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CHAPTER 6: E-COMMERCE MARKETING AND ADVERTISING
LEARNING TRACK 6.1: BASIC MARKETING CONCEPTS

Marketing describes the strategies and actions firms take to establish a relationship with a consumer and encourage purchases of its products or services. The key objective of Internet marketing is to use the Web and mobile platform—as well as traditional channels—to develop a positive, long-term relationship with customers (who may be online or offline) and thereby create a competitive advantage for the firm by allowing it to charge a higher price for products or services than its competitors can charge.

Marketing directly addresses the competitive situation of industries and firms, seeking to create unique, highly differentiated products or services that are produced or supplied by one trusted firm ("little monopolies"). There are few, if any, substitutes for an effectively marketed product or service, and new entrants have a difficult time matching the product or service's feature set (the bundle of capabilities and services offered by the product or service). When successful, these little monopolies reduce the bargaining power of consumers because they are the sole sources of supply; they also enable firms to exercise significant power over their suppliers.

Marketing is designed to avoid pure price competition and to create markets where returns on investment are above average, competition is limited, and consumers are willing to pay premium prices for products that have no substitute because they are perceived as unique. Marketing encourages customers to buy on the basis of nonmarket (i.e., nonprice) qualities of a product. Firms use marketing to prevent their products and services from becoming commodities. A commodity is a good or service for which there are many dealers supplying the same product and all products in the segment are essentially identical. Price and delivery terms are the only basis for consumer choice. Examples of commodities include wheat, corn, and steel.

FEATURE SETS

A central task of marketing is to identify and then communicate to the customer the unique, differentiated capabilities and services of a product or service's feature set. A product or service can be describe as having three levels: core, actual, and augmented.

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Core product: The core product is at the center of the feature set. The core product is the primary benefit the customer receives from the product, and it may be a nonphysical benefit, such as status or convenience. If product is a generic wristwatch, the core product would be the ability to tell the time. If it were a platinum Rolex, the core product would be to confer status.

Actual Product: The actual product is the physical product itself and the set of characteristics that deliver the product's core benefits. In the case of a cell phone like Apple's iPhone, the actual product is a cell phone and music player with a wide screen that connects through wireless networks to the Internet. It comes with the Apple name and with certain features and capabilities, such as high-speed network connectivity, a large screen for Web browsing, design elegance, extraordinary packaging, and selected utility programs. A key marketing activity is to identify the actual features of the cell phone that differentiate it from those of other manufacturers.

Augmented product: The augmented product comprises the additional nonphysical benefits to customers beyond the core benefits embodied in the actual product. In the case of the iPhone, the augmented product includes a standard one-year warranty, an available AppleCare Protection Plan that extends the warranty and support for an additional year, iPhone support Web pages, and other after-sale support. The augmented product forms the basis for building the iPhone brand (a process known as branding) described next. The augmented product is the foundation for the product brand.

BRANDS AND BRANDING

What makes products truly unique and differentiable in the minds of consumers is the product's brand. A brand is a set of expectations that a consumer has when consuming, or thinking about consuming, a product or service from a specific company. These expectations are based in part on past experiences the consumer has had actually using the product, on the experiences of trusted others who have consumed the product, and on the promises of marketers who extol the unique features of the product in a variety of different channels and media.

The most important expectations created by brands are quality, reliability, consistency, trust, affection, loyalty, and ultimately, reputation. Marketers create promises, and these promises engender consumer expectations. The promise made by cosmetic manufacturers to consumers is: "If you use this product, you will perceive yourself to be more beautiful." In the case of Apple's iPhone, marketers have artfully created expectations among users for superb industrial design, quality construction, and unique products. The Apple iPhone brand connotes to iPhone owners a cool, hip, technologically advanced style of life. Consumers are willing to pay a premium price for Apple iPhones not only because of the augmented product features, but also because of these brand expectations.

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As mentioned earlier, a key activity of branding is to identify the differentiating features of the actual and augmented product. With a product's feature set in hand, marketers engage in a variety of marketing communications activities to transmit these features to the consumer.

