



E-commerce

business. technology. society.

Fifth 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?

Consumers Online: The Internet Audience and Consumer Behavior

- Over 84 million American households (70% of households) will have Internet access in 2009
- Growth rate has slowed
- Intensity and scope of use both increasing
- Some demographic groups have much higher percentages of online usage than others
 - Demographics to examine include gender, age, ethnicity, community type, income; education

The Internet Audience and Consumer Behavior (cont'd)

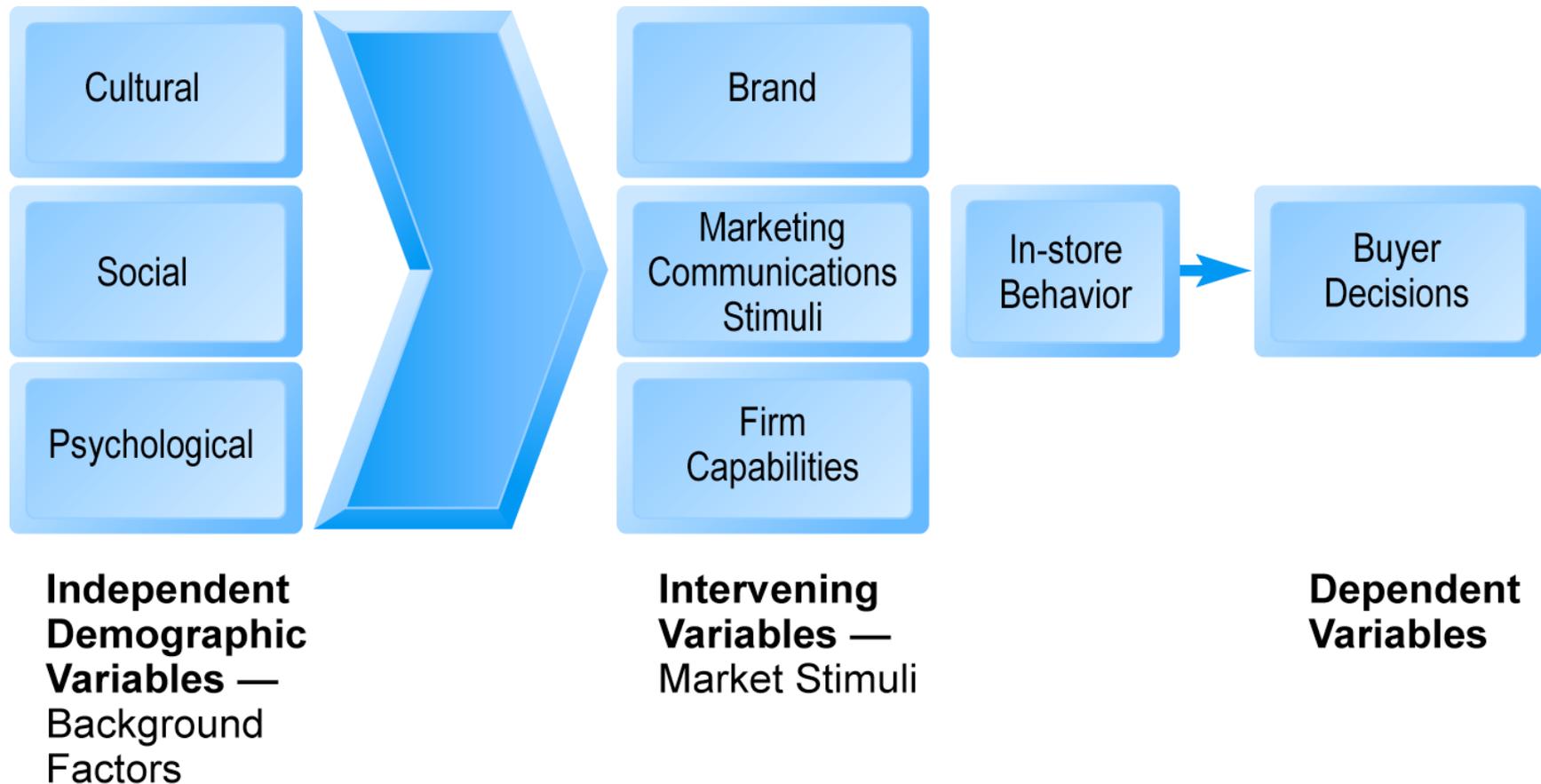
- Broadband audience vs. dial-up audience
 - Broadband - wealthier, middle-aged, more educated
- Purchasing behavior affected by neighborhood
 - Living near others purchasing from online grocery will increase likelihood of also purchasing by 50%
- Lifestyle and sociological impacts
 - Use of Internet by children, teens
 - Use of Internet as substitute for other social activities
- Media choices
 - Traditional media competes with Internet for attention

Consumer Behavior Models

- Study of consumer behavior
 - Social science that attempts to predict/explain what consumers purchase and where, when, how much and why they buy.
- Consumer behavior models
 - Predict wide range of consumer decisions
 - Based on background demographic factors and other intervening, more immediate variables

