

E-commerce 2014

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Chapter 6

E-commerce Marketing and Advertising Concepts

e Commerce Course :

Parts of Chapters

1.1 & 1.2,

5.1

8.1, 8.2 & 8.3

10.1

Complete Chapters

2, 3, 4, 6, 7 and 9



Agenda

1. Consumers Online
2. Advertising Strategies and Tools
3. Internet Marketing Technologies
4. Cost and Benefits



Class Discussion

Video Ads: Shoot, Click, Buy

- **What advantages do video ads have over traditional banner ads?**
- **Where do sites such as YouTube fit in to 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?**



Consumers Online: The Internet Audience and Consumer Behavior

- **Around 70% (85 million) U.S. households have broadband Internet access in 2013**
- **Growth rate has slowed**
- **Intensity and scope of use both increasing**
- **Some demographic groups have much higher percentages of online usage than others**
 - ❖ **Income, education, age, ethnic dimensions**



Consumers Online (cont.)

■ Broadband vs. dial-up audiences

- ❖ 50% of Hispanic and African-American homes have broadband
- ❖ 40% of households with less than \$20k in annual income have broadband

■ Neighborhood effects

- ❖ Role of social emulation in consumption decisions
- ❖ Social emulation is the idea where whenever individuals buy cultural products conspicuously, they do it in order to emulate or 'imitate' their superiors or those in the higher-class sections of the social hierarchy.
- ❖ “Connectedness”
 - Top 10–15% are more independent
 - Middle 50% share more purchase patterns of friends



Consumers Online (cont.)

- ❖ **Recommender systems** or **recommendation systems** are a subclass of information filtering systems that seek to predict the 'rating' or 'preference' that users would give to an item



Consumer Behavior

■ Study of consumer behavior

- ❖ Attempts to explain what consumers purchase and where, when, how much, and why they buy

■ Consumer behavior models

- ❖ Attempt to predict or explain wide range of consumer decisions
- ❖ Based on background demographic factors and other intervening, more immediate variables

■ Profiles of Online Consumers (See Table 6.2)

