



E-commerce

business. technology. society.

Fourth Edition

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Chapter 6

E-commerce Marketing Concepts

NetFlix Develops and Defends Its Brand

Class Discussion

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

NETFLIX [Buy / Redeem Gift](#) | [Member Sign In](#)

Welcome | **How It Works** | Browse Selection | Start Your FREE Trial | Free Trial Info

How It Works [Start your FREE TRIAL](#)

Fast, Free DVD Delivery in about 1 Business Day

- 1 Create your list of DVDs online
Over 100,000 titles
- 2 We rush you DVDs from your list
Free delivery
- 3 Keep each DVD as long as you want
No late fees
- 4 Return a movie to get a new one from your list
Prepaid return envelopes

Instantly on your PC

- 1 Select from a smaller library of over 12,000 choices
More added every month
- 2 Click "Play" on your PC
Movies start in as little as 30 seconds

AND



Consumers Online: The Internet Audience and Consumer Behavior

- First principle of marketing and sales: Know the customer” – Who uses the Web, who shops on the Web and why, and what do they buy?
- Around 90 million American households (65% of households) had Internet access in 2007
- Growth rate has slowed (2-3% a year)
- Intensity and scope of use both increasing: users are going online more frequently (69% of people logon each day) and engage in wider range of activities than in the past



The Internet Audience and Consumer Behavior

- Some demographic groups have much higher percentages of online usage than other groups
- Demographics to examine include:
 - gender,
 - age,
 - ethnicity,
 - community type, (urban, suburban, rural)
 - income;
 - education



Type of Internet Connection: Broadband Impacts

- In 2007, 65 million Americans (>50% of all Internet users) had broadband access
- Differences between broadband audience and dial-up
 - Wealthier
 - More educated
 - More middle-aged
 - Greater intensity of use and much more capable

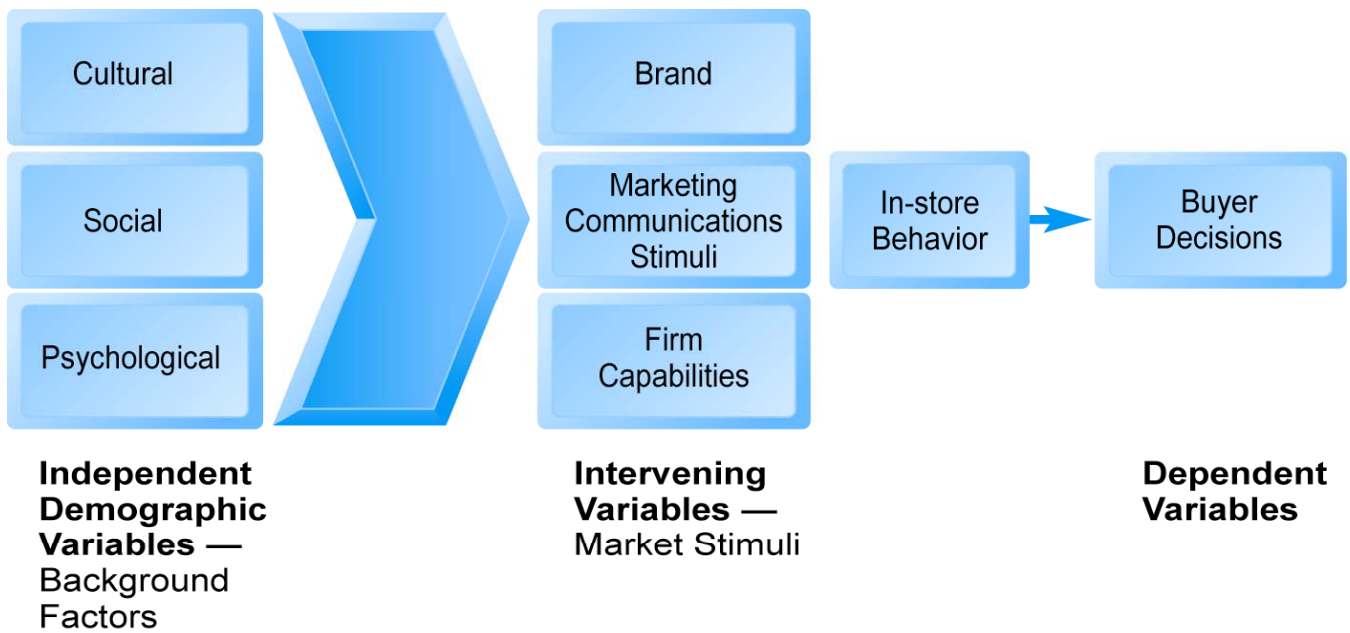


Consumer Behavior Models

- After having known “who” is online, then firms need to know “what” they do online
- Consumer behavior study attempts to understand behavior of customers in marketplace to predict/explain what consumers purchase and where, when, how much and why they buy.
- Consumer behavior models based on background demographic factors and other intervening, more immediate variables

A General Model of Consumer Behavior

Figure 6.1, Page 344



SOURCE: Adapted from Kotler and Armstrong, 2006.