A General Model of Consumer Behavior

Figure 6.1, Page 348



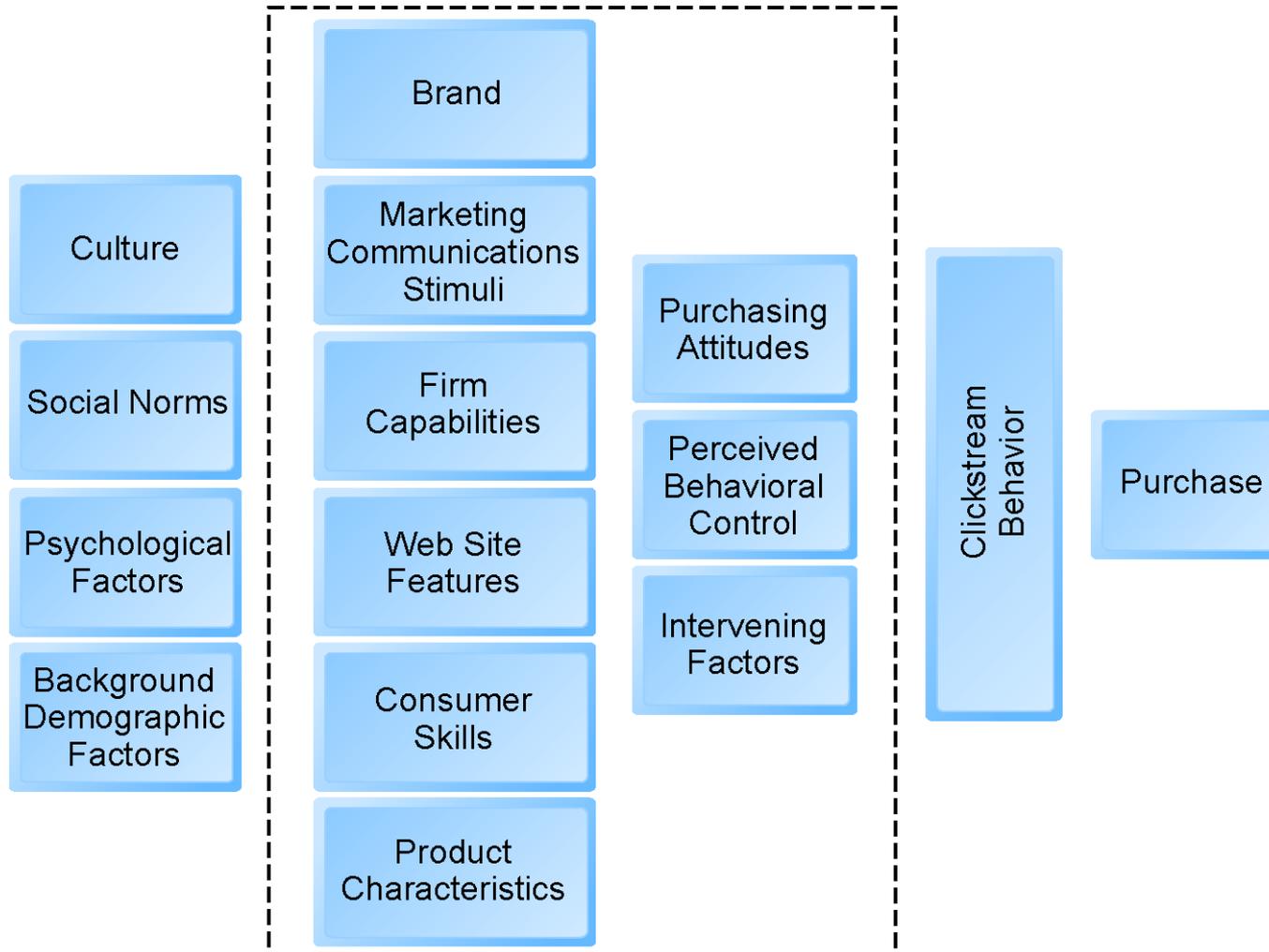
SOURCE: Adapted from Kotler and Armstrong, 2009.

Background Demographic Factors

- Cultural: Broadest impact
 - Subculture (ethnicity, age, lifestyle, geography)
- Social
 - Reference groups
 - Direct reference groups
 - Indirect reference groups
 - Opinion leaders (viral influencers)
 - Lifestyle groups
- Psychological
 - Psychological profiles

A Model of Online Consumer Behavior

Figure 6.4, Page 353



A Model of Online Consumer Behavior (cont'd)

- Decision process similar for online and offline behavior
- General online behavior model includes:
 - User characteristics, skills
 - Product characteristics
 - Web site features
- Clickstream behavior: Transaction log for consumer from search engine to purchase

A Model of Online Consumer Behavior

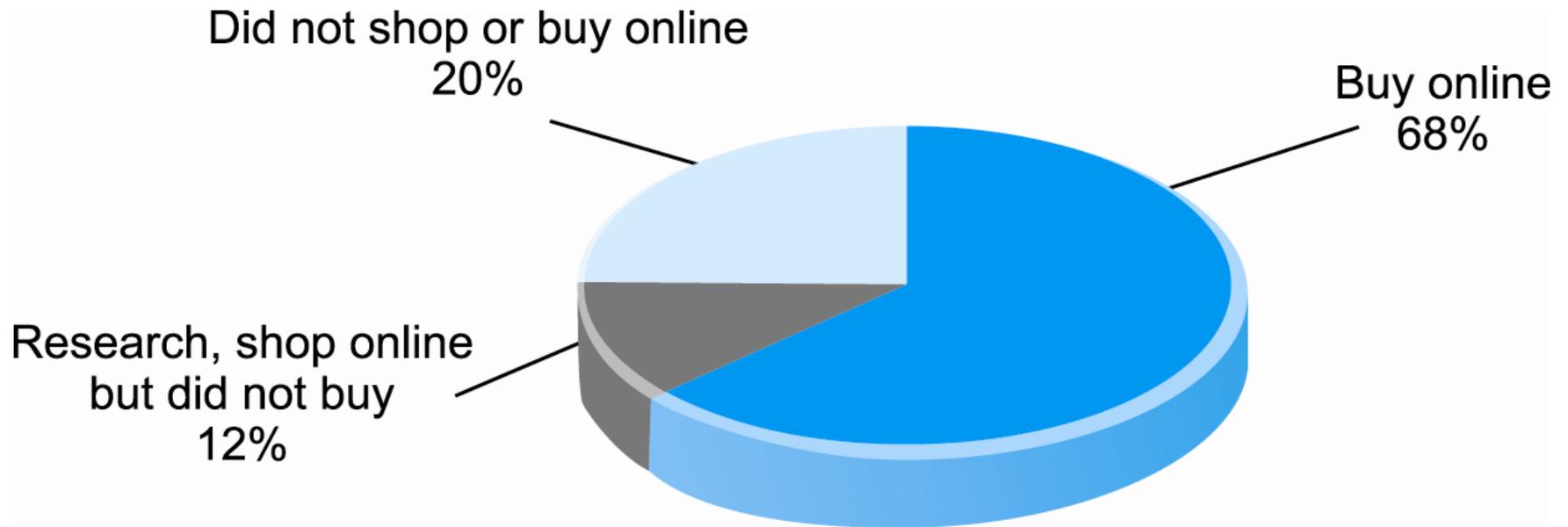
- Seven categories of user sessions
 - “Quickies,” “Just the Facts,” “Single Mission,” “Do It Again,” “Loitering,” “Information Please,” “Surfing.”
- Clickstream factors include:
 - Number of days since last visit
 - Speed of clickstream behavior
 - Number of products viewed, etc.
- Clickstream marketing:
 - Takes advantage of Internet environment
 - Presupposes no prior knowledge of customer
 - Developed dynamically as customers browse

