhomepage.com](http://million-dollarhomepage.com), you buy space forever. Compare and discuss.
- Discuss the advantages and limitations of three methods of data collection about individual online consumer behavior.
- Discuss the benefits of video ads in the social networking environment.

### Topics for Class Discussion and Debates

- Discuss the similarities and differences between data mining, text mining, and Web mining for online market research. (Hint: To answer this question, you will need to read Online Tutorial T3.)
- Some say that people come to social networks to socialize and they will disregard, disable, or not accept ads. Others say that people do not mind the ads, but they ignore them. Discuss.
- What strategic implications do you see for companies that use videos, mobile devices, and social networks as platforms for advertising? Discuss.
- Debate: Will traditional advertising (TV, newspapers, billboards) disappear in the future?
- Debate: Netflix.com, Amazon.com, and others view historical purchases as input in their

recommendation systems. Some believe that this is an invasion of privacy.

6. Debate: Do you think that it is ethical for a vendor to enter a chat room operated by a competitor and pose queries?
7. Some people claim that they trust traditional media advertising (e.g., newspaper) over online ads (e.g., Richter 2014). Others disagree. Debate the issue.

### Internet Exercises

1. Enter [netflix.com/affiliates](http://netflix.com/affiliates). Write a report about the value of the affiliates program for Netflix as a marketing channel.
2. Surf [homedepot.com](http://homedepot.com) and check whether (and how) the company provides service to customers. Look for their virtual designs. Particularly, check the “kitchen and bath design center” and other self-configuration assistance. Relate this to market research.
3. Examine a market research website (e.g., [nielsen.com](http://nielsen.com)). Discuss what might motivate a consumer to provide feedback to market research questions used by this company.
4. Enter [mysimon.com](http://mysimon.com) and share your experiences about how the information you provide might be used by the company for marketing in a specific industry (e.g., clothing).
5. Enter [marketingterms.com](http://marketingterms.com) and conduct a search by keywords and by category. Look at their marketing glossary. Check the definitions of any 10 key terms in this chapter.
6. Enter [2020research.com](http://2020research.com), [infosurv.com](http://infosurv.com), and [marketingsherpa.com](http://marketingsherpa.com) and identify areas about market research on consumer behavior. Write a summary of your findings.
7. Enter [yume.com](http://yume.com) and find their video ad activities and reports. Write a summary.
8. Enter [selfpromotion.com](http://selfpromotion.com) and [nielsen-online.com](http://nielsen-online.com). What Internet traffic management, Web results, and auditing services are provided? What are the benefits of each service? Compare the services provided and their costs.
9. Enter [adweek.com](http://adweek.com), [wdfm.com](http://wdfm.com), [ad-tech.com](http://ad-tech.com), [adage.com](http://adage.com), and other online advertising websites to find new developments in Internet advertising. Write a report based on your findings.
10. Enter [clairol.com/en-US/virtual-makeover](http://clairol.com/en-US/virtual-makeover) to determine what hair color looks best on you. You can upload your own photo to the studio and see how different shades look on you. You can also try different hairstyles. (This site is for men also.) How can these activities increase branding? How can they increase sales?
11. Enter [clickz.com](http://clickz.com) and find its market research topics. Summarize your findings.
12. Enter [hotwire.com](http://hotwire.com) and [espn.go.com](http://espn.go.com). Identify all the advertising methods used on each site. Can you find those that are targeted advertisements? What revenue sources can you find on the ESPN site? (Try to find at least seven.)
13. Enter [adobe.com/creativecloud.html](http://adobe.com/creativecloud.html). How does this product help with site optimization? What other services does it provide?
14. What resources do you find to be most useful at [targetmarketingmag.com](http://targetmarketingmag.com), [clickz.com](http://clickz.com), [admedia.org](http://admedia.org), [marketresearch.com](http://marketresearch.com), and [wdfm.com](http://wdfm.com)? Describe useful information for online marketing that you have found from these websites.
15. Enter [zoomerang.com](http://zoomerang.com) and learn how it facilitates online surveys. Examine the various products, including those that supplement the surveys. Write a report.
16. Enter [pewinternet.org](http://pewinternet.org) and [pewresearch.org](http://pewresearch.org). What research do they conduct that is relevant to B2C? To B2B? Write a report.
17. Enter [whattorent.com](http://whattorent.com) and compare its recommendation system with the one Netflix uses. Write a brief report comparing the two.