- ❖ Consumers shop online primarily for convenience

The Consumer Decision Process and Supporting Communications

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

Figure 6.2, Page 334

A General Model of Consumer Behavior

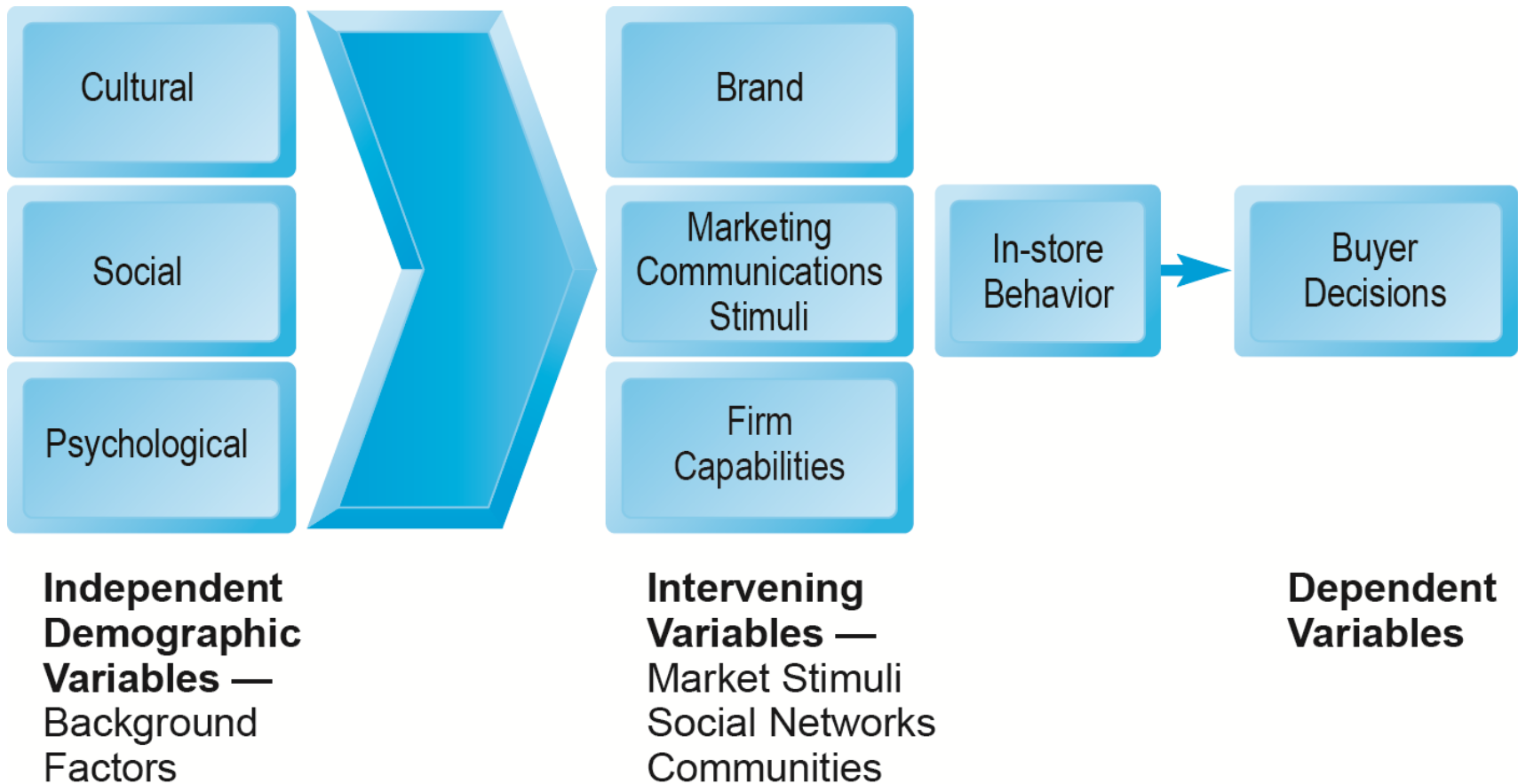


Figure 6.1, Page 333

SOURCE: Adapted from Kotler and Armstrong, 2009.



The Online Purchasing Decision

■ Five stages in consumer decision process

- ❖ Awareness of need
- ❖ Search for more information
- ❖ Evaluation of alternatives
- ❖ Actual purchase decision
- ❖ Post-purchase contact with firm



The Online Purchasing Decision (cont.)

- **Decision process similar for online and offline behavior**
- **General online behavior model includes**
 - ❖ Web site features (delay, usability, and security)
 - ❖ Consumer skills regarding online purchasing
 - ❖ Product characteristics (prod desc, ability to be shipped over the internet)
 - ❖ Attitudes toward online purchasing
 - ❖ Perceptions about control over Web environment



The Online Purchasing Decision (cont.)

- **Decision process similar for online and offline behavior**
- **Clickstream behavior** refers to the transaction log that consumers establish as they move about the web from search engine to websites, to pages, to the decision to buy