Shoppers: Browsers and Buyers

- Buyers: 68% online users
- Browsers: 12% online users; purchase offline
- One-third 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 consuming behavior

Online Shoppers and Buyers

Figure 6.5, Page 355



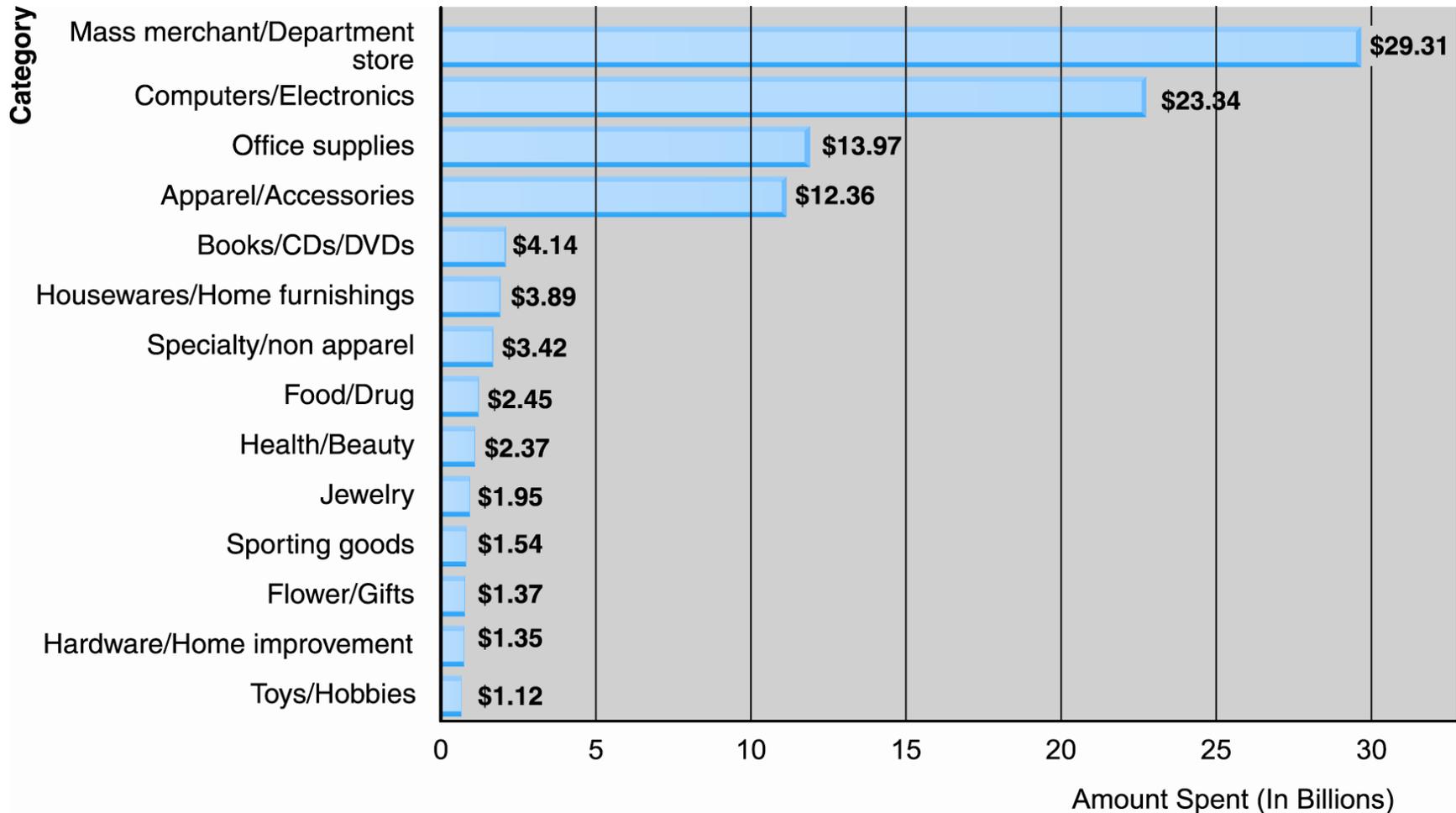
SOURCE: Based on data from eMarketer, Inc., 2008a; authors' estimates.

What Consumers Shop for and Buy Online

- Two groups roughly divide online sales:
 - Big ticket items:
 - \$500 plus
 - Travel, computer hardware, consumer electronics
 - Small ticket items:
 - On average, \$100 or less
 - Apparel, books, office supplies, software, etc.

What Consumers Buy Online

Figure 6.6, Page 358



SOURCES: Internet Retailer, 2008; eMarketer, Inc., 2008c; authors' estimates.