### Team Assignments and Projects

#### 1. Assignment for the Opening Case

Read the opening case and answer the following questions.

- a. What motivated Del Monte to advertise on social networks?
- b. Relate the capabilities of the social network sites to the market research activities (be specific on a one-to-one basis).

- c. Compare the methods used here to both computerized and noncomputerized focus groups.
  - d. How can the data collected be used for EC justification?
2. Apple is encroaching onto Google's turf by buying Quattro Wireless, a mobile advertising company and by initiating the iAd mobile device platform. Research the reason for Apple's venture into the field and the Apple vs. Google battle. Give a presentation to the class.
  3. The field of video ads is growing rapidly, with many companies introducing innovative models and services (e.g., see [yume.com](http://yume.com)). The class examines the major models and services available, including mobile ads and video clips on Twitter. Write a report.
  4. Each team will choose one advertising method and conduct an in-depth investigation of the major players in that part of the ad industry. For example, direct e-mail is relatively inexpensive. Visit [thedma.org](http://thedma.org) to learn about direct mail. Also visit [ezinedirector.com](http://ezinedirector.com) and similar sites. Each team will prepare and present an argument as to why its method is superior.
  5. In this exercise, each team member will enter [pogo.com](http://pogo.com) and a similar site to play games and win prizes. Relate the games to advertising and marketing. Write a report.
  6. Watch the video of Google's past CEO Eric Schmidt delivers the opening keynote at the 2011 IAB Annual Leadership Meeting (8:19 minutes) at [iab.net/video/videos/view/431](http://iab.net/video/videos/view/431) and answer the following questions:
    - a. What is the vision for the area of mobile videos?
    - b. What is brand advertising? How can it change?
    - c. What are the changes that mobile advertising brings to display ad advertising?
    - d. What are the value-added benefits to customers?
    - e. What is the vision for advertising?
    - f. What are the major forthcoming changes?
    - g. How does the mobile revolution contribute to closing the digital divide?
  7. Enter [www.autonlab.org](http://www.autonlab.org) and download tools for conducting data mining analysis (these downloads are free). Write a report about the capabilities of the tools.
  8. Watch the video "Beginning Analytics: Interpreting and Acting on Your Data" at [youtube.com/watch?v=Hdsb\\_uH2yPU](http://youtube.com/watch?v=Hdsb_uH2yPU) and answer the following questions:
    - a. To what metrics does the video refer?
    - b. How can Google Analytics be used?
    - c. What can analytics contribute to competitive intelligence?
    - d. Why is the average time spent on a site so important?
    - e. What decisions can be supported by analytics?
  9. What have you learned from this video? Compare Yahoo!'s Content Match with Google's AdSense. Give a presentation.

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## CLOSING CASE: JOHNSON & JOHNSON USES NEW MEDIA MARKETING

### The Problem

Johnson & Johnson is the world's largest medical and health care product company. In 2014, the company has more than 128,700 employees worldwide. A major problem facing the company is that their production and marketing must comply with strict global government regulations. In the Internet age, it is important for the company to use online communication tools to reach and support its customers. Moreover, the company has about 30,000 Internet domains. In the past several years, Johnson & Johnson has applied Internet media (called "new media" by the company) extensively and as a result, achieved significant performance improvement.

### Using New Media Channels

Using new media, Johnson & Johnson ([jnj.com](http://jnj.com)) has grown in online activities and strategies over

the years. Some of their strategies are introduced next:

- **Web 1.0 Stage.**

In 1996, Johnson & Johnson had its first presence on the Internet and presented its products as a static brochure format. This grew to include about 30,000 domains in 2014.