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Slide 6-9

Background Demographic Factors

- Cultural
 - Culture and subculture
- Social
 - Reference groups
 - Direct: one's family, profession or association
 - Indirect: one's life-cycle stage, neighborhood, and school
 - Opinion leaders (viral influencers)
 - Lifestyle groups
- Psychological
 - Psychological profiles (attitudes and beliefs)

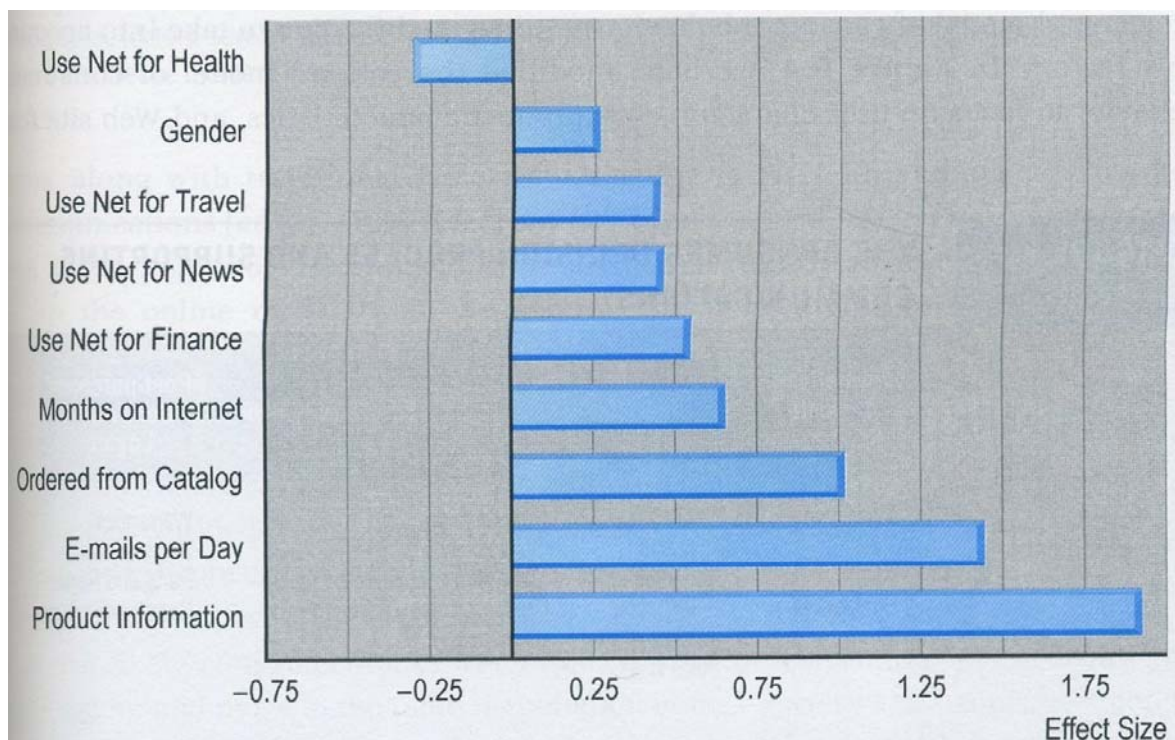
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Slide 6-10

The Online Purchasing Decision

- Once online, who do consumers actually purchase a product or service at a specific Web site?
- Can be answered by a psychographic research on profile of e-commerce shoppers to understand factors that predict purchases

Factors that Predict Online Buying Behavior



The Online Purchasing Decision

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

The Consumer Decision Process and Supporting Communications

Figure 6.3, Page 348

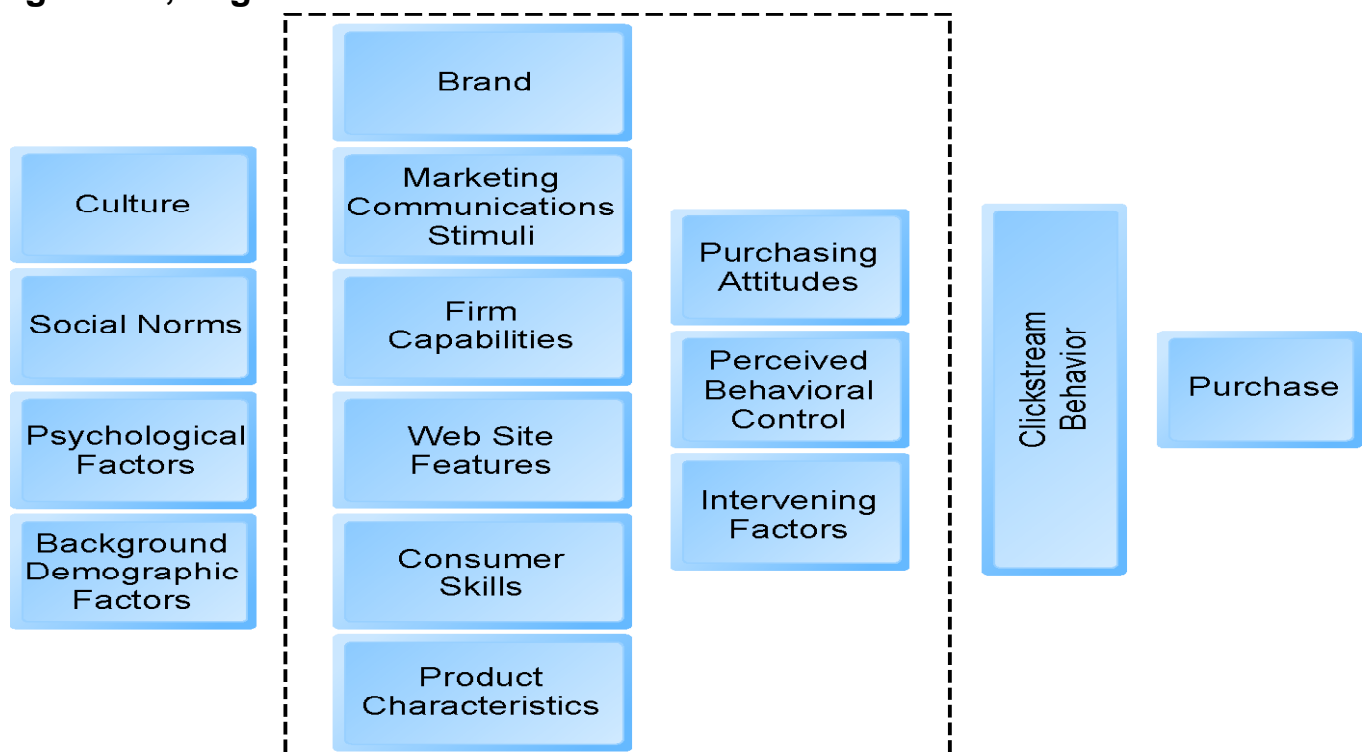
MARKET COMMUNICATIONS	Awareness—Need Recognition	Search	Evaluation of Alternatives	Purchase	Post-purchase Behavior—Loyalty
Offline Communications	Mass media TV, Radio Print media	Catalogs Print ads Mass media Sales people Product raters Store visits	Reference groups Opinion leaders Mass media Product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