A Model of Online Consumer Behavior

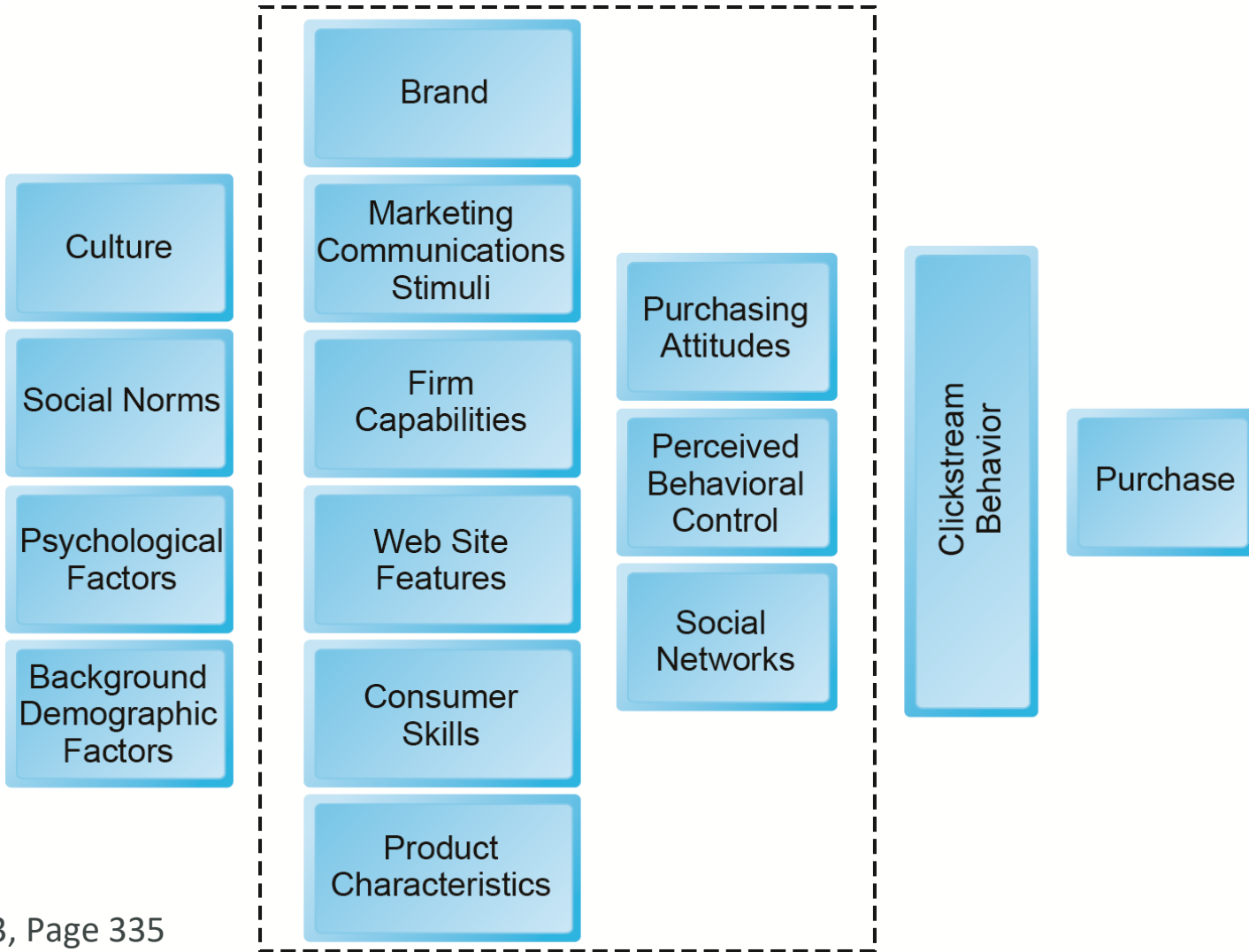


Figure 6.3, Page 335



Shoppers: Browsers and Buyers

- **Shoppers: 89% of Internet users**
 - ❖ 73% buyers
 - ❖ 16% browsers (purchase offline)
- **One-third of offline retail purchases influenced by online activities**
- **Online traffic also influenced by offline brands and shopping**
- **E-commerce and traditional commerce are coupled: Part of a continuum of consumer behavior**



What Consumers Shop for and Buy Online

- **Big ticket items (\$1000 or more)**
 - ❖ Travel, computer hardware, electronics
 - ❖ Consumers now more confident in purchasing costlier items
- **Small ticket items (\$100 or less)**
 - ❖ Apparel, books, office supplies, software, and so on
- **Types of purchases depend on level of experience with the Web**



How Consumers Shop

- **How shoppers find online vendors**
 - ❖ Search engines
 - ❖ Marketplaces (Amazon, eBay)
 - ❖ Specific retail site
- **27% of Internet users don't shop online**
 - ❖ Trust factor
 - ❖ Hassle factors (shipping costs, returns, etc.)



Trust, Utility, and Opportunism in Online Markets

- **Two most important factors shaping decision to purchase online:**
 - ❖ **Utility:**
 - Better prices, convenience, speed
 - ❖ **Trust:**
 - Most important factors: Perception of credibility, ease of use, perceived risk
 - Sellers can develop trust by building strong reputations for honesty, fairness, delivery



Digital Commerce Marketing and Advertising: Strategies and Tools



Digital Commerce Marketing and Advertising: Strategies and Tools

- **Internet marketing (vs. traditional)**
 - ❖ More personalized
 - ❖ More participatory
 - ❖ More peer-to-peer
 - ❖ More communal
- **The most effective Internet marketing has all four features**



Multi-Channel Marketing Plan

- 1. Web site**
- 2. Traditional online marketing**
 - ❖ Search engine, display, e-mail, affiliate
- 3. Social marketing**
 - ❖ Social networks, blogs, video, game
- 4. Mobile marketing**
 - ❖ Mobile/tablet sites, apps
- 5. Offline marketing**
 - ❖ Television, radio, newspapers



Strategic Issues and Questions

- **Which part of the marketing plan should you focus on first?**
- **How do you integrate the different platforms for a coherent message?**
- **How do you allocate resources?**
 - ❖ How do you measure and compare metrics from different platforms?
 - ❖ How do you link each to sales revenues?