- **Web 2.0 Stage.**

1. *Kilmer House* ([kilmerhouse.com](http://kilmerhouse.com); *Johnson & Johnson's First Blog*). In 2006, the company introduced its first Web 2.0 advertising tools after using Web 1.0 for over 10 years. The blog was a natural way for the company to enter the Web 2.0 era.

2. *JNJ BTW (Second Blog Web 2.0)*. In 2007, the company launched its second blog after a year of Kilmer House. This blog promised to become “the voice for the company.” JNJ BTW became a place for conversation about subjects related to Johnson & Johnson. It also offers public education about health care and JNJ's products.

3. *JNJ Health Channel on YouTube*. Johnson & Johnson is producing videos about health. In May 2008, the company launched two JNJ health test videos: “Ask Dr. Nancy – Prostate Cancer” and “Obesity and Gastric Bypass Options,” which were watched by hundreds of thousands of viewers. Several hundred viewers posted their comments. For Johnson & Johnson, the site has turned out to be a great tool for interacting with consumers.

4. *Twitter and Facebook*. In March 2009, the company started a Twitter channel. In April 2009, the company created its first Facebook page. The page contains biographical information about the company. Twitter and Facebook also serve as a “bridging communicative tool” to integrate viewers into *JNJ BTW* for more detailed information about Johnson & Johnson.

- **Mobile Advertising Campaigns.**

As of 2007, Johnson & Johnson has integrated several mobile advertising campaigns.

1. *The company created a game called “Saving Momo”* for IM users working with Microsoft Digital Advertising Solutions.

2. *Using a multichannel mobile campaign.*

According to Butcher (2008), the company used in-call audio ads, SMS, and mobile websites to create a new way to send advertising messages to its target audiences in 2008.

3. *Johnson & Johnson's Zyrtec and iPhone 2.0*. Zyrtec is a popular over-the-counter allergy medication. According to Butcher (2009), Zyrtec generated \$315.9 million in sales in 2008. In 2009, Johnson & Johnson conducted a mobile advertising campaign together with The Weather Channel (TWC), putting an interactive Zyrtec banner ad on the TWC mobile app. Johnson & Johnson then extended to a new platform, TWC's upgraded iPhone application.

- **Social Media.**

Johnson & Johnson is very active in the use of social media. For example on the company's main Facebook page ([facebook.com/jnj.com](http://facebook.com/jnj.com)), the company provides extensive health information (on the J&J Channel). There are over 625,000 million ‘Likes’ in English and the most engaged city is San Paulo, Brazil (August 2014 data). On Twitter, J&J has the most active account is its @JNNNews. Finally, J&J is using social media to save lives (see Olenski 2013).

## Results

The intensive campaigns that used various new media have resulted in significant performance improvements financially and managerially.

1. According to Ploof (2009), the company's reputation is one factor in figuring the ROI (return on investment) of using new media. YouTube provides usability metrics, such as views over time, trends, and viewer retention rates, which has helped the management team make better decisions.

2. Mobile advertising has shown to be very effective. In 2007, ACUVUE's one-month campaign promoted a new product by creating a shared game, called “Saving Momo,” for Windows Live Messenger. The game was

played 200,000 times, while approximately 300,000 personal expressions (for IM) were downloaded. The campaign drove sales, improved the target markets' connection to the brand, and had a positive viral impact on the brand. In 2008, Johnson & Johnson used the In-Call Network as another option to engage consumers, which made it easier for users to get a free trial of ACUVUE.

3. The Weather Channel remained the number one download for iPhone users in the Apple Store. The direct interaction between consumers and the brand illustrates the reach of mobile advertising.