Intentional Acts: How Shoppers Find Vendors Online

- 37% of shoppers use search engines
- 33% go directly to site
- 17% use comparison shopping sites
- 15% use product rating sites
- Online shoppers are highly intentional, looking for specific products, companies, services



Why More People Don't Shop Online

Because:

- 44% uneasy about online credit card use
- 42% have concerns about privacy of data
- 37% dislike shipping charges
- 33% feel no need to purchase online
- 32% prefer to touch/feel product before purchase
- 27% find returning a product too difficult
- 21% have not seen anything online interested in buying

Trust, Utility, and Opportunism in Online Markets

- Two most important factors shaping decision to purchase online:
 - Utility:
 - Consumers looking for better prices, convenience, speed
 - Trust:
 - Consumers also need to trust merchants before they are willing to purchase
 - **Asymmetry of information** can lead to opportunistic behavior by sellers (sellers have better info than buyers)
 - Sellers can develop trust by building strong reputations for honesty, fairness, delivery

Basic Marketing Concepts

■ Marketing:

- Strategies and actions firms take to establish relationship with consumer and encourage purchases of products and 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
- Swarm behavior (like ants and bees)

- <http://forums.slickdeals.net/showthread.php?sduid=0&p=15311609>

Basic Marketing Concepts (cont'd)

- Marketing addresses competitive situation of industries, firms
 - Threat of substitute products or services
 - Threat of new entrants
 - Power of customers and suppliers to influence pricing
 - Nature of industry competition
- Marketing seeks to create unique, highly differentiated products or services that are produced or supplied by one trusted firm (“little monopolies”)

Basic Marketing Concepts (cont'd)

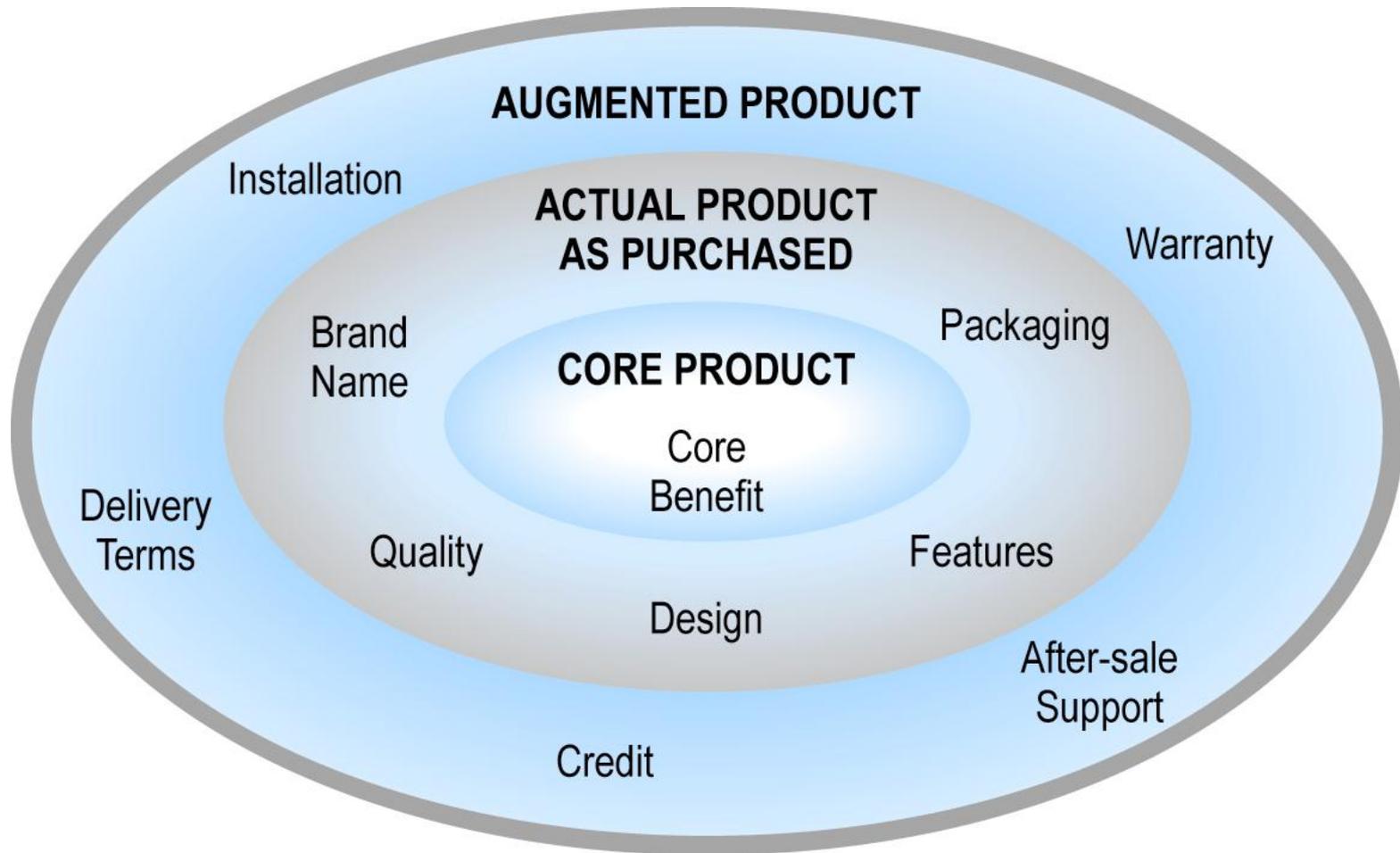
- Feature set
 - Bundle of capabilities offered by product or service
- Commodity
 - Good or service for which there are many dealers and all products essentially identical, e.g. wheat, steel
- Marketing goals:
 - Avoid pure price competition, products becoming commodities
 - Limit competition, product substitution
 - Increase product differentiation
 - Emphasize nonmarket qualities of product

Feature Sets

- Three levels
 - Core product
 - Core benefit of product
 - e.g. cell phone
 - Actual product
 - Characteristics that deliver core benefits
 - e.g. cell phone, music player with wide screen that connects through wireless networks to Internet
 - Augmented product
 - Includes additional benefits beyond core benefits
 - e.g. product warranty, after-sale support
 - Basis for building the product's brand

Feature Set

Figure 6.7, Page 361



Products, Brands and the Branding Process (Skip)

■ Brand:

- Expectations consumers have when consuming, or thinking about consuming, a specific product
- Most important expectations: Quality, reliability, consistency, trust, affection, loyalty, reputation

■ Branding:

- Process of brand creation

■ Closed loop marketing:

- Marketers directly influencing design of core product based on market research and feedback
- E-commerce enables unique opportunities for this

Can Brands Survive the Internet?