Based on the consumers' experiences and the promises made by marketers in their communications, consumers develop expectations about a product. For instance, when a consumer purchases an Apple iPhone, he or she expects to receive a unique, high-quality, very easy-to-use smartphone. Consumers are willing to pay a premium price in order to obtain these qualities. If iPhones do not in fact perform according to these expectations, the brand will be weakened and consumers will be less willing to pay a premium price. In other words, a strong brand requires a strong product. But if iPhones do perform according to expectations, then customers will feel loyal to the product; they will purchase again or recommend it to others; and they will trust, feel affection for, and ascribe a good reputation to both the product and the company that makes it.

Ideally, marketers directly influence the design of products to ensure the products have desirable features, high quality, correct pricing, product support, and reliability. When marketers are able to directly influence the design of a core product based on market research and feedback, this is called closed loop marketing. While ideal, it is more often the case that marketers are hired to "sell" a product that has already been designed. As discussed in the text, e-commerce offers some unique opportunities to achieve closed loop marketing.

In branding, marketers devise and implement brand strategies. A brand strategy is a set of plans for differentiating a product from its competitor and communicating these differences effectively to the marketplace. In developing new e-commerce brands, the ability to devise and develop a brand strategy has been crucial in the success and failure of many companies.

What kinds of products can be branded? According to many marketing specialists, there is no limit. Every product can potentially be branded. Sneakers that make you soar from Nike, cars from Volvo that make you feel safe on dark rainy nights, shirts from Ralph Lauren that make you appear as if you were on the way to a country club—these are all examples of products with extraordinary brand names for which consumers pay premium prices.

How much is a brand worth? Brands differ in their power and value in the marketplace. In addition to being seen as a set of associations that consumers have about products, and representing customer loyalty and attachment, a brand also has value as a corporate asset. Brand equity is the estimated value of the premium customers are willing to pay for using a branded product when compared to unbranded competitors. According to Interbrand's 2017 Best Global Brands ranking, the top five brands and their estimated equity value are Apple ($184 billion), Google ($142 billion), Microsoft ($80 billion), Coca-Cola ($70 billion), and Amazon ($65 billion). Brand equity also affects stock prices insofar as brands strengthen future revenue streams, and insofar as brands are intangi-

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ble assets that have a market value. There are several methodologies used to calculate brand value, but this discussion is beyond the scope of this Learning Track.

ARE BRANDS RATIONAL?

Coca-Cola is one of the most enduring, powerful brands in U.S. commercial history. The core product is colored, flavored, carbonated sugar water. The augmented branded product is a delightful, refreshing, reputable, unique-tasting drink available worldwide, based on a secret formula that consumers are willing to pay up to twice as much for when compared to unbranded grocery store cola. Coca-Cola is a marketing-created micro-monopoly. There is only one Coke and only one supplier. Why would consumers pay twice as much for Coke compared to unbranded cola drinks? Is this rational?

The answer is a qualified yes. Brands introduce market efficiency by reducing the search costs and decision-making costs of consumers. Strong brands signal strong products that work. Brands carry information. Confronted with many different drinks, the choice of Coke can be made quickly, without much thought, and with the assurance that you will have the drinking experience you expect based on prior use of the product. Brands reduce consumer risk and uncertainty in a crowded marketplace. Brands are like an insurance policy against nasty surprises in the marketplace for which consumers willingly pay a premium—better safe than sorry.

The ability of brands to become a corporate asset (to attain brand equity) based on future anticipated premiums paid by consumers also provides an incentive for firms to build products that serve customer needs better than other products. Therefore, although brands create micro-monopolies, increase market costs, and lead to above-average returns on investment (monopoly rents), they also introduce market efficiencies for the consumer.

For business firms, brands are a major source of revenue and are obviously rational. Brands lower customer acquisition costs and increase customer retention. The stronger the brand reputation, the easier it is to attract new customers. Customer acquisition costs refer to the overall costs of converting a prospect into a consumer, and include all marketing and advertising costs. Customer retention costs are those costs incurred in convincing an existing customer to purchase again. In general, it is much more expensive to acquire a new customer than to retain an existing customer. For instance, Reichheld and Schefter calculated that e-commerce sites lose from $20 to $80 on each customer in the first year because of the high cost of acquiring a customer, but potentially can make up for this loss in later years by retaining loyal customers. In some instances, however, e-commerce companies have gone out of business before they ever reached that point.