A Model of Online Consumer Behavior

- Adds two new factors:
 - Web site capabilities, e.g., latency, navigability, and confidence in Web site's security
 - Consumer clickstream behavior – transaction log that consumers establish as they move from search engine, to a variety of sites, then to a single site, then to a single page, and then finally to purchase something

A Model of Online Consumer Behavior

Figure 6.4, Page 349



Shoppers: Browsers and Buyers

- About 68% of online users purchase online (buyers); an additional 13% research online, but purchase offline (browsers)
- Significance of online browsing for offline purchasing and vice versa should not be underestimated
- E-commerce and traditional commerce are coupled and should be viewed by merchants and researchers as part of a continuum of consuming behavior

Online Shoppers and Buyers

Figure 6.5, Page 351



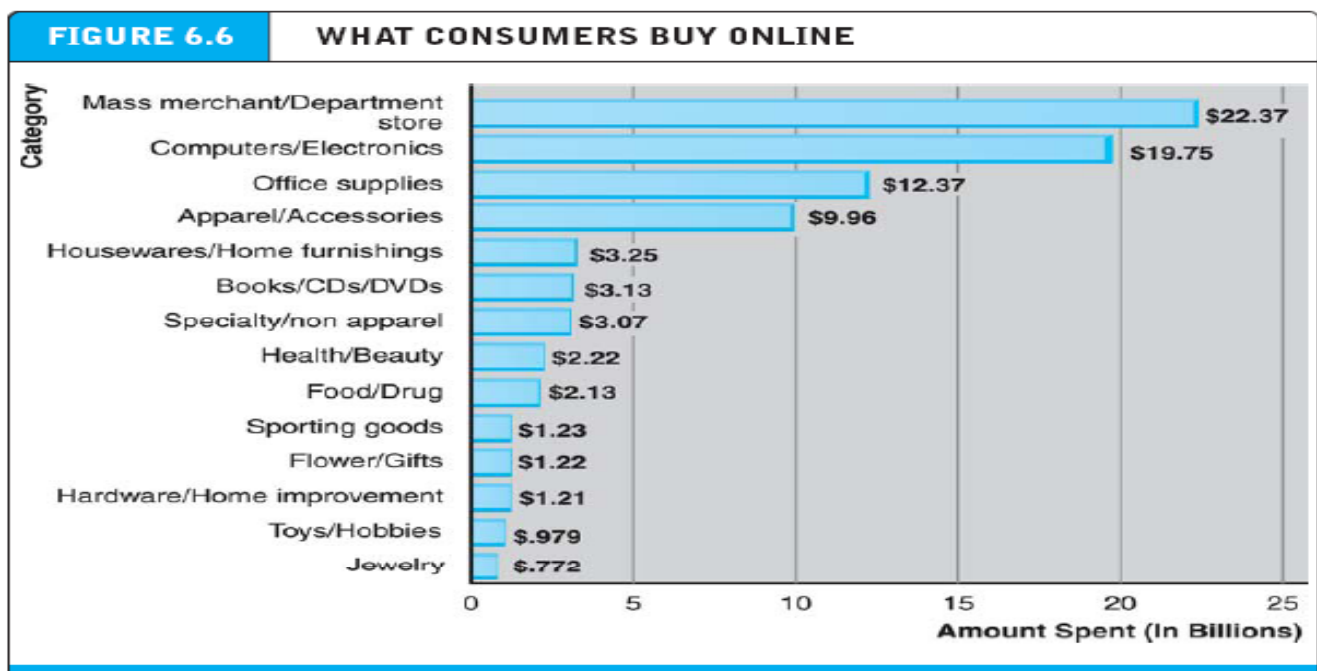
SOURCE: Based on data from eMarketer, Inc., 2007a; Shop.org, 2007; and authors' estimates.

What Consumers Shop for and Buy Online

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

What Consumers Buy Online

Figure 6.6, Page 354



SOURCES: Internet Retailer, 2007; eMarketer, Inc., 2007a; authors' estimates.