Brands and Price Dispersion

- Early postulations: Web would result in “Law of One Price,” “frictionless commerce”
- Instead:
 - Consumers still pay premium prices for products and services they view as differentiated
 - E-commerce firms rely heavily on brands to attract customers and charge premium prices
 - Substantial price dispersion
 - Increase in relative dispersion and large differences in price sensitivity for same product
 - “Library effect”: Increased gains where product variety is high

The Revolution in Internet Marketing Technologies

- Three broad impacts:
 - Scope of marketing communications broadened
 - Richness of marketing communications increased
 - Information intensity of marketplace expanded
- Internet marketing technologies:
 - Web transaction logs
 - Cookies and Web bugs
 - Databases, data warehouses, data mining
 - Advertising networks
 - Customer relationship management systems

Web Transaction Logs

- Built into Web server software
- Record user activity at Web site
- WebTrends: Leading log analysis tool
- 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?

Cookies and Web Bugs

■ Cookies:

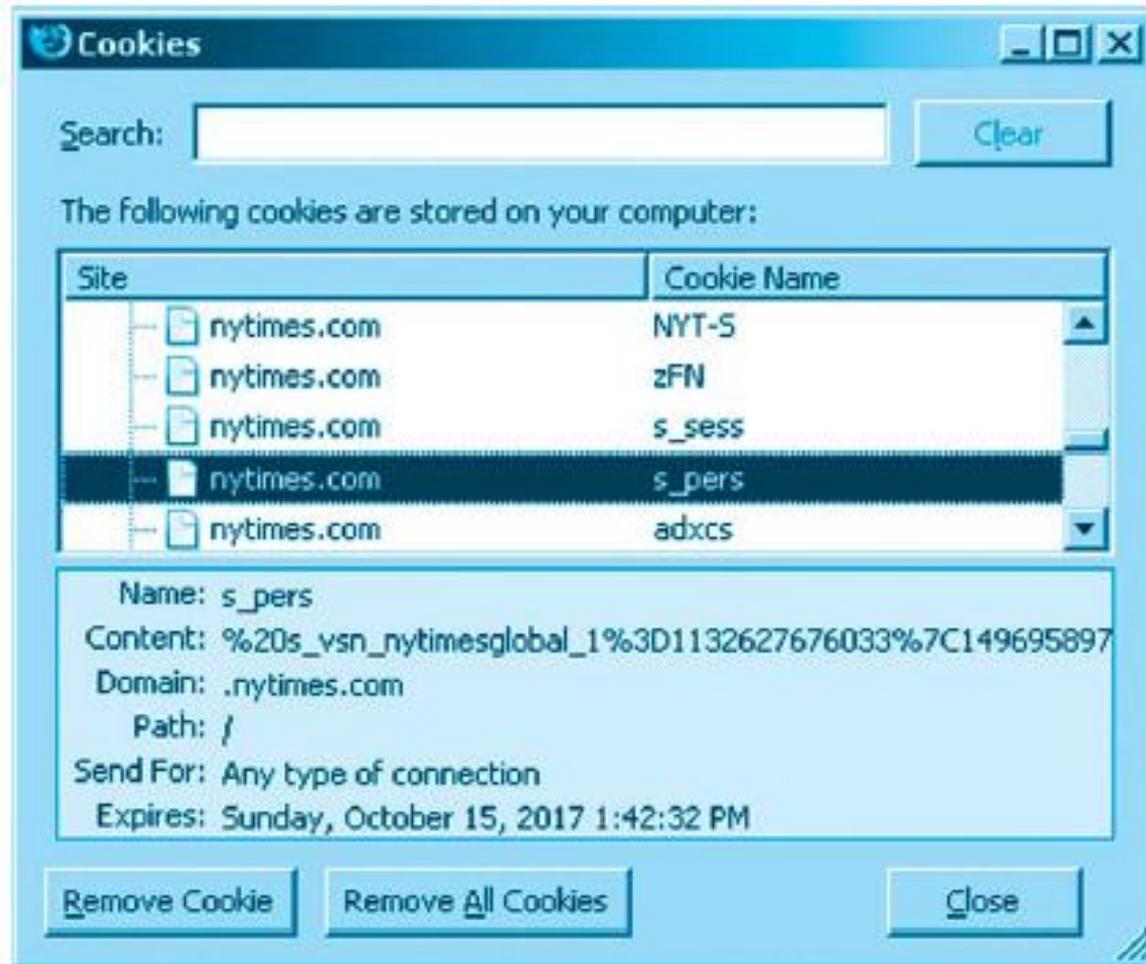
- Small text file Web sites place on visitor's PC every time they visit, as specific pages are accessed
- Provide Web marketers with very quick means of identifying customer and understanding prior behavior
- Location of cookie files on PC depends on browser

