Teaching Objectives

- Identify the key features of the Internet audience.
- Discuss the basic concepts of consumer behavior and purchasing decisions.
- Explain how consumers behave online.
- Describe the basic marketing concepts needed to understand Internet marketing.
- Identify and describe the main technologies that support online marketing.
- Identify and describe basic e-commerce marketing and branding strategies.

Outline

1. Consumers Online: The Internet Audience and Consumer Behavior
2. Basic Marketing Concepts
3. Internet Marketing Technologies

Consumers Online: The Internet Audience and Consumer Behavior

- Around 75% (90 million) U.S. households have Internet access in 2014
- 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
What's new in online marketing

**BUSINESS**
- Online marketing and advertising spending continues to increase (by over 17% in 2014), compared to only about 1%-2% for traditional media marketing and advertising.
- Mobile marketing and advertising spending continues to grow at a rate of more than 50%.
- Social media marketing and advertising channels expand, but search and display marketing remains dominant.
- Local marketing and advertising based on geofencing services like Groupon and LivingSocial take off.
- Video advertising continues to be one of the fastest growing formats.
- Search engine marketing and advertising continues to dominate, but its rate of growth is slowing somewhat compared to other formats.
- Native advertising and other forms content marketing rise.

**TECHNOLOGY**
- Mobile devices, challenge the PC as the major online marketing and advertising platform. Smartphones and tablet computers become prevalent Web access devices.
- Big Data: online tracking produces oceans of data, challenging business analytics programs.
- Cloud computing makes rich marketing content and multi-channel, cross-platform marketing a reality.
- The Facebook, Twitter, and Pinterest platforms grow into valuable social customer relationship management tools, enabling businesses to connect with customers on social network sites.
- Programmatic advertising (automated, technology-driven method of buying and selling display ads) takes off.

**SOCIETY**
- Targeted advertising based on behavioral tracking on leads to growing privacy awareness and fears.
- Social network sites are accused of abusing customer profile information without providing sufficient user controls over profile distribution.
- Mobile GPS tracking of individual location information built into smartphones and other mobile devices raises privacy concerns.

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**TABLE 6.2 CHANGING DEMOGRAPHIC DIFFERENCES IN INTERNET ACCESS**

<table>
<thead>
<tr>
<th>GROUP</th>
<th>THE PERCENT OF EACH GROUP ONLINE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2009</td>
</tr>
<tr>
<td><strong>COMMUNITY TYPE</strong></td>
<td></td>
</tr>
<tr>
<td>Urban</td>
<td>75%</td>
</tr>
<tr>
<td>Suburban</td>
<td>77%</td>
</tr>
<tr>
<td>Rural</td>
<td>65%</td>
</tr>
<tr>
<td><strong>HOUSEHOLD INCOME</strong></td>
<td></td>
</tr>
<tr>
<td>Less than $20,000yr</td>
<td>60%</td>
</tr>
<tr>
<td>$20,000-$50,000</td>
<td>88%</td>
</tr>
<tr>
<td>$50,001-$75,000</td>
<td>88%</td>
</tr>
<tr>
<td>More than $75,000</td>
<td>94%</td>
</tr>
<tr>
<td><strong>EDUCATIONAL ATTAINMENT</strong></td>
<td></td>
</tr>
<tr>
<td>Less than High School</td>
<td>50%</td>
</tr>
<tr>
<td>High School</td>
<td>69%</td>
</tr>
<tr>
<td>Some College</td>
<td>88%</td>
</tr>
<tr>
<td>College +</td>
<td>94%</td>
</tr>
</tbody>
</table>


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The Internet Audience and Consumer Behavior

- Broadband and mobile
  - Significant inequalities in broadband access
  - Older adults, lower income, lower educational levels
  - Non-broadband household still accesses Internet via mobile or other locations
- Neighborhood effects
  - Role of social emulation in consumption decisions
    - “Connectedness”
      - Top 10–15% are more independent
      - Middle 50% share more purchase patterns of friends
  - Recommender systems - co-purchase networks
Consumer Behavior Models

- Study of consumer behavior
  - Social science discipline
  - 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
  - Consumers shop online primarily for convenience

Background Demographic Factors

- Culture: Affects entire nations
- Subculture
  - Subsets formed around major social differences (ethnicity, age, lifestyle, geography)
- Social networks and communities
  - Direct reference groups
  - Indirect reference groups
  - Opinion leaders
  - Lifestyle groups
- Psychological profile

A General Model of Consumer Behavior

Why consumers choose the online channel?