Intentional Acts: How Shoppers Find Vendors Online

- Banner ads are not always effective as understood
- 54% of shoppers use search engines
- 20% of consumers go directly to site
- 12% use comparison shopping or product rating sites
- Most online shoppers plan to purchase product within a week, either online or at a store
- Most online shoppers have a specific item in mind



Why More People Don't Shop Online

- Major online buying concerns:
 - Security
 - Privacy
 - Shipping costs
 - Inability to see/touch product
 - Return policy



Trust, Utility, and Opportunism in Online Markets

- Trust and utility among most important factors shaping decision to purchase online
- Consumers are looking for utility (better prices, convenience)
- Asymmetry of information can lead to opportunistic behavior by sellers
- Consumers also need to trust merchants before they are willing to purchase
- Sellers can develop trust by building strong reputations for honesty, fairness, delivery of quality goods
- Trust-building online mechanism examples: Feedback forums, e.g., epinions.com; Amazon's reviews reviewers, and eBay's seller feedback



Basic Marketing Concepts

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

Basic Marketing Concepts (cont'd)

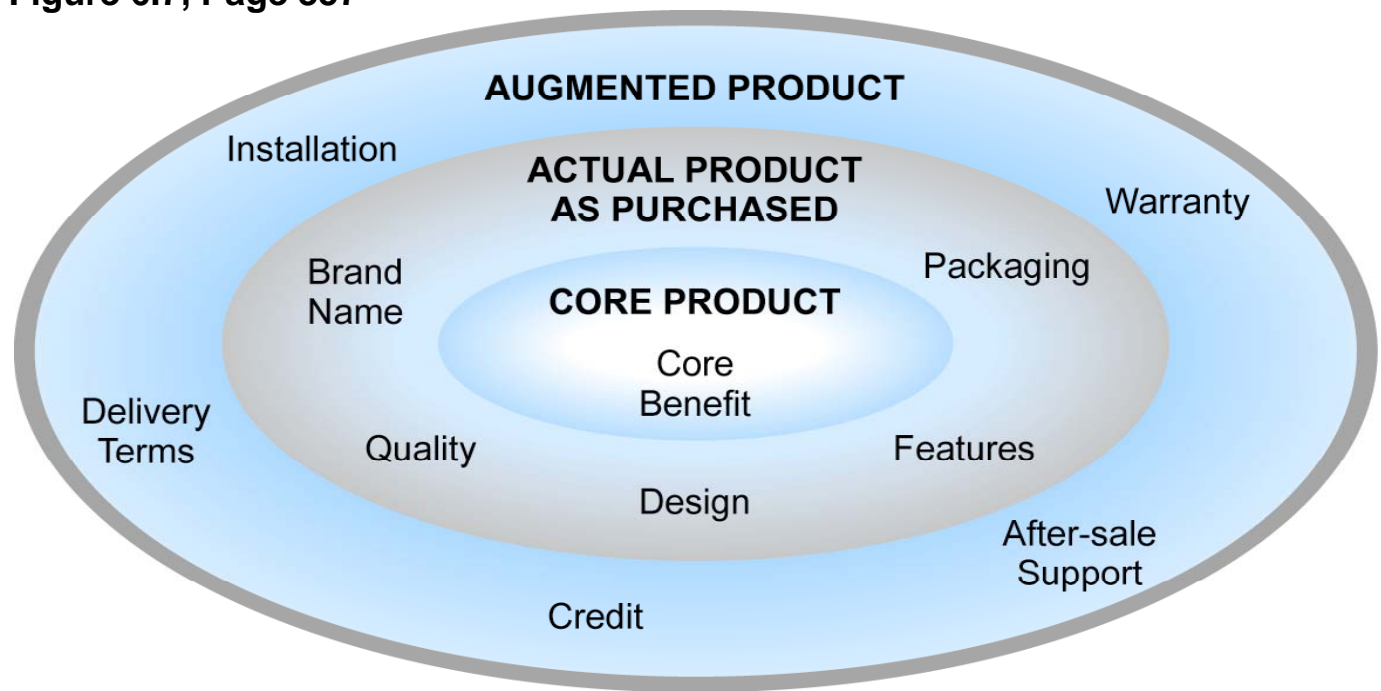
- Profitability of an industry depends on:
 1. Ease with which substitute products or service can enter the market
 2. Ease with which new entrants can enter industry
 3. Power of customers and suppliers to influence pricing,
 4. Nature of competition within the industry.
- Competitive markets have lots of substitute, easy entry, and strong bargaining powers belonging to consumers and suppliers
- Marketing seeks to create unique, highly differentiated products or services that are produced or supplied by one trusted firm (“little monopolies”)

Feature Sets

- Defined as the bundle of capabilities and services offered by the product or service
- Includes:
 - Core product, e.g., washing machine
 - Actual product, e.g., Maytag's name brand with durability and ease of use
 - Augmented product, e.g., Maytag with 5-year warranty, free delivery, and low-cost installation fees