■ 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

Firefox Cookies Dialog Box

Figure 6.11, Page 373

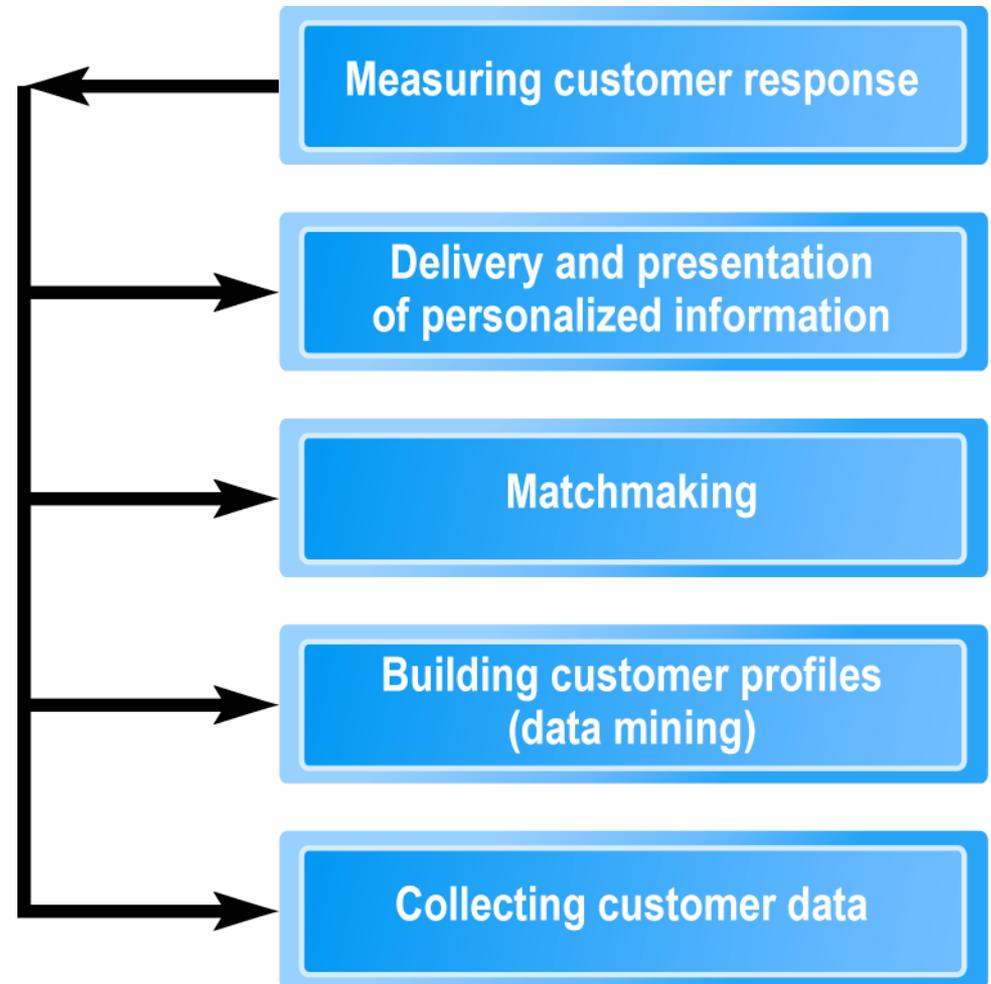


Data Warehouses and Data Mining

- Data warehouse:
 - Database that collects a firm's transactional and customer data in a 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
 - Collaborative filtering

Data Mining and Personalization

Figure 6.13, Page 379



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

Insight on Technology

The Long Tail: Big Hits and Big Misses

Class Discussion

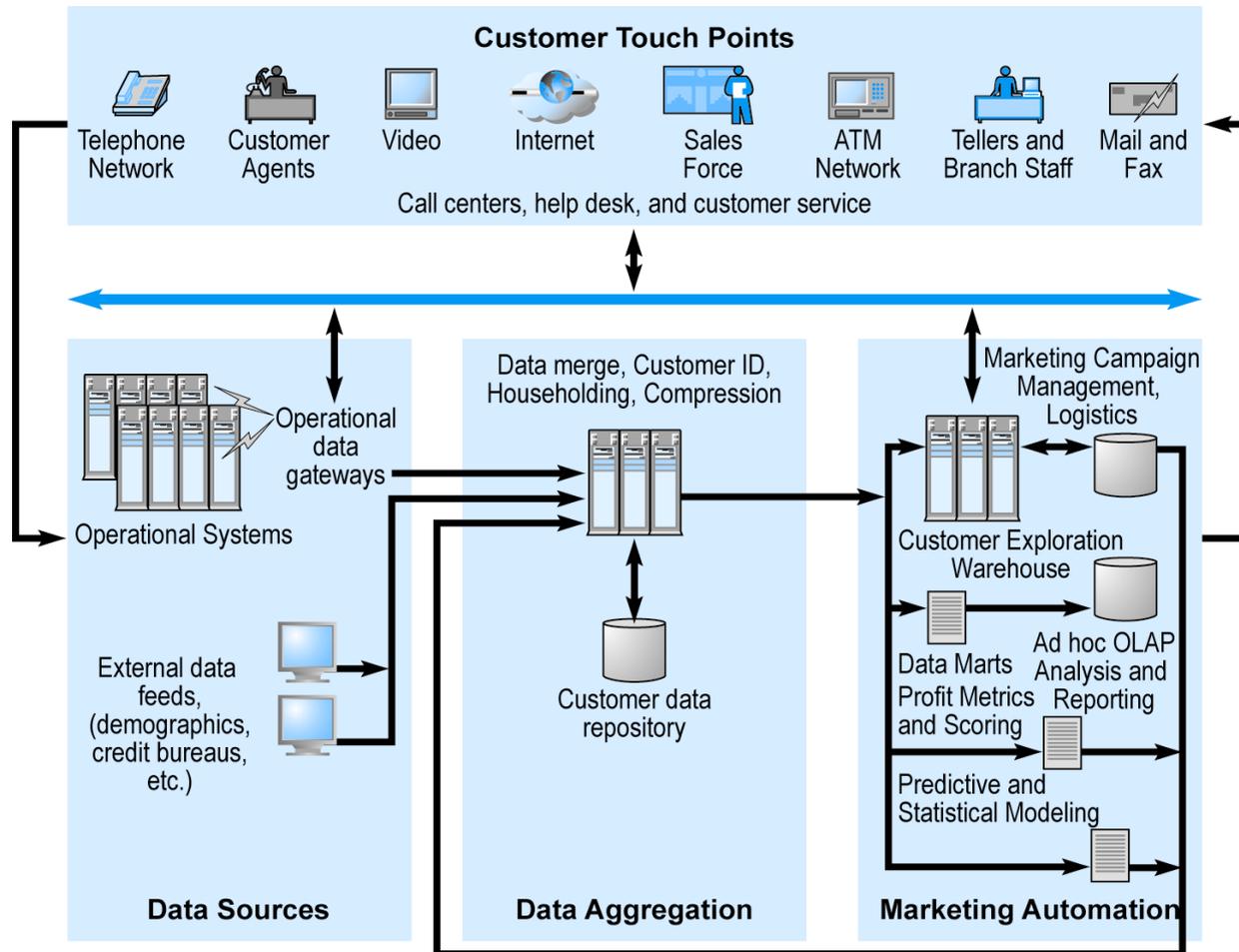
- What are “recommender systems”? Give an example you have used.
- What is the “Long Tail” and how do recommender systems support sales of items in the Long Tail?
- How can human editors, including consumers, make recommender systems more helpful?

