Instructor’s Manual: Chapter 6

E-commerce Marketing and Advertising Concepts

**Learning Objectives**

After reading this chapter, your student should be able to:

* Understand the key features of the Internet audience, the basic concepts of consumer behavior and purchasing, and how consumers behave online.
* Identify and describe the basic digital commerce marketing and advertising strategies and tools.
* Identify and describe the main technologies that support online marketing.
* Understand the costs and benefits of online marketing communications.

# Key Terms

abandonment rate, p. 409

acquisition rate, p. 408

ad exchanges, p. 371

ad fraud, p. 372

ad targeting, p. 361

advertising networks, p. 370

affiliate marketing, p. 376

attrition rate, p. 409

automated response system, p. 386

banner ad, p. 366

behavioral targeting, p. 382

big data, p. 403

bounce-back rate, p. 409

browse-to-buy ratio, p. 409

bundling, p. 390

cart conversion rate, p. 409

checkout conversion rate, p. 409

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database, p. 399

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# Brief Chapter Outline

*Video Ads: Shoot, Click, Buy*

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Internet Traffic Patterns: The Online Consumer Profile

Consumer Behavior Models

Profiles of Online Consumers

The Online Purchasing Decision

Shoppers: Browsers and Buyers

What Consumers Shop for and Buy Online

Intentional Acts: How Shoppers Find Vendors Online

Why Some People Don’t Shop Online

Trust, Utility, and Opportunism in Online Markets

6.2 Digital Commerce Marketing and Advertising Strategies and Tools

Strategic Issues and Questions

The Website as a Marketing Platform: Establishing the Customer Relationship

Traditional Online Marketing and Advertising Tools

Social, Mobile, and Local Marketing and Advertising

Multi-Channel Marketing: Integrating Online and Offline Marketing

*Insight on Business: Are the Very Rich Different from You and Me?*

Other Online Marketing Strategies

*Insight on Technology: The Long Tail: Big Hits and Big Misses*

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The Revolution in Internet Marketing Technologies

Web Transaction Logs

Supplementing the Logs: Cookies and Other Tracking Files

*Insight on Society: Every Move You Take, Every Click You Make, We’ll Be Tracking You*

Databases, Data Warehouses, Data Mining, and Big Data

Marketing Automation andCustomer Relationship Management (CRM) Systems

6.4 Understanding the Costs and Benefits of Online Marketing Communications

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How Well Does Online Advertising Work?

The Costs of Online Advertising

Marketing Analytics: Software for Measuring Online Marketing Results

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# Teaching Suggestions

Chapter 6 introduces the student to e-commerce marketing and advertising concepts. The chapter covers online consumer behavior, digital commerce marketing and advertising strategies and tools, Internet marketing technologies, and understanding the costs and benefits of online marketing communications. If you have students without any background in marketing concepts, you may wish to refer them to Learning Tracks 6.1 and 6.2, which will provide them with some basic information.

The fundamental principles of marketing remain intact online. Building online brands is a major source of financial and strategic strength for online firms; it is a major avenue for avoiding pure price competition and financial ruin. Nevertheless, the Internet provides consumers with a whole new environment for interacting with firms because online behavior is different from offline behavior. The Internet provides consumers a powerful new soapbox from which to either support or dismiss products, and to have these opinions propagate across the nation very rapidly. E-commerce presents marketers with risks as well as opportunities. Moreover, the tools and technologies for online marketing are very different from those for offline marketing.

The opening case on video advertising, *Video Ads: Shoot, Click, Buy*, provides several interesting examples of how video ads are growing in frequency and effectiveness, rivaling the power of television and movie placement ads. Ask your students if they mind watching television-quality ads online, and whether they are preferable to other types of online advertisements, such as banner ads. Other questions for class discussion might include the following:

* What advantages do video ads have over traditional banner ads?
* Where do sites such as YouTube fit into a marketing strategy featuring video ads?
* What are some of the challenges and risks of placing video ads online?
* Do you think Internet users will ever develop “blindness” toward video ads as well?

## Key Points

*Online Consumer Behavior.* Section 6.1 provides basic information about the Internet audience and traffic patterns (online consumer profile) as well as online consumer behavior and purchasing decisions. Most students are unaware of the basic behavioral realities with respect to online consumers. A basic ingredient of the old dictum, “know thy customer”—who is online, what they do when there, what they buy and look at—is a very important prerequisite for successful marketing campaigns. Figures 6.1 and 6.3 provide summary models of the complex process of consumer purchasing.