Feature Set

Figure 6.7, Page 357

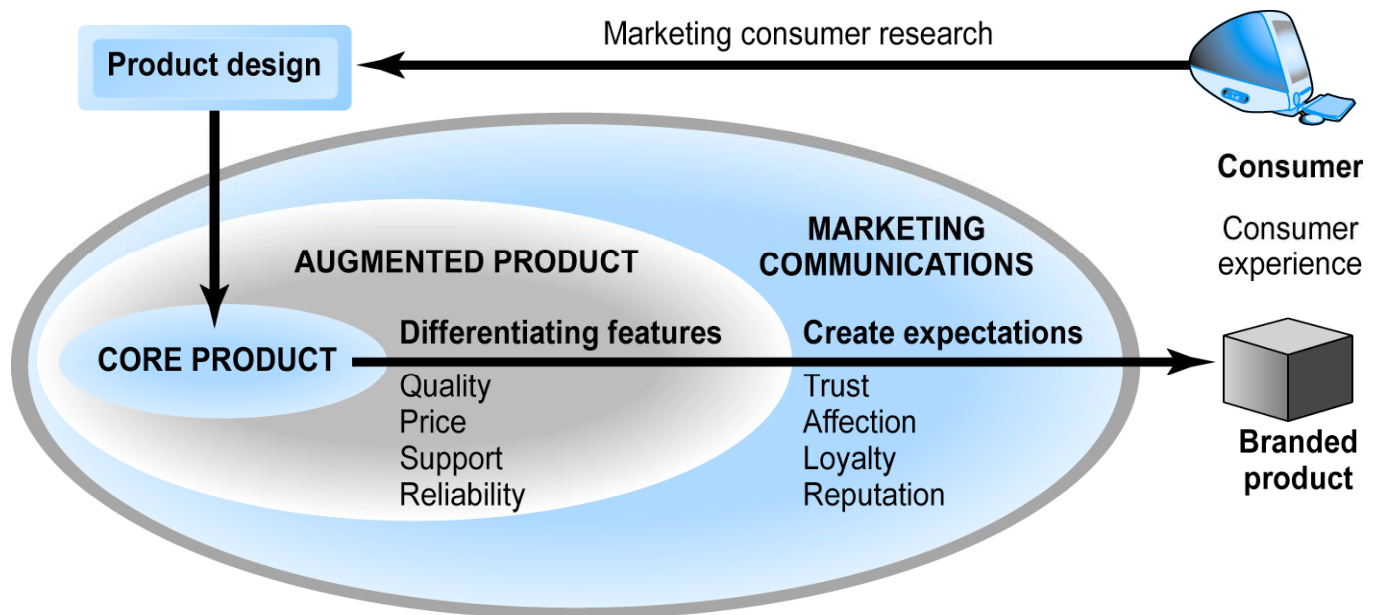


Products, Brands and the Branding Process

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

Marketing Activities: From Products to Brands

Figure 6.8, Page 358



Segmenting, Targeting, and Positioning (STP)

- Major ways in which marketers segment and target markets (refer to Table 6.7)
 - Behavioral, e.g., CBMG
 - Demographic, sites visited as a measure of age, e.g., music sites visited are by young people
 - Psychographic, e.g., sites visited like fashion sites
 - Technical, e.g., site visitor's domain, IP, browser
 - Contextual, e.g., Manager's Web site visitors are good targets for home/condo sale advertising
 - Search, e.g., using customer's search key words



Are Brands Rational?

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



Can Brands Survive the Internet? Brands and Price Dispersion

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



Internet Marketing Technologies

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



The Revolution in Internet Marketing Technologies

- Three broad impacts on marketing:
 - Internet has broadened the scope of marketing communications
 - Internet has increased the richness of marketing communications
 - Internet has greatly expanded information intensity of the marketplace by providing fine-grained, detailed, real-time info about consumers as they transact in marketplace