Establishing the Customer Relationship

■ Web site functions to:

- ❖ Establish brand identity and customer expectations
 - Differentiating product
- ❖ Inform and educate customer
- ❖ Shape customer experience
- ❖ Anchor the brand online
 - Central point for all marketing messages



Online Advertising

■ Online advertising

- ❖ Display (banners, videos), search, mobile messaging, sponsorships, classifieds, lead generation (generation of consumer interest or inquiry into products or services of a business), e-mail
- ❖ Online ads are the fastest growing form of advertising
- ❖ Advantages:
 - Age 18–34 audience is online
 - Ad targeting (sending messages to specific groups)
 - Price discrimination
 - Personalization



Traditional Online Marketing and Advertising Tools

- Search engine marketing and advertising
- Display ad marketing
- E-mail marketing
- Affiliate marketing
- Viral marketing
- Lead generation marketing
- Social, mobile, and local marketing and advertising



Search Engine Marketing and Advertising

■ Search engine marketing (SEM)

- ❖ Use of search engines for branding

■ Search engine advertising

- ❖ Use of search engines to support direct sales

■ Types of search engine advertising

- ❖ Sponsored links ((A paid advertisement in the form of a hypertext **link** that shows up on search results pages)
- ❖ Keyword advertising (purchase key words by bidding at search sites)
- ❖ Network keyword advertising (Publs join networks and allow search engine ads to be place on their site for a fee)



Search Engine Marketing (cont.)

- **Search engine optimization** process of improving ranking of web pages with search engines
- **Social search**
 - ❖ Utilizes social graph (friend's recommendations, past Web visits, Facebook Likes, Google +1's) to provide fewer and more relevant results
- **Search engine issues**
 - ❖ Paid inclusion and placement practices
 - ❖ Link farms
 - ❖ Content farms
 - ❖ Click fraud



Search Engine Marketing (cont.)

■ Search engine issues

- ❖ **Link farms** are websites that link to one another
- ❖ **Content farms** are companies that generate volumes of textual content for multiple website to attract viewers and search engines
 - They profit by attracting large numbers of readers and exposing them to ads
- ❖ **Click fraud** occurs on the Internet in pay-per-click (PPC) online advertising when a competitor clicks on a search engine ads forcing the advertiser to pay for the click even when it is not legitimate.
 - The process could be automated costing advertisers lots of money



Display Ad Marketing

- **Banner ads** take customers to advertiser web site
- **Rich media ads** employ animation & sound
- **Video ads**
- **Sponsorships ads** (sponsoring an event)
- **Advertising networks** help companies take advantage of internet marketing/advertising
- **Advertising exchanges and real-time bidding**

❖ <http://digiday.com/platforms/what-is-real-time-bidding/>



E-mail Marketing

■ Direct e-mail marketing

- ❖ Messages sent directly to interested users
- ❖ Benefits include
 - Inexpensive
 - Average more than 7% click-throughs for in-house lists
 - Measuring and tracking responses
 - Personalization of messages and offers

■ Three main challenges

- ❖ Spam
- ❖ Anti-spam software
- ❖ Poorly targeted purchased e-mail lists



Spam

- **Unsolicited commercial e-mail**
- **65–70% of all e-mail**
- **Most originates from bot networks**
- **Efforts to control spam have largely failed:**
 - ❖ Government regulation (CAN-SPAM)
 - ❖ State laws
 - ❖ Voluntary self-regulation by industries (DMA)



Other Types of Traditional Online Marketing

■ Affiliate marketing

- ❖ Commission fee paid to other Web sites for sending customers to their Web site

■ Viral marketing

- ❖ Marketing designed to inspire customers to pass message to others

■ Lead generation marketing

- ❖ Services and tools for collecting, managing, and converting leads into purchases



Social Marketing and Advertising

- **Involves the use of social networks to build brands and drive revenue**
- **Fastest growing type of online marketing**
- **Targets the enormous audiences of social networks**
- **Four features driving growth**
 - Social sign-on (Facebook & twitter links to login to site)
 - Collaborative shopping (friends chat online about prods)
 - Network notification (consumers share their approval/disapproval)
 - Social search (recommendations advice from friends and family)



Social Marketing and Advertising (cont.)

- **Blog marketing** (reaching business' prospects through the use of a blogs)
 - ❖ Educated, higher-income audience
 - ❖ Ideal platform to start viral campaign
- **Game marketing**
 - ❖ Large audiences for social games (FarmVille, Words with Friends)
 - ❖ Used for branding and driving customers to purchase moments at restaurants and retail stores



Local Marketing

- **Geared to user's geographic location**
 - ❖ Local search and purchasing
- **Local searches:**
 - ❖ 25% of all searches
 - ❖ 50% of mobile searches
- **Most common local marketing tools**
 - ❖ Geotargeting with Google Maps
 - ❖ Display ads in hyperlocal (information oriented around a well-defined community) publications



Multi-Channel Marketing

- **Average American spends more than 40% of media time on digital media channels**
- **Consumers also multitask, using several media**
- **Internet campaigns strengthened by using other channels**
 - ❖ Most effective are campaigns using consistent imagery throughout channels



Other Online Marketing Strategies

- In addition to traditional online advertising and marketing strategies (search engine, display, etc.), several other strategies are more focused than “traditional” online strategies
 - ❖ Customer retention
 - ❖ Pricing
 - ❖ The “long tail” (next slide)



Other Online Marketing Strategies

■ Customer retention strategies

❖ Personalization and one-to-one marketing

- Retargeting showing same ads across multiple websites
- Behavioral targeting (interest-based advertising)
 - ❖ uses data from search engine queries, clickstream history, social network, and integration of offline personal data to target customers
 - ❖ Privacy issues are a concern



Other Online Marketing Strategies (cont.)