Some key points to make in this section are:

* Online shopping includes both purchasers and browsers.
* Online shopping strongly influences offline purchases.
* Online shopping is largely intentional.

*Digital Commerce Marketing Platform Strategies and Tools:* Section 6.2 reviews various strategies and tools in digital commerce marketing. E-commerce has now been around long enough that there are tools that can be considered “traditional,” such as search engine marketing, display ad marketing (banner ads, rich media ads, video ads, sponsorships, native advertising and content marketing, as well as the use of advertising networks that employ programmatic advertising, ad exchanges, and real-time bidding), e-mail and permission marketing, affiliate marketing, and lead generation marketing. Newer forms of digital commerce marketing, including social marketing, mobile marketing, and local marketing are reviewed very briefly, and covered in much more depth in Chapter 7. Spend some time on Table 6.3, which illustrates the five main elements of a comprehensive digital marketing program, including website, traditional online marketing, social marketing, mobile marketing, and offline marketing. In today’s environment, multi-channel marketing is becoming increasingly important.

The *Insight on Business* case, *Are the Very Rich Different from You and Me?*,examines how luxury goods providers are using online marketing in conjunction with their offline marketing efforts. Class discussion questions for this case might include the following:

* What distinguishes luxury marketing from ordinary retail marketing?
* What challenges do luxury retailers have translating their brands and the look and feel of luxury shops into websites?
* How has social media affected luxury marketing?
* Visit the Net-a-Porter website. What do you find there?

The chapter then examines some further online marketing strategies such as customer retention strategies like personalization, one-to-one marketing, and interest-based advertising (behavioral targeting), customization and customer co-production, and customer service, pricing strategies, and “Long Tail” marketing. The *Insight on Technology* case, *The Long Tail: Big Hits and Big Misses*, contains a description of collaborative filtering coupled with the use of recommender systems. This provides a good introduction to data mining. Questions for class discussion might include the following:

* What are “recommender systems”? Give an example you have used.
* What is the “Long Tail” and how do recommender systems support sales of items in the Long Tail?
* How can human editors, including consumers, make recommender systems more helpful?

*Internet Marketing Technologies.* The Internet and the Web provide marketers with a set of exciting marketing technologies. Section 6.3 covers web transaction logs, tracking files databases, data warehouses, data mining, big data, and marketing automation and customer relationship management systems. You will want to spend some time on each of these technologies, noting that many of them come with a social cost, namely, the loss of privacy.

A good place to end the discussion is the *Insight on Society* case, *Every Move You Take, Every Click You Make, We’ll Be Tracking You*, which describes the privacy implications of tracking files. You could ask students what kinds of controls might allow marketers to use web tracking, but also protect individual privacy. Other class discussion questions might include the following:

* Are beacons innocuous? Or are they an invasion of personal privacy?
* Do you think your web browsing should be known to marketers?
* What are the Privacy Foundation guidelines for web beacons?
* Should online shopping be allowed to be a private activity?

*The Costs and Benefits of Online Marketing Communications.*Section 6.4 introduces the vocabulary of online marketing. A good way to begin is to review Table 6.7, which describes the different metrics used in online advertising. Most research has demonstrated that display ads are effective for producing both brand recognition and immediate sales, and that this effect is positive even when consumers do not click. The online consumer purchasing model in Figure 6.11 gives the students a quantitative idea of the connection between exposure to a banner ad and a subsequent sale. Some may find it surprising that 100,000 untargeted impressions may only lead to a tiny level of purchases (50). This can be improved dramatically by targeting the advertisement or using e-mail or pay for inclusion communications. Indeed, e-mail response rates are considerably higher than direct mail, banner ads, or even traditional media ads. In general, online advertising is more cost-effective than traditional advertising via offline media such as television, radio, and newspapers. The section concludes with a quick look at marketing analytics software packages, which can be used to measure online marketing results. Figure 6.12 provides a conceptual overview of how the various types of data that can be collected and analyzed using such software relates to each of the stages in the online purchasing process.

In Section 6.5, we offer students information and tips about how the concepts they’ve learned in this chapter can help them prepare for an interview for an entry-level position as a digital marketing assistant.

The chapter-ending case study, *Programmatic Advertising: Real-Time Marketing*,in Section 6.6,examines the increasing ability of advertising networks and exchanges to deliver behaviorally tracked display ads directly to users in real time, as well as some of the issues raised by this practice.