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

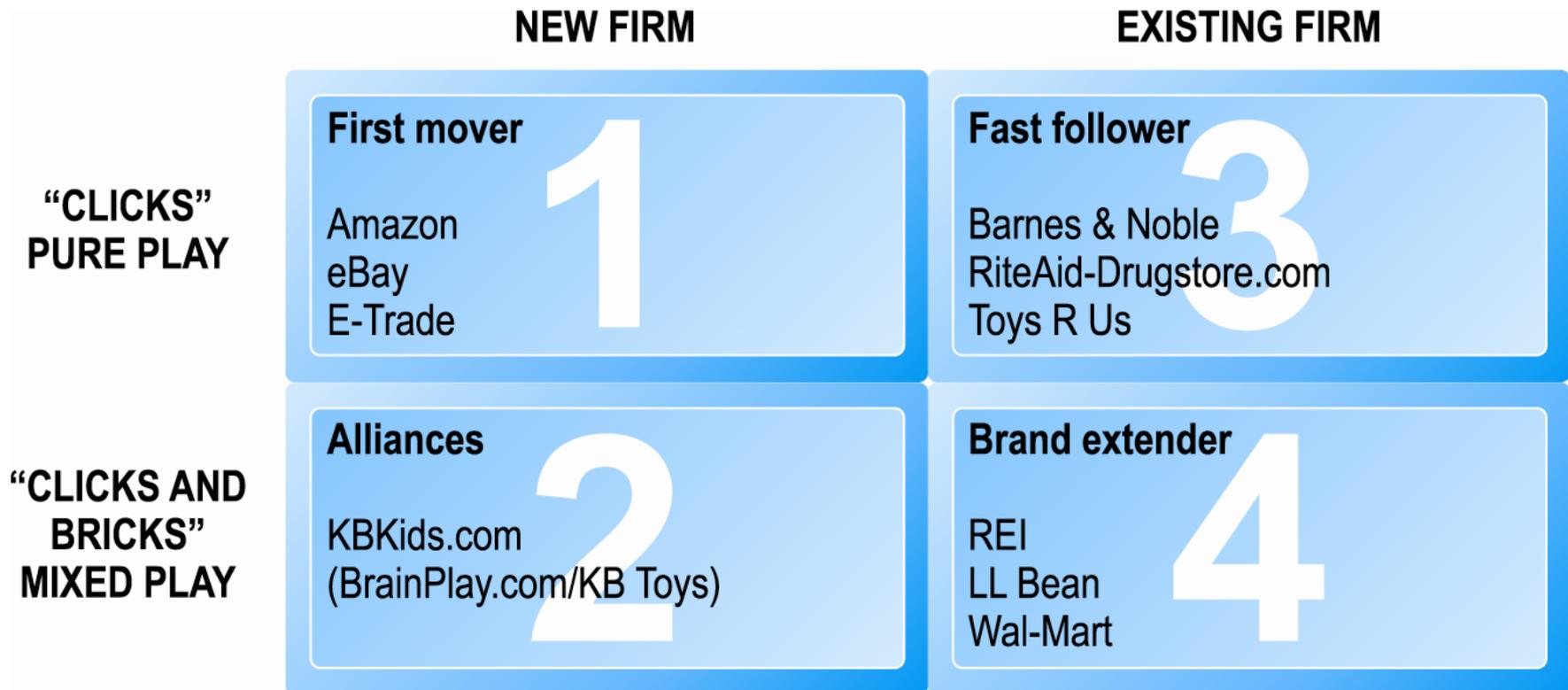
Figure 6.14, Page 384



SOURCE: Compaq, 1998.