- **Customization:** Changing the product not just the message based on user preference
- **Customer co-production:** Customers help create or customize the product
- **Customer service**
 - ❖ FAQs
 - ❖ Real-time customer chat systems
 - ❖ Automated response systems



Pricing Strategies

■ Pricing

- ❖ Integral part of marketing strategy
- ❖ Traditionally based on:
 - Fixed cost
 - Variable costs
 - Demand curve

■ Price discrimination

- ❖ Selling products to different people and groups based on willingness to pay



Pricing Strategies (cont.)

■ Free and freemium

- ❖ Can be used to build market awareness
- ❖ Freemium is where you get a free basic service and the premium version is not

■ 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 (selling excess capacity)
- ❖ Flash marketing (flash sale)



Internet Marketing Technologies



Internet Marketing Technologies

- **Internet's main impacts on marketing:**
 - ❖ Scope of marketing communications broadened
 - ❖ Richness of marketing communications increased
 - ❖ Expand information intensity of marketplace
 - ❖ Always-on mobile environment expands marketing opportunities



Web Transaction Logs

- **Built into Web server software**
- **Record user activity at Web site**
- **Provides much marketing data, especially combined with:**
 - ❖ Registration forms
 - ❖ Shopping cart database
- **Answers questions such as:**
 - ❖ What are major patterns of interest and purchase?
 - ❖ After home page, where do users go first? Second?



Tracking Files

- Users tracked as they move from site to site
- Four types of tracking files
 - ❖ Cookies
 - Small text file placed by Web site
 - Allows Web marketers to gather data
 - ❖ **Flash cookies** new way of tracing your movement on the Internet and storing lots of information about you. (One disadvantage is that you can't locate them in your browser because they are clear and not easily seen in the list of cookies which you can access if you open the browser cookie manager, nor do they appear in databases or other browser-specific storage locations)



Tracking Files

- ❖ Web Beacons (“bugs”) uses Adobe Flash software to keep track of users navigation through a single website or a series of websites. They also go by the name of web bugs and are normally used by websites that use third party traffic monitoring and tracking services. Web beacons might be used in connection with cookies to gain an understanding of how a website's users navigate through and process the content contained in that website. This came about because users delete cookies making browsing and tracking difficult



Insight on Society: Class Discussion

Every Move You Make, Every Click You Make, We'll Be Tracking You

- **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?**



Databases

- **Database: 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 Warehouses and Data Mining

■ Data warehouse:

- ❖ Collects firm's transactional and customer data in single location for offline analysis by marketers and site managers

■ Data mining:

- ❖ Analytical techniques to find patterns in data, model behavior of customers, develop customer profiles
 - Query-driven data mining
 - Model-driven data mining
 - Rule-based data mining



Hadoop and the Challenge of Big Data

- “Big data”
 - ❖ Web traffic, e-mail, social media content
- **Traditional DBMS** unable to process the volumes—petabytes (1 000 000 000 000 000 bytes) and exabytes (1 000 000 000 000 000 000 bytes)
- **Hadoop** is an open-source software solution by Apache that enables distributed computing of huge amounts of data including unstructured and semi-structured on thousands of inexpensive computers



Customer Relationship Management (CRM) Systems

■ Create customer profiles:

- ❖ Product and usage summary data
- ❖ Demographic and psychographic data
- ❖ Profitability measures
- ❖ Contact history
- ❖ Marketing and sales information

■ Customer data used to:

- ❖ Develop and sell additional products
- ❖ Identify profitable customers
- ❖ Optimize service delivery, and so on