# Case Study Questions

1. *Pay a visit to your favorite portal and count the total ads on the opening page. Count how many of these ads are (a) immediately of interest and relevant to you, (b) sort of interesting or relevant but not now, and (c) not interesting or relevant. Do this 10 times and calculate the percentage of the three kinds of situations. Describe what you find and explain the results using this case.*

The results should be interesting! You might want to ask students whether they have cookies turned off, use an ad blocker, or software to prevent tracking. Ordinarily, students do not take these steps. In general, it is likely that students will report that only a small percent (at best 20%) of the ads are appropriate in any way for them. This means the online advertising at these sites is not very efficient. In part this is the case, because the advertisers know very little about the individuals per se. This is not the case at product or service sites where context advertising can be quite effective. If you go to an auto site like Edmunds.com, or a fashion site like Elle.com, you will receive ads appropriate for these contexts.

1. *Advertisers use different kinds of “profiles” in the decision to display ads to customers. Identify the different kinds of profiles described in this case, and explain why they are relevant to online display advertising.*

Profiles are built by recording the behavior of people online, and inferring their interests, age, gender, location, interests, preferences, political, and social attitudes. The list of possible profiles is very large and dependent upon the relevance to advertisers or others who purchase the profiling service. For instance, the U.S. Army recruiting group may want to target 18-21-year-olds with a preference for online games and war movies. For online display advertisers, profiling is a way to approach the effectiveness of search engine advertising by displaying banner ads that are of interest to the consumer.

1. *How can display ads achieve search-engine-like results?*

Search ads work so well because they capture the intentions of people at every instance of searching, and can display ads relevant to those searches instantly. Display ads can achieve a similar result if they are based on behavioral profiles (constructed from information such as what sites users have visited and what products and services users have observed on various sites).

1. *Do you think instant display ads based on your immediately prior clickstream will be as effective as search engine marketing techniques? Why or why not?*

Yes and no. For instance, just because you visit a news site, and then a sports site, this does not offer many clues to advertisers. Clickstream behavior that previously happened, even if immediately prior, may not be such a good indicator of current interests. Long-term online behavior can establish patterns that could be more useful. On the other hand, yes, if a person visited a car site such as Ford, stayed a few minutes, then at the next site he/she visits it might be useful to display an ad for Ford cars, and even follow that person around the Web showing Ford cars wherever he/she goes. These techniques are so new that there is little empirical data on which to make a judgment.

# End-of-Chapter Questions

1. Is growth of the Internet, in terms of users, expected to continue indefinitely? What, if anything, will cause it to slow?

In the United States, the growth of the Internet has slowed to about 2% a year, in part because those most likely to use the Internet already have access.

1. What are some methods of cross-device tracking.

Deterministic cross-device tracking and probabilistic cross-device tracking are two methods of cross-device tracking. Deterministic cross-device trackingrelies on personally identifiable information such as e-mail address used to log into an app and website on different devices. Facebook, Google, Apple, Twitter, and other companies that have very large user bases and have both desktop and mobile properties that require logins are the most likely to be able to effectively exploit deterministic matching. Probabilistic cross-device trackinguses algorithms developed by vendors such as Drawbridge, BlueCava, and Tapad to analyze thousands of anonymous data points, such as device type, operating system, and IP address, to create a possible match. This type of matching is less accurate than deterministic matching

1. Would you say that the Internet fosters or impedes social activity? Explain your position.

The Internet both fosters and impedes social activity. It fosters it because e-mail, instant messaging, and social networks help people to easily stay in touch with friends and relatives. Online forums encourage people to ask questions and interact with people with similar interests, or who are going through the same stages in life.

The Internet may impede social activity because it causes people to spend less quality time with family and friends because they spend more time in front of the computer.

1. Research has shown that many consumers use the Internet to investigate purchases before actually buying, which is often done in a physical storefront. What implication does this have for online merchants? What can they do to entice more online buying, rather than pure research?

The fact that many consumers use the Internet to research products before making actual purchases has many implications for online merchants because it suggests that e-commerce is a major conduit and generator of offline commerce. This could mean that e-commerce and traditional commerce should integrate to alleviate the concern. It is very important for online merchants to build the information content on their sites to attract browsers, put less attention on selling, per se, and offer products in offline settings where users feel more comfortable and secure.

1. What are some of the changes that Google has made to its search engine algorithms to improve search results and user experience?