Web Transaction Logs

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

One Second from the Web Transaction Log of Azimuth-Interactive.com

```
dsi254-068-173.nyc1.dsl.speakeasy.net - - [22/Oct/2007:11:29:32 -0400] "GET /masthead.cgi?page=homepage&ad=1 HTTP/1.1" 200 3646 "http://www.azimuth-interactive.com/" "Mozilla/5.0 (Windows; U; Windows NT 5.0; en-US; rv:1.6) Gecko/20040113"

dsi254-068-173.nyc1.dsl.speakeasy.net - - [22/Oct/2007:11:29:32 -0400] "GET /images/newredspacer.gif HTTP/1.1" 200 35 "http://www.azimuth-interactive.com/homepage2.php" "Mozilla/5.0 (Windows; U; Windows NT 5.0; en-US; rv:1.6) Gecko/20040113"

dsi254-068-173.nyc1.dsl.speakeasy.net - - [22/Oct/2007:11:29:32 -0400] "GET /images/azimuthweblogo2.gif HTTP/1.1" 200 1494 "http://www.azimuth-interactive.com/masthead.cgi?page=homepage&ad=1" "Mozilla/5.0 (Windows; U; Windows NT 5.0; en-US; rv:1.6) Gecko/20040113"

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dsi254-068-173.nyc1.dsl.speakeasy.net - - [22/Oct/2007:11:29:32 -0400] "GET /images/coursebooksnavig.gif HTTP/1.1" 200 165 "http://www.azimuth-interactive.com/masthead.cgi?page=homepage&ad=1" "Mozilla/5.0 (Windows; U; Windows NT 5.0; en-US; rv:1.6) Gecko/20040113"

dsi254-068-173.nyc1.dsl.speakeasy.net - - [22/Oct/2007:11:29:32 -0400] "GET /images/onlinecoursesnav.gif HTTP/1.1" 200 174 "http://www.azimuth-interactive.com/masthead.cgi?page=homepage&ad=1" "Mozilla/5.0 (Windows; U; Windows NT 5.0; en-US; rv:1.6) Gecko/20040113"

dsi254-068-173.nyc1.dsl.speakeasy.net - - [22/Oct/2007:11:29:32 -0400] "GET /images/onlinetestingnav.gif HTTP/1.1" 200 175 "http://www.azimuth-interactive.com/masthead.cgi?page=homepage&ad=1" "Mozilla/5.0 (Windows; U; Windows NT 5.0; en-US; rv:1.6) Gecko/20040113"
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Cookies

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

Firefox Cookies Dialog Box

Figure 6.11, Page 369





Web Bugs

- Tiny (1 pixel) graphic files embedded in e-mail messages and on Web sites
- Used to automatically transmit information about user and page being viewed to monitoring server
- Can be identified by viewing the source code of HTML email messages and looking for the IMG tag that links to the URL of a server different from the one that served the page itself