A CRM System

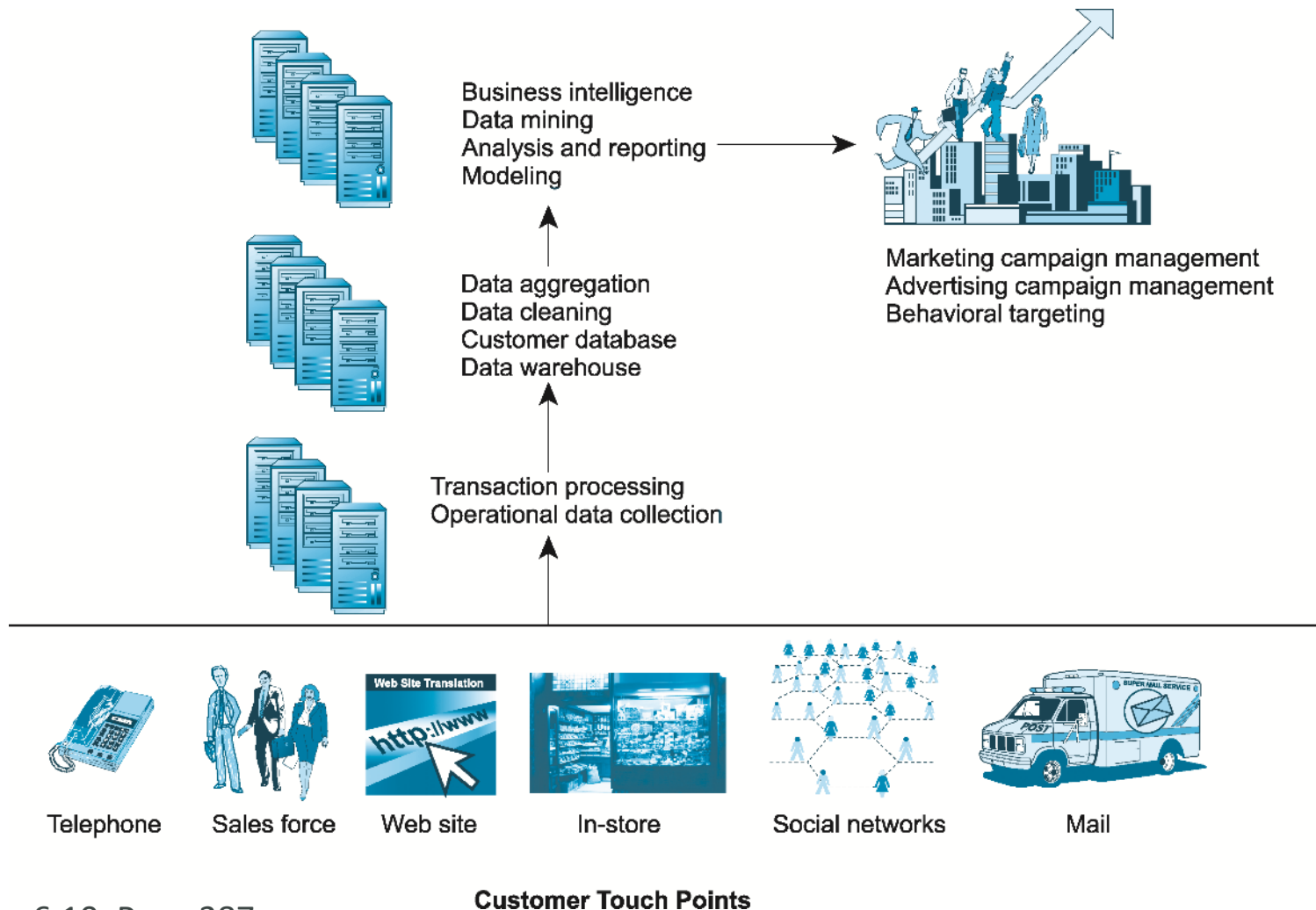


Figure 6.10, Page 387



Understanding the Costs and Benefits of Online Marketing Communications



Online Marketing Metrics: Lexicon (Table 6.7)

■ Audience size or market share

- ❖ Impressions (# of times Ad is served)
- ❖ Click-through rate (CTR)
- ❖ View-through rate (VTR)
- ❖ Hits
- ❖ Page views
- ❖ Stickiness (duration)
- ❖ Unique visitors
- ❖ Loyalty
- ❖ Reach
- ❖ Recency

■ Conversion to customer

- ❖ Acquisition rate (visiting pgs)
- ❖ Conversion rate
- ❖ Browse-to-buy ratio
- ❖ View-to-cart ratio
- ❖ Cart conversion rate
- ❖ Checkout conversion rate
- ❖ Abandonment rate
- ❖ Retention rate
- ❖ Attrition rate



Online Marketing Metrics (cont.)