Google has made frequent changes to its search algorithms to improve the search results and user experience. Google, for instance, reportedly makes over 600 search engine changes in a year. Most are small unannounced tweaks. Recent major changes have included Panda, Penguin, Hummingbird, Knowledge Graph, Possum, and an unnamed algorithm that has been nicknamed Mobilegeddon. Panda was introduced in 2011 to weed out low-quality sites from search results. Those sites with thin content, duplicate content, content copied from elsewhere on the Web, and content that did not attract high-quality hits from other sources were systematically pushed down in the search results. Google introduced Penguinin 2012 to punish websites and their SEO marketing firms who were manipulating links to their site to improve their rankings. The Google search engine rewards sites that have links from many other sites. What some marketers discovered is that Google could not tell the quality of these back links, and they began to manufacture links by putting their clients onto list sites, creating multiple blogs to link to their clients’ site, and paying others to link to their clients’ sites. Penguin evaluates the quality of links to a site, and pushes down in the rankings those sites that have poor-quality back links. Google introduced Hummingbird, its new search algorithm in September 2013. Rather than evaluate each word separately in a search, Google’s semantically informed Hummingbird will try to evaluate an entire sentence. Semantic search more closely follows conversational search, or search as you would ordinarily speak it to another human being. Google introduced Knowledge Graphin 2012 as an effort to anticipate what you might want to know more about as you search on a topic or answer questions you might not thought of asking. Since 2013, results of Knowledge Graph appear on the right of the screen and contain more information about the topic or person you are searching. Not all search terms have a Knowledge Graph result. Google displays information based on what other users have searched for in the past, as well as its database on over 500 million objects (people, places, and things), and some 18 billion facts. In 2015, Google introduced a new algorithm update, nicknamed Mobilegeddon, that prioritized “mobile-friendliness” of websites. Ads that obscure the screen and requests to download apps are considered suboptimal, and happen to be used by many of Google’s biggest competitors in search. In 2016, Google introduced Possum, an algorithm update that varies search results based on the user’s location; for example, the closer a user is to a business’s address, the more likely it is to appear among the local results.

1. Why have advertising networks become controversial? What, if anything, can be done to overcome any resistance to this technique?

Advertising networks have become controversial because their ability to track individual consumers across the Internet is alarming to privacy advocates. Legislation or regulation that would curtail the use of web beacons and other tracking devices without consumer notification could help to overcome resistance to this technique. Giving consumers the option to opt-in or opt-out and making web beacons visible as an icon on the screen could ease consumers’ concerns. Finally, privacy advocates believe that if a user clicks the icon, a disclosure statement should indicate any or all of the following: what data is being collected, how the data will be used, what other companies will receive the data, what other data it will be combined with, and if a cookie is associated with the web beacon. Consumers should be able to opt-out of any data collection done by the web beacon, and it should never be used to collect sensitive data such as medical, financial, job-related, or sexual matters.

1. What is a marketing automation system and how is it used?

Marketing automation systemsare software tools that marketers use to track all the steps in the lead generation part of the marketing process. The marketing process begins with making the potential customer aware of the firm and product, and recognizing the need for the product. This is the beginning of a lead—someone who might buy. From there, consumers need to find you as they search for products; they will compare your products with your competitors’ offerings and at some point, choose to purchase. Software can help in each of these stages of the marketing process. A number of firms sell software packages that can visualize most of the online marketing.

1. List the differences among databases, data warehouses, and data mining.

A database stores records and attributes organized into tables. Databases are maintained for e-commerce transactions, shopping carts, point-of-sale terminals, warehouse inventory levels, field sales reports, and many other types of records.

A data warehouse gathers all the database information from customer and transaction databases and stores it in one logical repository where it can be analyzed and modeled by managers without disrupting or taxing the systems of a firm’s primary transactional systems and databases. Using the data warehouse, managers can query multiple databases to determine the answers to many marketing and financial questions enhancing their strategic decision-making capabilities.

Data mining is a different set of analytical techniques that look for patterns in database information or seek to model the behavior of visitors and customers. Website data can be mined to develop customer profiles that identify patterns in group or individual behaviors on the site. Data mining can be either query-driven, model-driven, or rule-based. Query-driven data mining is the simplest type; both databases and data warehouses can be queried. Marketers can answer specific questions such as, “What products sell better at different hours of the day?” and adjust website content accordingly. In model-driven data mining, a model analyzes the key variables in a strategic decision so that informed decisions can be made. In rule-based data mining, demographic and transactional data is examined, and general rules of behavior are derived for specific well-defined market segments.

1. Name some of the drawbacks to the data mining techniques used in Internet marketing.

All the data mining techniques face difficulties in that there can be millions of affinity groups and other patterns in the data that are temporal or meaningless. With all data mining techniques, it becomes tricky to isolate the valid, and therefore profitable, data and then act on it quickly enough to make sales.