<table>
<thead>
<tr>
<th>Reasons</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower prices</td>
<td>59%</td>
</tr>
<tr>
<td>Shop from home</td>
<td>53%</td>
</tr>
<tr>
<td>Shop 24/7</td>
<td>44%</td>
</tr>
<tr>
<td>Wider variety of products available</td>
<td>29%</td>
</tr>
<tr>
<td>Easier to compare and research products and offers</td>
<td>27%</td>
</tr>
<tr>
<td>Products only available online</td>
<td>22%</td>
</tr>
<tr>
<td>Online customer reviews</td>
<td>18%</td>
</tr>
<tr>
<td>Better product information available</td>
<td>7%</td>
</tr>
<tr>
<td>Promotion via e-mail or text</td>
<td>7%</td>
</tr>
<tr>
<td>Social media influence</td>
<td>1%</td>
</tr>
</tbody>
</table>
The Online Purchasing Decision

- Psychographic research
  - Combines demographic and psychological data
  - Divides market into groups based on social class, lifestyle, and/or personality characteristics

- Five stages in the consumer decision process:
  1. Awareness of need
  2. Search for more information
  3. Evaluation of alternatives
  4. Actual purchase decision
  5. Post-purchase contact with firm
A Model of Online Consumer Behavior

Clickstream factors include:
- Number of days since last visit
- Speed of clickstream behavior
- Number of products viewed during last visit
- Number of pages viewed
- Supplying personal information
- Number of days since last purchase
- Number of past purchases

Clickstream marketing
- Developed dynamically as customers use Internet

Shoppers: Browsers and Buyers
- Shoppers: 90% of Internet users
  - 74% buyers
  - 16% browsers (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

SOURCE: Based on data from eMarketer, Inc., 2013g.
What Consumers Shop for and Buy Online

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

How Consumers Shop

- How shoppers find online vendors
  - Highly intentional, goal-oriented
  - Search engines
  - Marketplaces (Amazon, eBay)
  - Specific retail site
- 10% 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:
  1. Utility:
     - Better prices, convenience, speed
  2. Trust:
     - Asymmetry of information can lead to opportunistic behavior by sellers
     - Sellers can develop trust by building strong reputations for honesty, fairness, delivery

<table>
<thead>
<tr>
<th>TABLE 6.7</th>
<th>WHY INTERNET USERS DO NOT BUY ONLINE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Want to see and touch before buying</td>
<td>34%</td>
</tr>
<tr>
<td>Concerns about personal financial information</td>
<td>31%</td>
</tr>
<tr>
<td>Delivery costs are too high</td>
<td>30%</td>
</tr>
<tr>
<td>Concerns that returns will be a hassle</td>
<td>26%</td>
</tr>
<tr>
<td>Prefer to research online, then buy in a store</td>
<td>24%</td>
</tr>
<tr>
<td>No need to buy products online</td>
<td>23%</td>
</tr>
<tr>
<td>Can’t speak to a sales assistant in person</td>
<td>14%</td>
</tr>
</tbody>
</table>

Table 6.7, Page 366

Sources: Based on data from eMarketer, Inc., 2011d.
Outline

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Basic Marketing Concepts

• Marketing
  – Strategies and actions to establish relationship with consumer and encourage purchases of products and services
  – Addresses competitive situation of industries and firms
  – Seeks to create unique, highly differentiated products or services that are produced or supplied by one trusted firm
    • Unmatchable feature set
    • Avoidance of becoming commodity

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

• Web site
• Traditional online marketing
  – Search engine, display, e-mail, affiliate
• Social marketing
  – Social networks, blogs, video, game
• Mobile marketing
  – Mobile/tablet sites, apps
• 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?

Feature Sets

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

Feature Set

![Feature Set Diagram](image)

Video: Brand vs Product
Products, Brands, and the Branding Process

- 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
- Brand strategy
- Brand equity

Online segmenting, Targeting, and Positioning

- Segmenting: Allows firms to differentiate products to fit consumer needs and charge different prices
- Types of segmentation
  - Behavioral
  - Demographic
  - Psychographic
  - Technical
  - Contextual
  - Search
- Within segment, product is positioned and branded as a unique, high-value product, especially suited to needs of segment customers

Marketing Activities: From Products to Brands

<table>
<thead>
<tr>
<th>TABLE 6.7</th>
<th>MAJOR TYPES OF ONLINE MARKET SEGMENTATION AND TARGETING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Behavioral</td>
<td>Segmenting on the basis of behavior in the marketplace. In traditional stores, this involves observing how customers walk through. On the Internet, Web site owners and members of advertising networks can dynamically assign users to groups, and merge their behavioral information with other data.</td>
</tr>
<tr>
<td>Demographic</td>
<td>Using age, ethnicity, religion, and other demographic factors to segment. On the Internet, using registration data or other self-revelations. Sites visited also serve as proxy measures of age, e.g., music sites are visited by young persons.</td>
</tr>
<tr>
<td>Psychographic</td>
<td>Using common interests, values, and opinions along with personality, attitude, and lifestyle preferences to segment consumers into groups. On the Internet, Web sites visited can substitute for direct measurement, e.g., the fashion Web sites visited by consumers reflect a self-chosen lifestyle and values.</td>
</tr>
<tr>
<td>Technical</td>
<td>Using information gathered by a shopping technology as a basis for segmentation. Nearby everyone who shops at malls owns a car. On the Internet, each consumer visit generates a record of the user's domain, IP address, browser, computer platform, and connection type, as well as what URL the user linked to the site from and the date and time. People who connect using broadband media, for instance, are much more likely to download music from the Internet.</td>
</tr>
<tr>
<td>Contextual</td>
<td>Using the context of an event, or the context of an event, as a basis for segmentation. People who attend rock concerts tend to purchase music CDs as well. On the Internet, people who read the online Wall Street Journal are very good targets for financial service advertising.</td>
</tr>
<tr>
<td>Search</td>
<td>Using consumers' explicitly expressed interest at this moment to segment and target. Perhaps the simplest of all segmenting, search direct response follows the ageless maxim &quot;sell them what they want.&quot;</td>
</tr>
</tbody>
</table>
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 a major source of revenue
  ▪ Lower customer acquisition cost
  ▪ Increased customer retention
  ▪ Successful brand constitutes a long-lasting (though not necessarily permanent) unfair competitive advantage