■ Social marketing

- ❖ Conversation ratio
- ❖ Applause ratio (# likes/post)
- ❖ Amplification (retweets/post)
- ❖ Sentiment ratio (ratio of positive to total comments)

■ E-mail metrics

- ❖ Open rate
- ❖ Delivery rate
- ❖ Click-through rate (e-mail)
- ❖ Bounce-back rate



An Online Consumer Purchasing Model

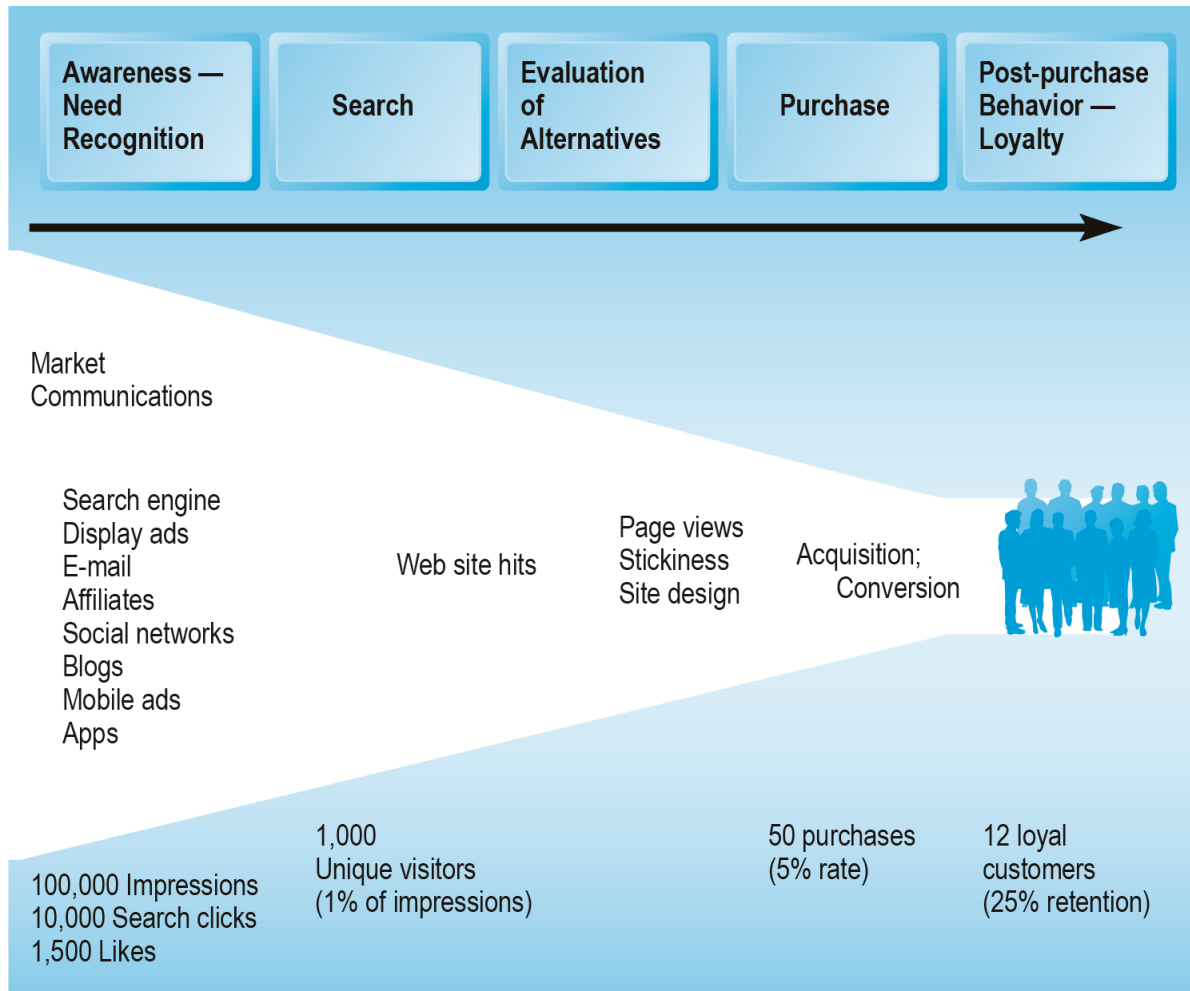


Figure 6.11, Page 391



The Costs of Online Advertising

■ Pricing models

- ❖ Barter (exchange ad space for something of similar value)
- ❖ Cost per thousand (CPM)
- ❖ Cost per click (CPC)
- ❖ Cost per action (CPA)

■ Online revenues only

- ❖ Sales can be directly correlated

■ Both online/offline revenues

- ❖ Offline purchases cannot always be directly related to online campaign

■ In general, online marketing is more expensive on CPM basis, but more effective