10. What pricing strategy turned out to be deadly for many e-commerce ventures during the early days of e-commerce? Why?

The pricing strategy that turned out to be deadly for many e-commerce firms in the early days of e-commerce was a low-price leader strategy, which even resulted in “free” pricing. The idea was to attract enough eyeballs with free goods and services to amass a large, committed audience. It was supposed to achieve profitability through advertising and charging a small number of willing customers subscription fees for value-added services. Unfortunately, many early e-commerce businesses were unable to convert eyeballs into paying customers, and the strategy of piggybacking on a small number of users who would be willing to pay for premium services was not a great success.

11. Is price discrimination different from versioning? If so, how?

Price discrimination is different from versioning because price discrimination is strictly the selling of products to different people or groups based upon their willingness to pay. Versioning involves creating multiple versions of a good or service and offering them at different prices. In versioning, reduced value versions that have less functionality can be offered for free or at reduced prices, whereas premium versions are sold at much higher prices. In this situation, consumers are aware that they are “getting what they pay for.” With price discrimination, it is the exact same product that is offered to different groups at different prices, concealing from each group the amount the other groups are paying.

12. What are some of the reasons that freebies, such as free Internet service and giveaways, don’t work to generate sales on a website?

Freebies such as free Internet service and giveaways often did not cause the stimulus to sales that firms believed they would. This is because many so-called “freeloaders” never had the intention of paying for the product or additional products. They would simply switch to another free service if the one they were using began to charge fees or stop usage altogether if alternatives no longer existed.

13. Explain how versioning works. How is this different from dynamic pricing?

Versioning works by having a set of slightly different products that can be sold successfully to different market segments. Low-priced or free versions can be less convenient, less comprehensive, slower, less powerful, and offer less support than higher priced models. Versioning differs from dynamic pricing because each version is sold at a fixed, predetermined price, and there are slight differences in functionality between versions.

In dynamic pricing, auctions can be used to establish an instant market price based upon the price the market will bear. Yield management systems can be used to set prices for different markets and appeal to different segments to sell excess capacity. Auctions work for pricing unusual as well as commonplace goods; the differing price an article will bring in the marketplace is not based upon the version of the good or service, but rather upon the market dynamics at that particular moment in time. Yield management systems are generally profitable for perishable goods or where there are seasonal variations in demand or rapidly changing market conditions. Again, the product itself is no more or less functional than its higher or lower yielding counterparts despite the varying prices preset by managers.

14. Why do companies that bundle products and services have an advantage over those that don’t or can’t offer this option?

Although consumers are apt to have very diverse ideas about the value of a single product, there is much more agreement on the value of a bundle of products. This often results in a price per product people are willing to pay for a bundle that is higher than the price they would be willing to pay for each product sold separately. Bundling reduces the variance in the market demand for goods, meaning that more people are willing to pay the same price for the bundle of goods. Bundler firms can pay higher prices to their suppliers for content, and they can charge higher prices to their customers for their bundles than can single good firms.

15. What are some reasons why online advertising still constitutes only about 37% of the total advertising market?

Online advertising constitutes only about 37% of the total advertising market because advertisers are still concerned about its cost versus its benefits and about how to accurately measure its results.

16. What are some of the advantages of direct e-mail marketing?

The major advantage of direct e-mail marketing is that because e-mails are sent to interested users who have elected to “opt-in,” they have proven to be one of the most effective forms of marketing communication. These consumers have at one time or another expressed an interest in receiving messages from advertisers. Therefore, the response rates are much greater than other forms of online marketing communications. Another advantage is that the cost is negligible. The primary cost is for the purchase of a list of names, which can be from $0.05 to $0.20 per name, depending on how targeted the list is. Sending the e-mails is virtually cost-free. Furthermore, marketers can rapidly get a targeted direct e-mail advertising campaign off the ground whereas a banner ad or search engine campaign takes more time.

17. Why is offline advertising still important?

Offline advertising is still important because, so far, the marketing communications campaigns that have been the most successful at driving traffic to a website have combined both offline and online tactics. Research studies have shown that the most effective online advertisements were those that incorporated consistent imagery with ads that were running simultaneously in print media and on television. Furthermore, since offline media such as television and radio have nearly 100% market penetration and millions of adults read a newspaper every day, it would be foolish to ignore these more popular media devices for driving traffic to a website. Meeting the objectives of drawing the attention of people who are already online and attracting the attention of those who will be going online in the near future can best be accomplished with a combined offline/online strategy.