**Sources:** Based on Butcher (2008), (2009), Microsoft (2009), and Ploof (2009).

### Questions

1. Identify the online advertising actions adopted by Johnson & Johnson and relate them to the methods described in the chapter.
2. Search the Internet to find more details about Johnson & Johnson's marketing activities on YouTube.
3. Search the Internet to find more details about Johnson & Johnson's marketing activities on Facebook and Twitter.
4. Search the Internet to find more details about Johnson & Johnson's marketing activities on mobile devices.
5. Outline the major benefits from Johnson & Johnson's online marketing activities.

**Online Files** available at [affordable-ecommerce-textbook.com/turban](http://affordable-ecommerce-textbook.com/turban)

W9.1 Application Case: Netflix Increases Sales Using Movie Recommendations and Advertisements

W9.2 From Mass Advertising to Interactive Advertising; Advantages and Limitations

### Comprehensive Educational Websites

**marketresearch.com:** E-commerce market research reports (free).

**ecommerce-guide.com:** Comprehensive collection of resources.

**internet.com:** Many resources (for small businesses, in particular).

**emarketer.com:** Statistics, news, products, laws.

**webmarketingtoday.com:** Case studies, articles, tutorials, videos, and more; the research room may require fees.

**lib.unc.edu:** A collection of research books, articles, etc. on many different subjects from the University of North Carolina, Chapel Hill.

**ecommercetimes.com:** News and analysis on business, social media, e-commerce, and so forth.

**ultracart.com:** Resources, articles, etc. about EC advertising.

**reelseo.com:** Online video marketing guide; cases, news and more about video advertising.

**clickz.com:** Marketing news and expert advice; statistics and tools; articles on EC.

**cio.com/resources:** Index of white papers by topic.

**scribd.com:** Personal digital library with access to thousands of e-books and written works.

**marketingdonut.co.uk:** Comprehensive resources for a business, including topics such as marketing strategy, Internet marketing, customer care, and advertising.

## GLOSSARY

**Advergaming (in-game advertising)** The insertion of advertising into video games, especially computer-based ones, to advertise a product or a service.

**Ad views** The number of times users call up a page that has a banner on it during a specific period; known as *impressions* or *page views*.

**Affiliated marketing** A type of 'performance-based-marketing' used mainly as a revenue source for the referring organization and as a marketing tool for the sellers.

**Affiliate network** A network created as a marketplace where publishers (affiliates) and merchant affiliate programs can collaborate.