Web Analytics

- **Software that analyzes and presents data on each stage of the customer conversion process**
 - ❖ Awareness (new visitors)
 - ❖ Engagement (page views, duration, content views)
 - ❖ Interaction (posts, likes, comments, etc)
 - ❖ Purchase (purchase, enter cart pg, register, abandon cart)
 - ❖ Loyalty and post-purchase (repeat cust, service request, etc)
- **Helps managers**
 - ❖ Optimize ROI on Web site and marketing efforts
 - ❖ Build detailed customer profiles
 - ❖ Measure impact of marketing campaigns
- **Google Analytics, IBM Coremetrics, Adobe Analytics**

Web Analytics and the Online Purchasing Process

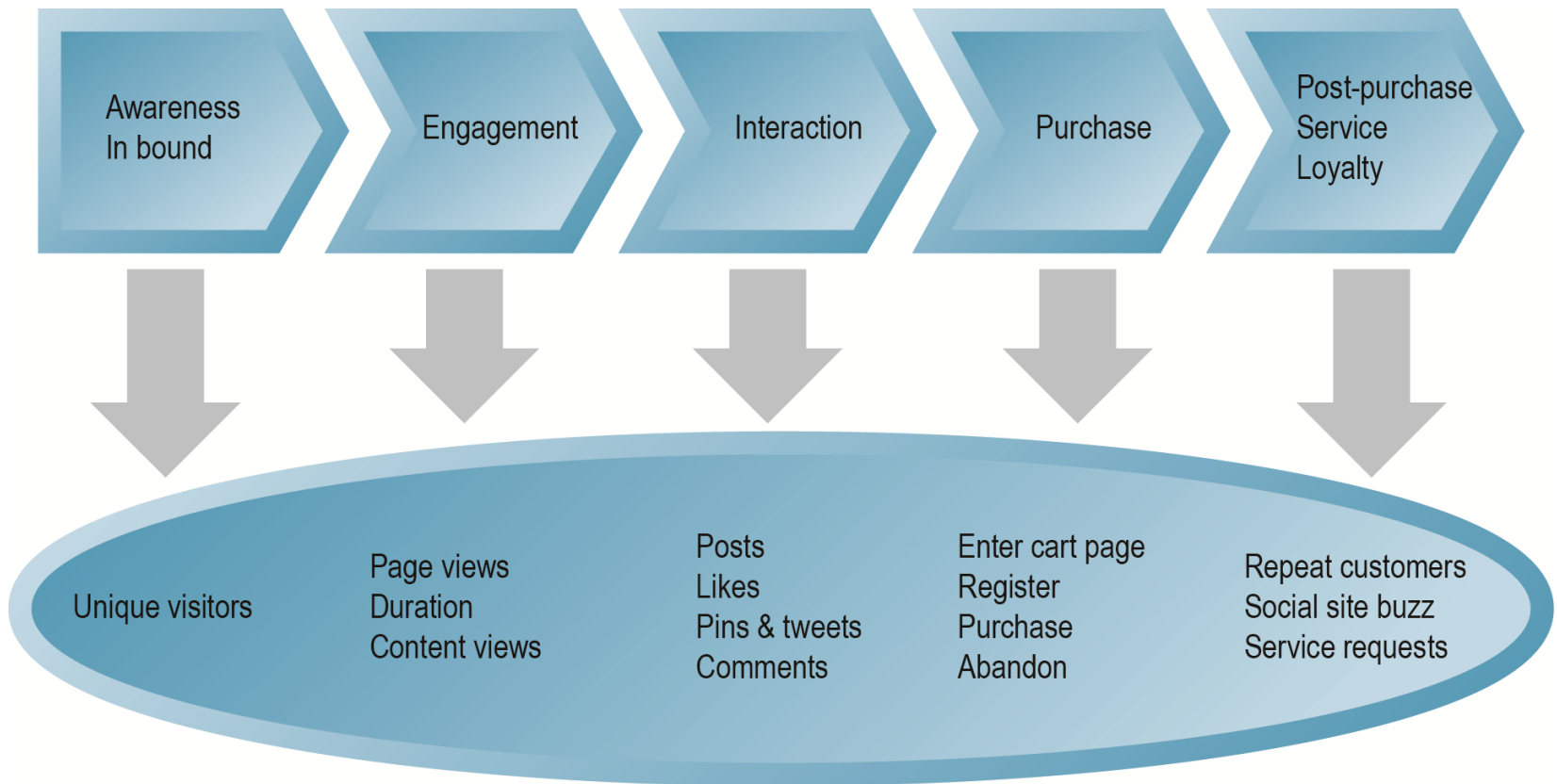


Figure 6.12, Page 397