Market Entry Strategies

Figure 6.15, Page 385



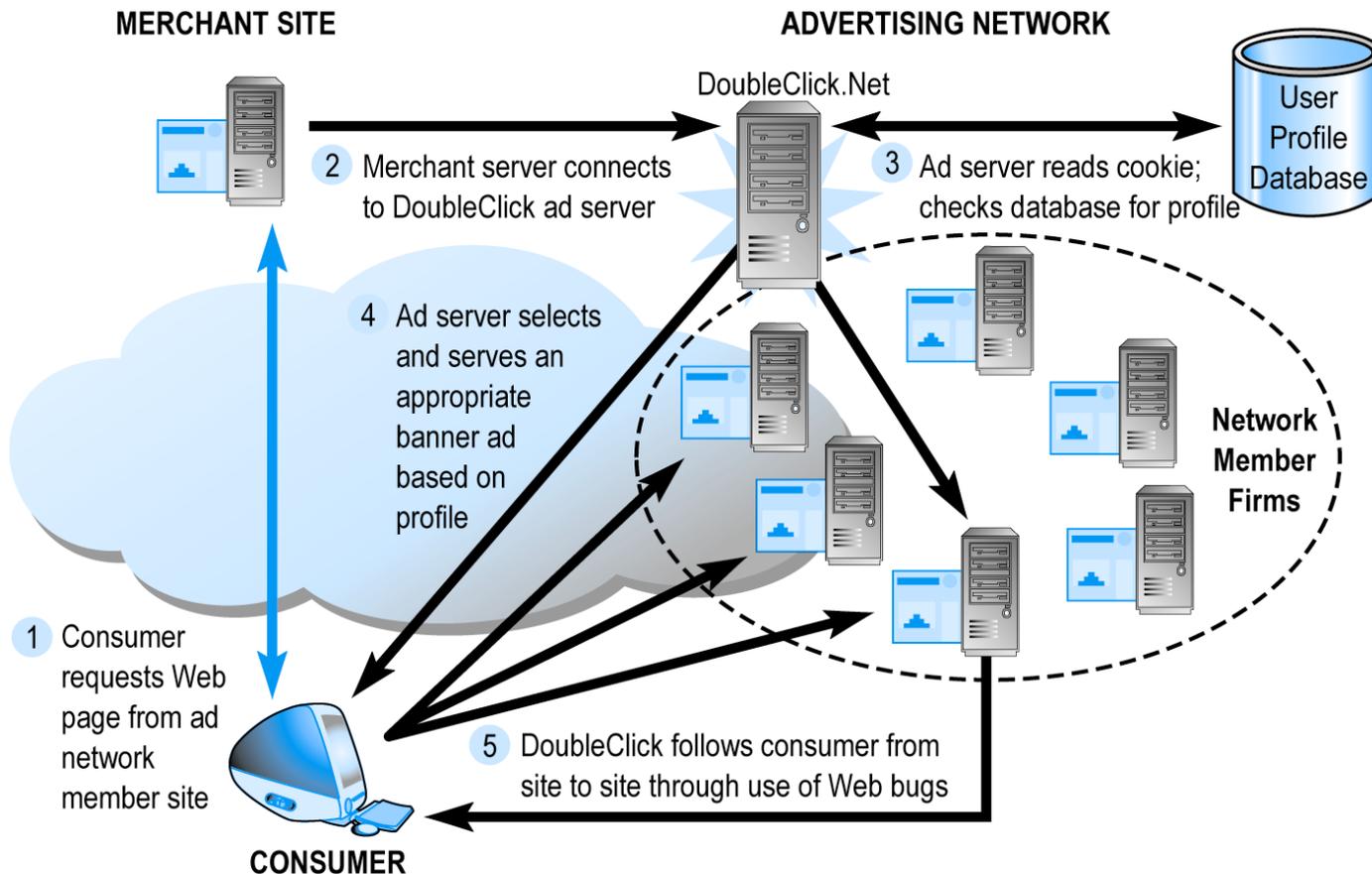
Establishing the Customer Relationship

■ 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 389



Establishing the Customer Relationship (cont'd)

- Permission marketing
 - Obtain permission before sending consumer information or promotional messages
 - e.g. 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
 - 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
 - Using power of existing brand to acquire new customers for new product or service

Customer Retention: Strengthening the Customer Relationship

- Mass marketing
- Direct marketing
- Micromarketing
- Personalized, one-to-one marketing
 - Segmenting market on precise and timely understanding of individual's needs
 - Targeting specific marketing messages to these individuals
 - Positioning product vis-à-vis competitors to be truly unique
- Personalization
 - Can increase consumers sense of control, freedom
 - Can also result in unwanted offers or reduced anonymity

Other Customer Retention Marketing Techniques

- Customization: Changing product according to user preferences
- Customer co-production: Customer interactively participates in creation of the product
- Transactive content: Combine traditional content with dynamic information tailored to each user's profile
- Customer service tools
 - Frequently asked questions (FAQs)
 - Real-time customer service chat systems (intelligent agent technology or bots)
 - Automated response systems

Net Pricing Strategies (skip to the end)

■ Pricing

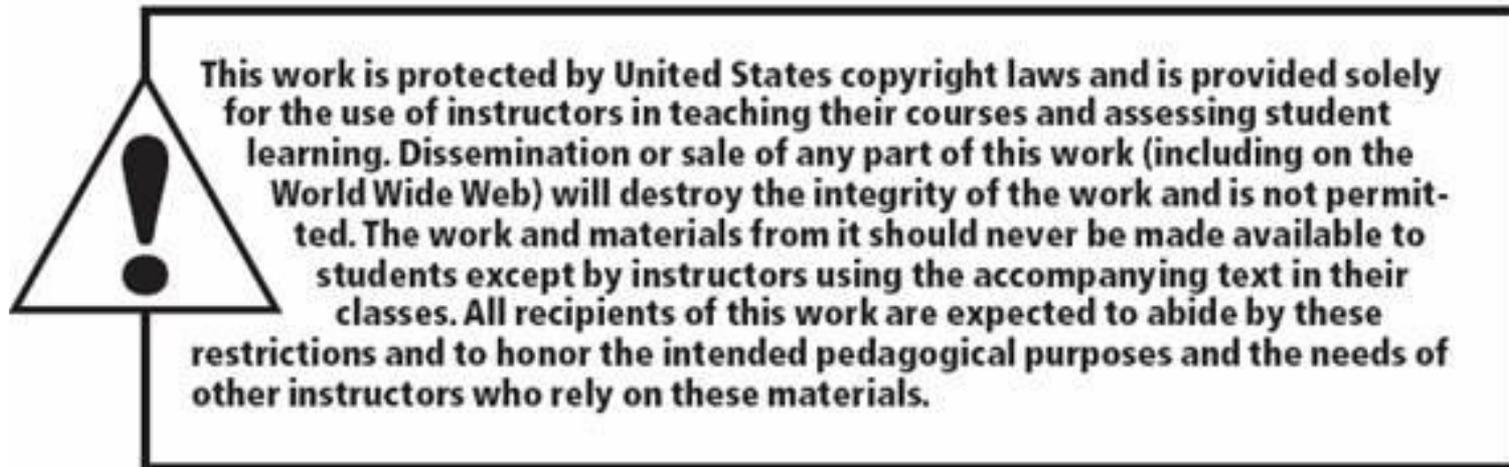
- Putting a value on goods and services
- Integral part of marketing strategy
- Traditionally, prices based on:
 - Fixed cost
 - Variable costs
 - Market's demand curve
- Price discrimination
 - Selling products to different people and groups based on willingness to pay

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

Channel Management Strategies

- Channels:
 - Different methods by which goods can be distributed and sold
- Channel conflict:
 - When new venue for selling products or services threatens or destroys existing sales venues
- Example
 - Online airline/travel services and traditional offline travel agencies
- Some manufacturers are using partnership model to avoid channel conflict



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