Can Brands Survive the Internet?
Brands and Price Dispersion

• Vision: “Law of One Price,” end of brands
• Instead:
  – Consumers still pay premium prices for differentiated products
  – E-commerce firms rely heavily on brands to attract customers and charge premium prices
  – Price dispersion
  – Large differences in price sensitivity for same product
  – “Library effect”

Outline

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The Revolution in Internet Marketing Technologies

• Three broad impacts:
  1. Scope of marketing communications broadened
  2. Richness of marketing communications increased
  3. 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?
Tracking Files

- Allow users browsing activities to be tracked as they move from site to site
- Four types of tracking files
  - 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
  - Flash cookies
  - Beacons (“bugs”)
    - Tiny (one 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
  - Apps
Firefox cookies dialog box

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

A Relational Database View of E-commerce Customers

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
  - Collaborative filtering
Customer Relationship Management (CRM) Systems

- Record all contacts that customer has with firm
- 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

Outline

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Generic Market Entry Strategies

<table>
<thead>
<tr>
<th>NEW FIRM</th>
<th>EXISTING FIRM</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FIRST MOVER</strong></td>
<td><strong>FAST FOLLOWER</strong></td>
</tr>
<tr>
<td>Amazon, eBay, E-Trade</td>
<td>Barnes &amp; Noble, RiteAid, Drugstore.com, Toys R Us</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ALLIANCES</th>
<th>BRAND EXTENDER</th>
</tr>
</thead>
<tbody>
<tr>
<td>KBKids.com (BrainPlay.com/KB Toys)</td>
<td>REI, LL Bean, Wal-Mart</td>
</tr>
</tbody>
</table>

Establishing the Customer Relationship

- Advertising networks
  - Ad server selects appropriate ad based on cookies, Web bugs, backend user profile databases
- Advertising exchanges
  - Auction ad slots over many advertising networks
- Permission marketing
- Affiliate marketing

How an Advertising Network such as DoubleClick Works

1. Consumer requests Web page from ad network member site
2. Merchant server connects to DoubleClick ad server
3. Ad server reads cookie; checks database for profile
4. Ad server selects and serves an appropriate banner ad based on profile
5. DoubleClick follows consumer from site to site through use of Web bugs

Establishing the Customer Relationship

- Viral marketing
- Blog marketing
- Social network marketing
  - Driven by social e-commerce
    - Social sign-on
    - Collaborative shopping
    - Network notification
    - Social search (recommendation)
- Mobile marketing
Establishing the Customer Relationship

- Social marketing and wisdom of crowds
  - Large aggregates produce better estimates and judgments, e.g.,
    - "Like" button
    - Folksonomies
    - Social tagging
- Mobile platform marketing
- Local marketing
- Brand leveraging

Customer Retention

- 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

The Mass Market-Personalization Continuum

<table>
<thead>
<tr>
<th>MARKETING STRATEGIES</th>
<th>MARKETING ATTRIBUTES</th>
<th>Pricing</th>
<th>Techniques</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mass Marketing</td>
<td>Simple</td>
<td>One nation, one price</td>
<td>Mass media</td>
</tr>
<tr>
<td>Direct Marketing</td>
<td>Stratified</td>
<td>One price</td>
<td>Targeted communications, e.g., mail and phone</td>
</tr>
<tr>
<td>Micromarketing</td>
<td>Complex</td>
<td>Variable pricing</td>
<td>Segment profiles</td>
</tr>
<tr>
<td>Personalized, One-to-one Marketing</td>
<td>Highly complex</td>
<td>Unique pricing</td>
<td>Individual and social network profiles</td>
</tr>
</tbody>
</table>

Net Pricing Strategies

- Pricing
  - 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.)

- Free and freemium
  - 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
  - Flash marketing

The demand for bundles of 1-20 goods

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
  - E.g., online airline/travel services and traditional offline travel agencies
- Some manufacturers are using partnership model to avoid channel conflict