18. What is the difference between hits and page views? Why are these not the best measurements of web traffic? Which is the preferred metric for traffic count?

Hits are the number of http requests received by a server, whereas page views are the number of pages requested by visitors. Hits can be a misleading measure of site activity because one-page view can include many hits if the page contains multiple images or graphics. Page views are also an inaccurate measure of site activity because of the increased usage of web pages that use frames to divide the page into separate sections. This will cause one page to generate multiple hits: one for each frame on the page. The preferred metric for traffic counts is unique visitors, which counts the number of new visitors to a site, regardless of how many pages they view.

19. Define CTR, CPM, CPC, CPA, and VTR.

CTR refers to the click-through rate or percentage of people exposed to an online advertisement who click it to visit the site. CPM refers to the cost per 1,000 impressions. Advertisers originally purchased online ads in lots of 1,000 units. CPC is a later pricing model in which the advertiser pays a prenegotiated fee for each click an ad receives. CPA refers to a cost structure where advertisers pay a prenegotiated amount only when a user performs a specific action such as a site registration or purchase. VTR refers to the 30-day response rate to an ad, which may be useful for ads that do not lead to an immediate click, but may lead to one in the near future.

*20. What are marketing analytics and how are they used?*

Marketing analytics(also called web analytics)are software packages that collect, store, analyze, and graphically present data on each of the stages in the conversion of shopper to customer process on e-commerce sites. Analytics packages can tell business managers how people become awareof their site, and where they come from (e.g., search, self-entered URL, e-mail, social campaigns, or off-line traditional print and TV ads), along with demographic, behavioral, and geographic information. This information can help managers decide the best ways to drive traffic to their sites, the so-called “in-bound” links to a site.

Once on the website, analytics packages can record how engagedvisitors are with the site’s content, measured in terms of pages viewed and duration on site. This information can allow managers to change the design of their sites, or change the content viewers are seeing. In a social network marketing world, where consumers’ opinions and behavior can be harvested and broadcast to their friends, an important intermediate step in the consumer conversion process is to encourage visitors to interact with content and share their experiences, opinions, preferences, and behaviors with their friends, as well as other visitors to the site.

Analytics packages can track visitor interaction and help managers decide what content leads to higher levels of visitor interaction with friends and other visitors. The purchase activityon the shopping cart page is a major focus of analytics tools not just because this is where the revenue is generated, but also because this is where the customer frequently exits the entire site and the firm loses a potential sale. Finally, marketing analytics can help managers discover customer loyalty and post-purchasebehavior. In an increasingly social marketing environment, marketing managers need to know how their products and services are being talked about on other sites.

The end objective of analytics packages is to help business managers optimize the return on investment on their websites and social marketing efforts, and to do this by building a detailed understanding of how consumers behave when visiting their websites. Analytics also allow managers to measure the impact of specific marketing campaigns involving, say, discounts, loyalty points, and special offers, as well as regional or demographic-based campaigns. Aside from its role in enhancing management decision making, and optimizing the effectiveness of building an e-commerce presence, analytics packages also enable a near real-time marketing capability where managers are able to change the content of a website, respond to customer complaints and comments, and align campaigns with trending topics or news developments.

# Projects

1. *Go to* [www.strategicbusinessinsights.com/vals/presurvey.shtml](http://www.strategicbusinessinsights.com/vals/presurvey.shtml)*. Take the survey to determine which lifestyle category you fit into. Then write a two-page paper describing how your lifestyle and values impact your use of e-commerce. How is your online consumer behavior affected by your lifestyle?*

Student answers will vary depending on the VALS segment profile into which they fall. For example, an “actualizer/achiever,” according to the profile, is supposed to be interested in possessions and recreation that reflect a cultivated taste for the finer things in life. They prefer established, prestige products and services that demonstrate success to their peers. Such a consumer might use the Web to buy tickets to concerts, opera, and the ballet. They might frequent eBay or other auction sites in search of fine art or antiques. Actualizers and achievers might also be interested in product advertisements from such sites as Tiffany or Bloomingdale’s. An “experiencer” on the other hand, is supposed to be inclined toward exercise, sports, outdoor recreation, and social activities. This group of individuals is supposedly comprised of avid consumers who spend much of their income on clothing, fast food, music, movies, and videos. Students who fall into this segment profile might express an online purchasing penchant for such sites as REI, Amazon, iTunes, and Hulu.