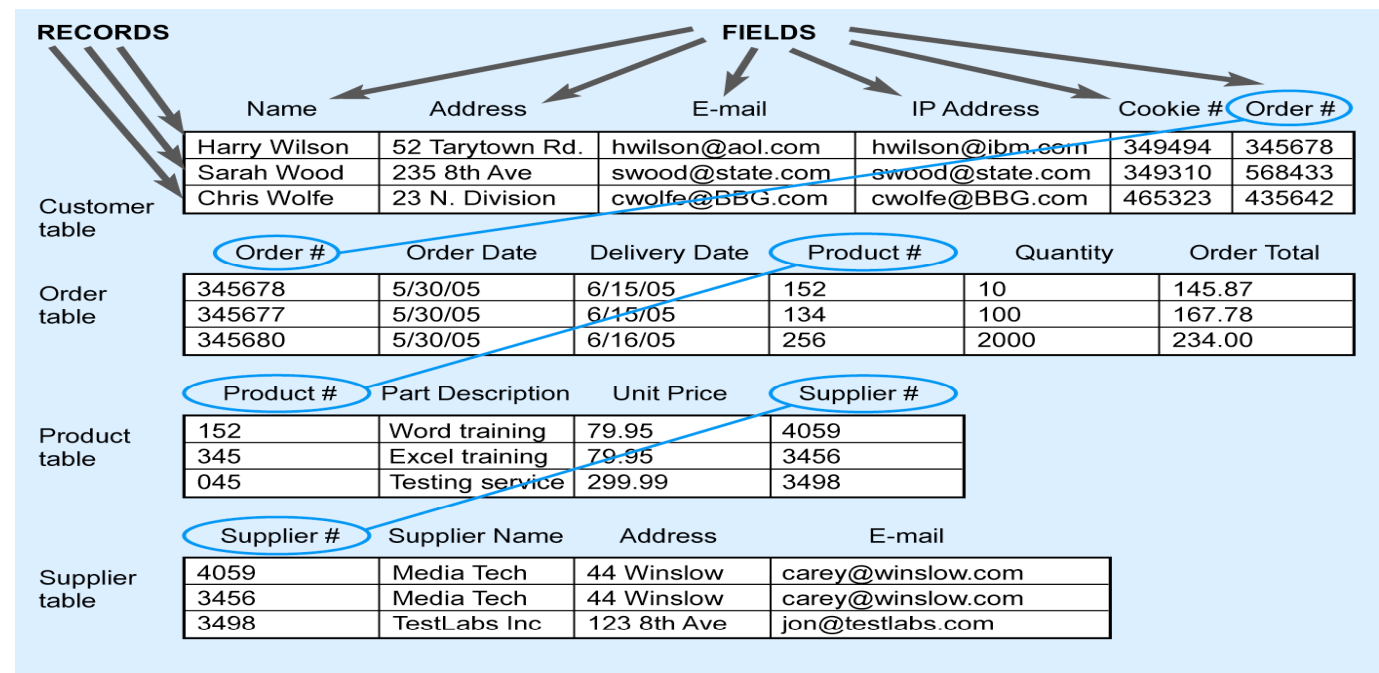


Databases and Data Warehouses

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

A Relational Database View of E-commerce Customers

Figure 6.12, Page 374



Data Mining

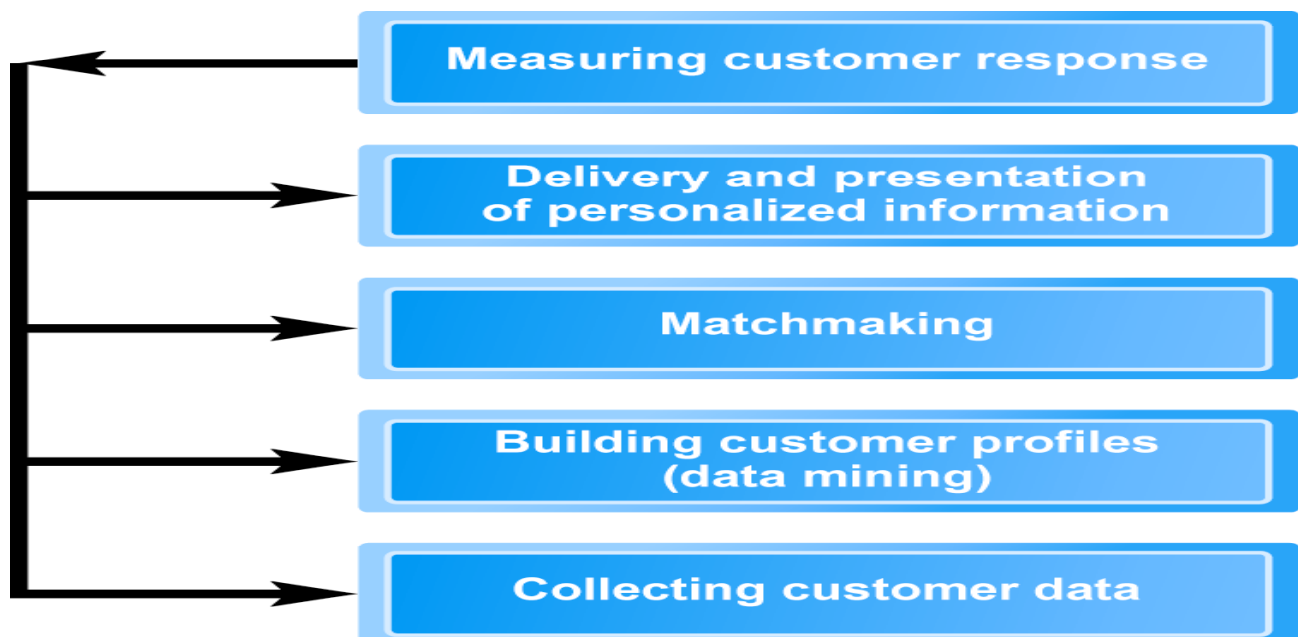
- Set of analytical techniques that look for patterns in data of a database or data warehouse, or seek to model the behavior of customers
- Types include:
 - Query-driven: based on specific queries, e.g., querying for top ten products sold at a Web site by each hour of the day
 - Model-driven: based on model that analyzed key variables of interest to decision makers, e.g., building a financial model of products showing profitability of each product on the site

Data Mining

- Rule-based: examines demographic and transactional data of groups and individuals at a Web site and tries to derive general rules of visitors' behavior. E.g., female customers who purchased items worth > \$50 in a visit and who viewed travel articles might be shown a vacation travel advertisement
- Collaborative filtering: site visitors collaboratively classify themselves based on common interests

Data Mining and Personalization

Figure 6.13, Page 375



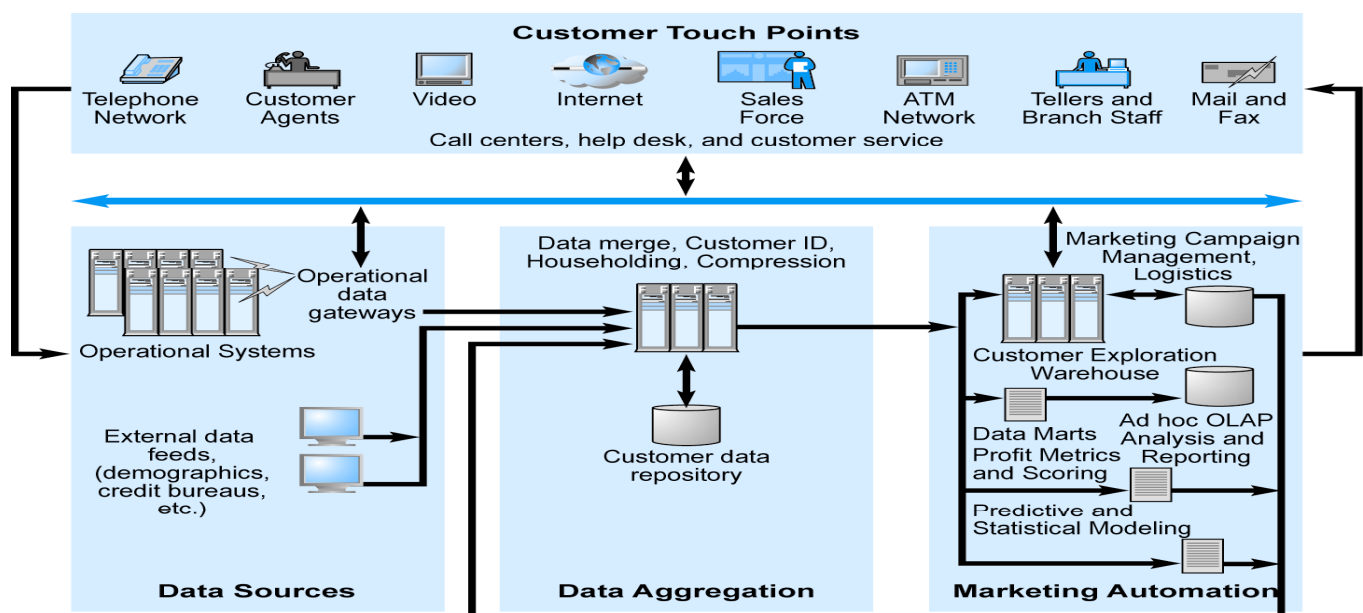
SOURCE: Adomavicius and Tuzhilin, 2001b ©2001 IEEE.

Customer Relationship Management (CRM) Systems

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

A Customer Relationship Management System

Figure 6.14, Page 380



SOURCE: Compaq, 1998.

Market Entry Strategies

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

Generic Market Entry Strategies

Figure 7.16, Page 404

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

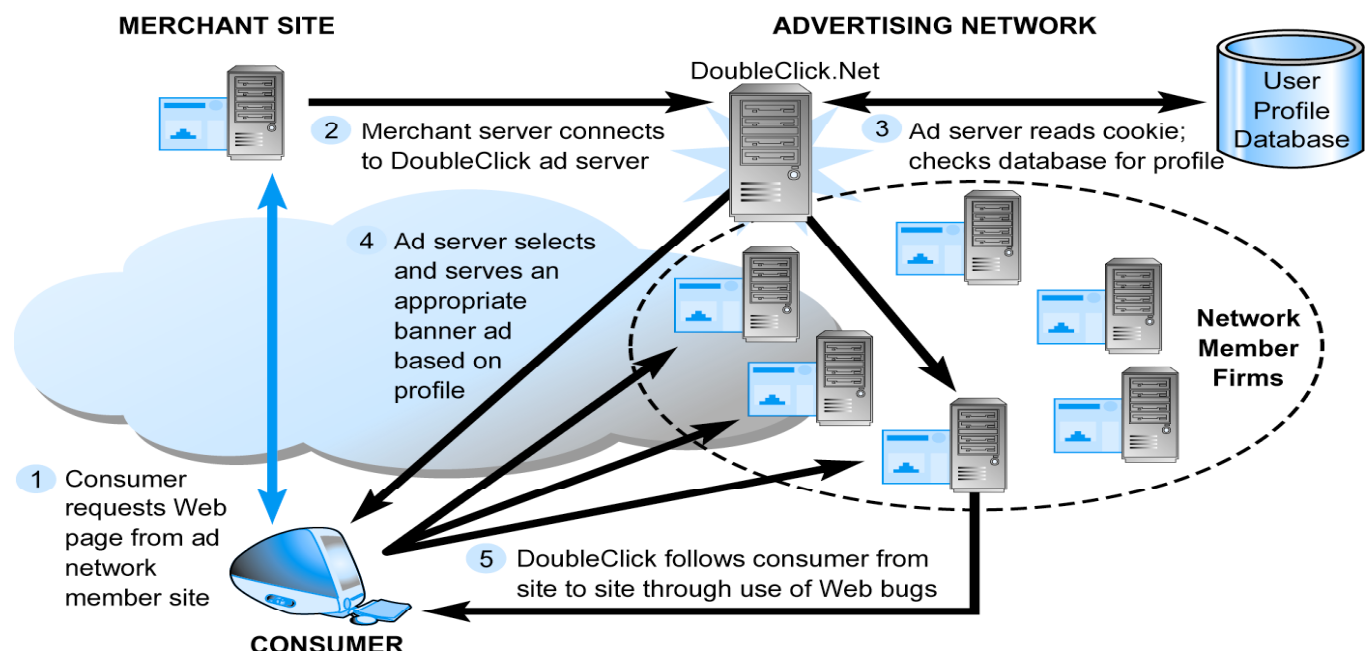
Establishing the Customer Relationship

■ Advertising Networks

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

How an Advertising Network such as DoubleClick Works

Figure 6.16, Page 385





Establishing the Customer Relationship (cont'd)

- **Permission marketing:** Obtain permission before sending consumer information or promotional messages (example: opt-in e-mail)