A successful brand can constitute a long-lasting, impregnable unfair competitive advantage. A competitive advantage is considered "fair" when it is based on innovation, efficient production

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processes, or other factors that theoretically can be imitated and/or purchased in the marketplace by competitors. An "unfair competitive advantage" cannot be purchased in the factor markets and includes such things as patents, copyrights, secret processes, unusually skilled or dedicated employees and managers, and, of course, brand names. Brands cannot be purchased (unless one buys the entire company).

BRAND LONGEVITY

Brands do not necessarily last forever, and the micro-monopolies they create may not be stable over the long term. In a study of brand endurance, Golder found that between 1923 and 1997, only 23% of the firms that ranked first in market share in 1923 were still in the market-leading position in 1997, while 28% of the leaders failed altogether. Less than 10% of the Fortune 500 companies of 1917 still exist. Some brands that have disappeared in the last several years include Blockbuster, Borders Books, Bear Stearns, Merrill Lynch, and Lehman Brothers. Life at the top is sweet, but often short, and market efficiency is restored long-term as entrepreneurs exploit new technologies and new public tastes at a faster rate than the incumbent market leaders.

THE MARKETING MIX

In formulating a marketing plan, marketers bring together a variety of tactics, often referred to as the product's marketing mix. A marketing mix refers to the variety of controllable product features and marketing and sales tactics that can be used to create and sell a product. Selling a product at the lowest price and via the biggest distributor is no guarantee that the product will sell. The goal is to use the most effective marketing mix in order to reach the right customer at the right time and with the right message.

There are several models used to help formulate a product's marketing mix, each of which outlines the major decision-making areas. The most widely known are the Four P's, the Seven P's, and the Four C's. Other models typically expand upon these.

The Four P's

Originally outlined by E. J. McCarthy in the 1960s, the Four P's are: Product (or Service), Place, Price, and Promotion.

- ***Product*** refers to the features and benefits of the product: its quality, image, branding, features, versions, support, customer service, etc.; in short, all of the features related to the customer having and using the product.
- ***Place*** refers to all of the elements related to distributing the product: when, where, and how the product will be sold.

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- ***Price*** refers to the pricing strategy for the product, and elements in determining the price of a product include not only the product's value and demand, but competitor's prices, the sensitivity of the customer to the product's price, and discounting strategies.
- ***Promotion*** refers to the decisions involved in advertising and marketing the product, such as the type, length, and channels or media used for advertising.

The Seven P's (Extended Marketing Mix)

The Four P's model was expanded by Bernard Booms and Mary Jo Bitner in 1981 to include elements geared to marketing services (although some marketers consider these factors as included in the Four P's).

- ***People*** refers to all of the organization's staff who can impact the customer's use and perception of the product or service, from call-center support personnel to the skill of waitstaff at a restaurant.
- ***Processes*** refers to the activities involved in delivering the product's benefits to the customer, such as credit-card processing or handling customer support.
- ***Physical evidence*** refers to all of the physical evidence related to purchasing the product or service, from a store's layout to a certificate of ownership.

The Four C's

In 1990, Robert Lautenborn reformulated the Four P's marketing mix model to reflect the customers' point of view:

- ***Customer needs and wants*** (from Product)
- ***Cost to the customer*** (from Price)
- ***Convenience*** (from Place)
- ***Communication*** (from Promotion)

SOURCES: Key Concepts in Marketing *by Jim Blythe (Sage Publications, 2009);* Internet Marketing: Strategy, Implementation and Practice*, by Fiona Ellis-Chadwick, Richard E. Mayer, Kevin James Johnston (Prentice Hall/Financial Times, 2009); "The Marketing Mix and 4 Ps: Understanding How to Position Your Market Offering,"* MindTools.com*, accessed January 18, 2016.*