**Banner** A display that is used for advertising on a Web page (words, logos, etc. embedded in the page).

**Banner exchanges** Marketplaces that allow multiple websites to barter space for banners.



- Banner swapping** Company A agrees to display a banner of company B in exchange for company B's displaying company A's banner.
- Behavioral targeting** Targeting that uses consumer browsing behavior information to design personalized ads that may influence consumers better than mass advertising does.
- Biometric** One of an individual's unique physical or behavioral trait that can be used to authenticate an individual precisely (e.g., fingerprints).
- Button** A small banner that is linked to a website; may contain downloadable software.
- Click (ad click)** A count made each time a visitor clicks on an advertising banner to access the advertiser's website.
- Click-through rate/ratio (CTR)** The percentage of visitors who are exposed to a banner ad and click on it.
- Clickstream behavior** A pattern of customer movements on the Internet, which can be seen in their transaction logs.
- Clickstream data** Data that describe which websites users visit, in what order and the time spent on each. This is done by tracking the succession of "clicks" each visitor makes.
- Collaborative filtering** A method that attempts to predict what products or services are of interest to new customers without asking or viewing their previous records.
- Conversion rate** The percentage of clickers who actually make a purchase.
- Cookie** A data file that, without the knowledge of users, is placed on their computer hard drives.
- CPM (cost per mille, i.e., thousand impressions)** The fee an advertiser pays for each 1,000 times a page with a banner ad is shown.
- Customer loyalty** The chance that previous customers will continue to repurchase or repatronize a product/service from the same vendors over an extended period of time.
- E-loyalty** A customer's loyalty to an e-tailer or a manufacturer that sells directly online, or to online loyalty programs.
- E-mail marketing** The use of e-mail for sending commercial messages to users.
- E-mail advertising** Ads are attached to e-mails.
- Hit** A request for data from a Web page or file.
- Interactive marketing** A marketing concept that enables marketers and advertisers to interact directly with customers.
- Interactive video** A technique used to mix user interaction with videos.
- Landing page** The page a viewer is directed to after having clicked on a link. In online marketing, this page is used to convert the person from a viewer to a buyer.
- Live banners** Ads where the content can be created or modified at the time the ads pop up instead of being preprogrammed like banner ads.
- Localization** The transformation and adaptation of Web content media products and advertising materials to fit the Web environment of a certain region or country.
- Market segmentation** The strategy that involves dividing a large group of consumers into smaller segments and then implementing suitable advertisements to target each segment.
- Merchant brokering** From whom to buy in the purchasing decision-making process.
- Mobile advertising (m-advertising)** "Advertising tailored to and delivered through wireless mobile devices such as smartphones (e.g. Blackberry, iPhone, Android, etc.), feature phones (e.g. lower-end mobile phones capable of accessing mobile content), and media tablets (e.g. iPad, Samsung Galaxy Tablet, etc.)" (IAB 2014).
- Mobile marketing** The use of mobile devices and wireless infrastructure as a means of marketing and advertising.
- One-to-one marketing** A way for marketers to get to know their customers more intimately by understanding their individual preferences and then providing them with personalized marketing communication.
- Online trust** Trust in e-commerce.
- Page** An HTML (Hypertext Markup Language) document that may contain text, images, and other online elements, such as Java applets and multimedia files; may be generated statically or dynamically.
- Pay per click (PPC)** A popular Internet advertising payment formula where advertisers pay sites only when someone clicks on their ad.
- Permission advertising** Advertising (marketing) strategy in which customers agree to accept

advertising and marketing materials (known as *opt-in*). **personalization** The matching of advertising content and vendors' services with customers based on their preferences and individual needs.

**Personalized banners** Banners that are tailored to meet the need of target customers.

**Pop-up ad** An ad that appears due to the automatic launching of a new browser window when a visitor accesses or leaves a website, when a delay occurs; also known as *ad spawning*.

**Pop-up banner** Banners that appear in a separate window when its affiliated Web page is activated.

**Product brokering** Considering what product to buy in the purchasing decision-making process.

**Random banners** Banner ads that appear randomly, not as a result of some action by the user.

**Relationship marketing** Marketing method that focuses on building long-term relationships with customers.

**Reputation-based systems** Systems used to establish trust among members of online trading systems where parties who have never done business with one another use feedback from others (e.g., reputations).

**Search advertising** Placing online ads on web pages that show results from querying a search engine.

**Search engine optimization (SEO)** A process that improves the position of a company or brands on the results page displayed by a search engine. Ideally, the results should be in the top five on the first page of the results.

**Spyware** Software that enters your computer like a virus does, without your knowledge. It then enables an outsider to gather information about your browsing habits.

**Static banner** Banners that stay on a Web page regularly.

**Sticker advertising** Advertisers develop free funny stickers that include their messages for distribution in mobile social media (such as Line) to gain brand awareness.

**Transaction log** (for Web applications) A user file that records the user's activities on a company's website from the computer log.

**Trust** The willingness of one person to believe in the actions taken by another person.

**User profile** Customer preferences, behaviors, and demographics.

**Viral marketing (viral advertising)** Electronic word-of-mouth marketing (WOM) that spreads a word, story, or some media.

**Viral video** A video that is spread rapidly through the process of online information sharing. This way, people share videos that receive more attention, sometimes drawing millions of viewers in a short time.

**Web bugs** Tiny (usually invisible) objects concealed in a web page or in e-mail messages. Web bugs transmit information about the user and his or her movements to a monitoring site (e.g., to find out if the user has viewed certain content on the web page).

**Web mining** The use of data mining techniques for both Web content and usage in Web documents in order to discover patterns and hidden relationships.

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