- **Affiliate marketing:** Relies on referrals; Web site agrees to pay another Web site commission for new business opportunities it refers to site



Establishing the Customer Relationship (cont'd)

- **Viral marketing:** Process of getting customers to pass along company's marketing message to friends, family, and colleagues
- **Blog marketing:** Using blogs to market goods through commentary and advertising
- **Social network marketing and social shopping:** Similar to viral marketing
- **Brand leveraging:** Process of using power of existing brand to acquire new customers for new product or service, e.g., from Coke to Diet Coke

Customer Retention: Strengthening the Customer Relationship

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

The Mass Market-Personalization Continuum

Figure 6.17, Page 392

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



Other Customer Retention Marketing Techniques

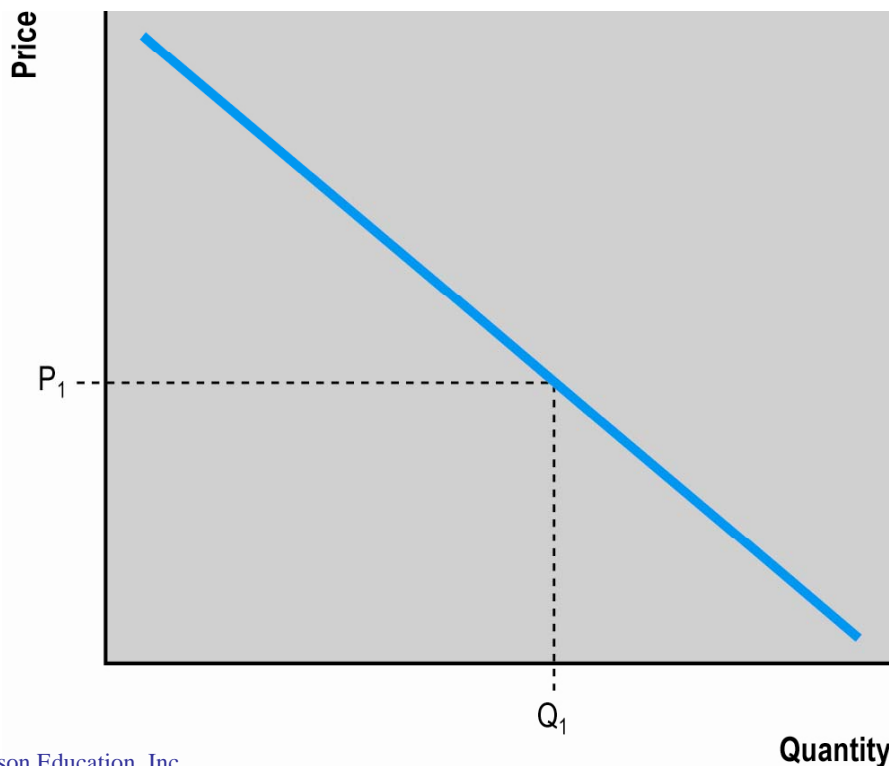
- Customization: Changing product according to user preferences
- Customer co-production: Customer interactively participates in creating the product, e.g., Linux, mountain bikes, sailboats.
- Transactive content: Combine traditional content with dynamic information tailored to each user's profile, e.g., new product announcements according to user's profile
- Customer service tools include:
 - Frequently asked questions (FAQs)
 - Real-time customer service chat systems (intelligent agent technology or bots)
 - Automated response systems



Net Pricing Strategies

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

A Demand Curve



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Quantity

Slide 6-60

Net Pricing Strategies (cont'd)

- Free products/services: Can be used to build market awareness
- Versioning: Creating multiple versions of product and selling essentially same product to different market segments at different prices
- Bundling: Offers consumers two or more goods for one price
- Dynamic pricing:
 - Auctions
 - Yield management, e.g., airlines selling empty seats at different prices during different times

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Slide 6-61



Channel Management Strategies

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