*2. Visit Net-a-porter.com and create an Internet marketing plan for it that includes each of the following:*

* *One-to-one marketing*
* *Affiliate marketing*
* *Viral marketing*
* *Blog marketing*
* *Social network marketing*

*Describe how each plays a role in growing the business, and create an electronic slide presentation of your marketing plan.*

To complete this project, all students need is the information in the chapter, a visit to the website, and a marketer’s instincts. Creativity should be rewarded. The students might suggest a campaign noting specific products on the site selected that includes the following:

* One-to-one marketing: The information from the market research study must be recorded in one or more customer databases. Database mining can then be used to compile individual profiles. These should be analyzed to identify new market opportunities to specific customers, both current and new. Combine this data with the historical purchasing data of the site’s customers and create a recommendation tool for the website. Aggregate the purchasing psychological profile data to send buyers a personalized e-mail message suggesting new products they might be interested in buying. As a general rule, a company can expect that 80% of revenue will be contributed by 20% of their customers. Sustaining existing customers is also much less costly than developing new ones. Needs, specific “hot-button” messages, and offers can be tailored both in e-mail messages and can be displayed on the website to different groups or individuals.
* Affiliate marketing: Set up an affiliate program with other like sites. Students might look for luxury hotel or vacation sites with which to partner. They could try luxury car dealerships such as Mercedes Benz, Ferrari, or Porsche. They might also set up affiliates with sites that are not direct competitors.
* Viral marketing: Off the Internet, viral marketing has been referred to as “word-of-mouth,” “creating buzz,” “leveraging the media,” or “network marketing.” Send e-mails to customers with an offer for a free small product of some sort and a $10 off coupon on subsequent referrals for each new customer they refer to the site that makes a purchase. The new customer will also be offered a $10 off coupon code that can be easily transferred to the new customer via e-mail. New customers can then be offered additional incentives when they make their first purchase.
* Blog marketing: Set up a store-sponsored blog with commentary on the latest products; send product announcements/samples to leading blog commentators to encourage them to favorably mention products and the site in their blogs.
* Social network marketing: Create videos featuring products to post on YouTube and other video-sharing sites, encourage social shopping by providing discounts or other incentives; set up product pages for specific products on Facebook, and similar sites.

3. Use the Online Consumer Purchasing Model (Figure 6.11) to assess the effectiveness of an e-mail campaign at a small website devoted to the sales of apparel to the ages 18–26 young adult market in the United States. Assume a marketing campaign of 100,000 e-mails (at 25 cents per e-mail address). The expected click-through rate is 5%, the customer conversion rate is 10%, and the loyal customer retention rate is 25%. The average sale is $60, and the profit margin is 50% (the cost of the goods is $30). Does the campaign produce a profit? What would you advise doing to increase the number of purchases and loyal customers? What web design factors? What communications messages?

If 100,000 e-mails are sent out at a cost of $0.25 per e-mail address, the cost of the marketing campaign is $25,000. A click-through rate of 5% will result in 5,000 people clicking through to the site. Of those, 10% will be converted to customers, so 500 people will make a purchase as a direct result of the e-mail. With an average sale of $60, this would produce gross revenues of approximately $30,000. The profit margin is 50% ($15,000), so the gross profit is $15,000. Subtract the $25,000 cost of the advertising campaign and the net loss on the initial campaign is $10,000 (not including additional operating costs). If the loyal customer retention rate is 25%, then 125 customers can be expected to make at least one additional purchase of $60 within the year for an additional $7,500 in gross revenue. The campaign still produces an overall net loss of $2,500 over one year’s time. To increase the number of purchases and the retention rate, students can come up with any number of ideas. This is a chance for the marketing students in the class to let the ideas flow. Some possible ideas for website design and communication messages that might keep customers coming back to the site are:

* Give the customers recruited from this e-mail campaign regular updates. When new product lines or products arrive, or perhaps as new apparel arrives for each season, send updates so that they will be more likely to revisit the site.
* Add fashion magazine content to the site that discusses the latest fashion trends of your target audience.
* Keep your customers informed about what is happening in your company by sending them e-mail newsletters detailing new product information, special offers, etc.
* Offer an e-mail-based fashion advice service for your customers.
* Add free fashion articles and reports to the site. You can keep customers interested by putting relevant articles on your site for them to download. This will also help to establish you as a fashion authority.
* Set up an online forum or blog on your site. This can often help to get your customers to stay longer on the site.

4. Surf the Web for at least 15 minutes. Visit at least two different e-commerce sites. Make a list describing in detail all the different marketing communication tools you see being used. Which do you believe is the most effective and why?

Students are likely to see all or most of the banner and rich media ads described in the chapter in 15 minutes of surfing. Reports should include what each advertised, what the method of delivery was, how effective they thought each ad was, and why it was or was not effective. Some ads may appear to be targeted and specifically placed on the sites visited whereas others may appear to have been randomly placed. Students will likely find the targeted ads more effective. The effectiveness of other ads may depend on the demographic groups to which the student belongs and the delivery method.

5. Do a search for a product of your choice on at least three search engines. Examine the results page carefully. Can you discern which results, if any, are a result of a paid placement? If so, how did you determine this? What other marketing communications related to your search appear on the page?

A search for ‘bicycle helmet’ on Google returns approximately 15.8 million results. At the top of the search page, there is a box with five or six sponsored results, each with a photo and links to purchase the item. An arrow also appears, which, if clicked, reveals more sponsored photos/links. Beneath this, one or two links labeled “Ad” appear for specific brands of bicycle helmets on Amazon and other companies. Below this, the “main” Google search results appear.

A search for ‘bicycle helmet’ on Microsoft’s Bing returns 18 million results. The display is very similar to Google’s, with a box with several sponsored results on the right, each with a photo and links to purchase, and an arrow that, if clicked, reveals additional sponsored photos/links. Beneath this are two links labeled “Ad,” to Amazon and L.L.Bean, respectively. On the left side, the “main” Bing search results appear. At the bottom of the page, there is an additional area for bike helmet advertisements. At the bottom of the page is the statement, “Your results are personalized.” As a result, previous searches have impacted the ads displayed, with several ads for equestrian helmets (rather than bicycle helmets) displayed.

Students should do the same sort of analysis for a third search engine, such as Ask.com.

6. Examine the use of rich media and video in advertising. Find and describe at least two examples of advertising using streaming video, sound, or other rich media technologies. (Hint: Check the sites of online advertising agencies for case studies or examples of their work.) What are the advantages and/or disadvantages of this kind of advertising? Prepare a three- to five-page report on your findings.

Some sites that offer examples of rich media/video ads include Sizmek’s Ad Gallery (<http://showcase.sizmek.com/>) and Rich Media Gallery (https://www.richmediagallery.com), among others.

Advantages of rich media/video advertising include: the tendency to be more effective (generate higher click-through rates) because it entertains and engages viewers through sound, video, and interactivity, as well as allows users some level of control (i.e., users can typically stop/close the ad).

Disadvantages of rich media/video advertising include its likeliness to cost more to develop and launch than simple display ads. They may also annoy users if they are deemed overly intrusive, and unresponsive to user control. As they become more commonly used, users may be more likely to “tune them out,” diminishing their effectiveness.

1. *Visit Facebook and examine the ads shown in the right margin. What is being advertised and how do you believe it is relevant to your interests or online behavior? You could also search on a retail product on Google several times, and related products, then visit Yahoo or another popular site to see if your past behavior is helping advertisers track you.*

Facebook’s targeted ad functionality has become fairly sophisticated. Students will likely report that the ads in the right margin of their profiles are somewhat relevant, although some may seem random. Facebook’s ad capabilities will improve with time. In general, the more you search on a class of items, or a specific item, the greater the likelihood that an ad network will pick up on your behavior and start showing you related ads in visits to other sites. This works for the most popular sites, most of which are members of a variety of ad networks. This also assumes that you allow both primary and third-party cookies. If you do not allow any cookies, tracking becomes more difficult, but not impossible. Web bugs and beacons often cannot be eliminated by your browser.

**Companion Website, Learning Tracks, and Video Cases**

You can also direct your students to the Companion Website for the book, located at [www.e-commerce2018.com](http://www.e-commerce2018.com). There they will find a collection of additional projects and exercises for each chapter; links to various technology tutorials; information on how to build a business plan and revenue models; information on careers in e-commerce, and more. Learning Tracks that provide additional coverage of various topics and a collection of video cases that integrate short videos, supporting case study material, and case study questions are also available for download from the book’s Online Instructor Resource Center at [www.pearsonhighered.com/irc](http://www.pearsonhighered.com/laudon). Learning Tracks and Video Cases for this chapter include:

* Learning Track 6.1 Basic Marketing Concepts
* Learning Track 6.2 Consumer Behavior: Cultural, Social, and Psychological Background Factors
* Learning Track 6.3 Social Media Marketing – Blogging
* Video Case 6.1 To Ad Block or Not to Ad Block
* Video Case 6.2 Pandora’s Recommendation System