



# 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)**

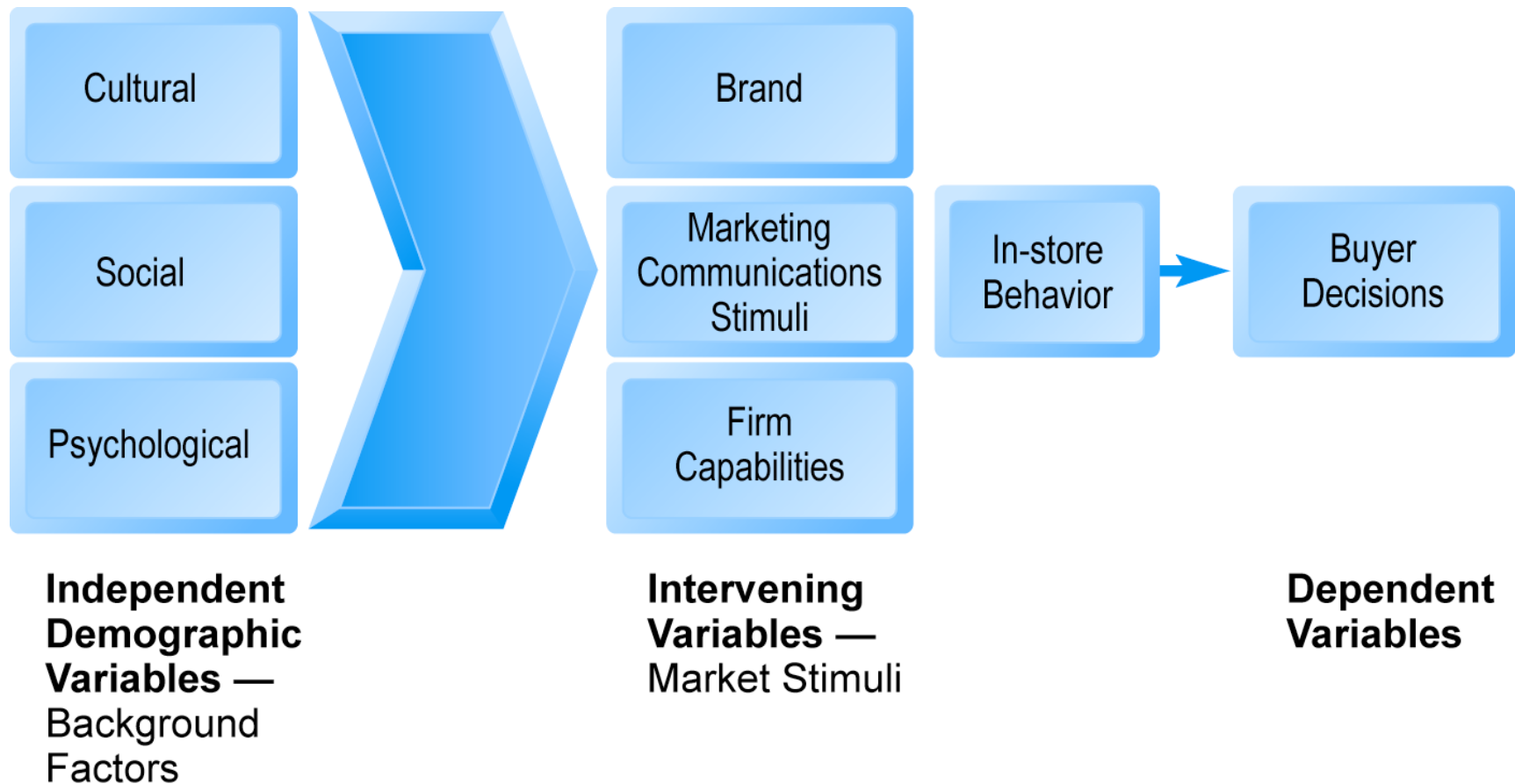
- Broadband audience vs. dial-up audience
  - Broadband - wealthier, middle-aged, more educated
- Purchasing behavior affected by neighborhood
  - Living near others purchasing from online grocery will increase likelihood of also purchasing by 50%
- Lifestyle and sociological impacts
  - Use of Internet 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



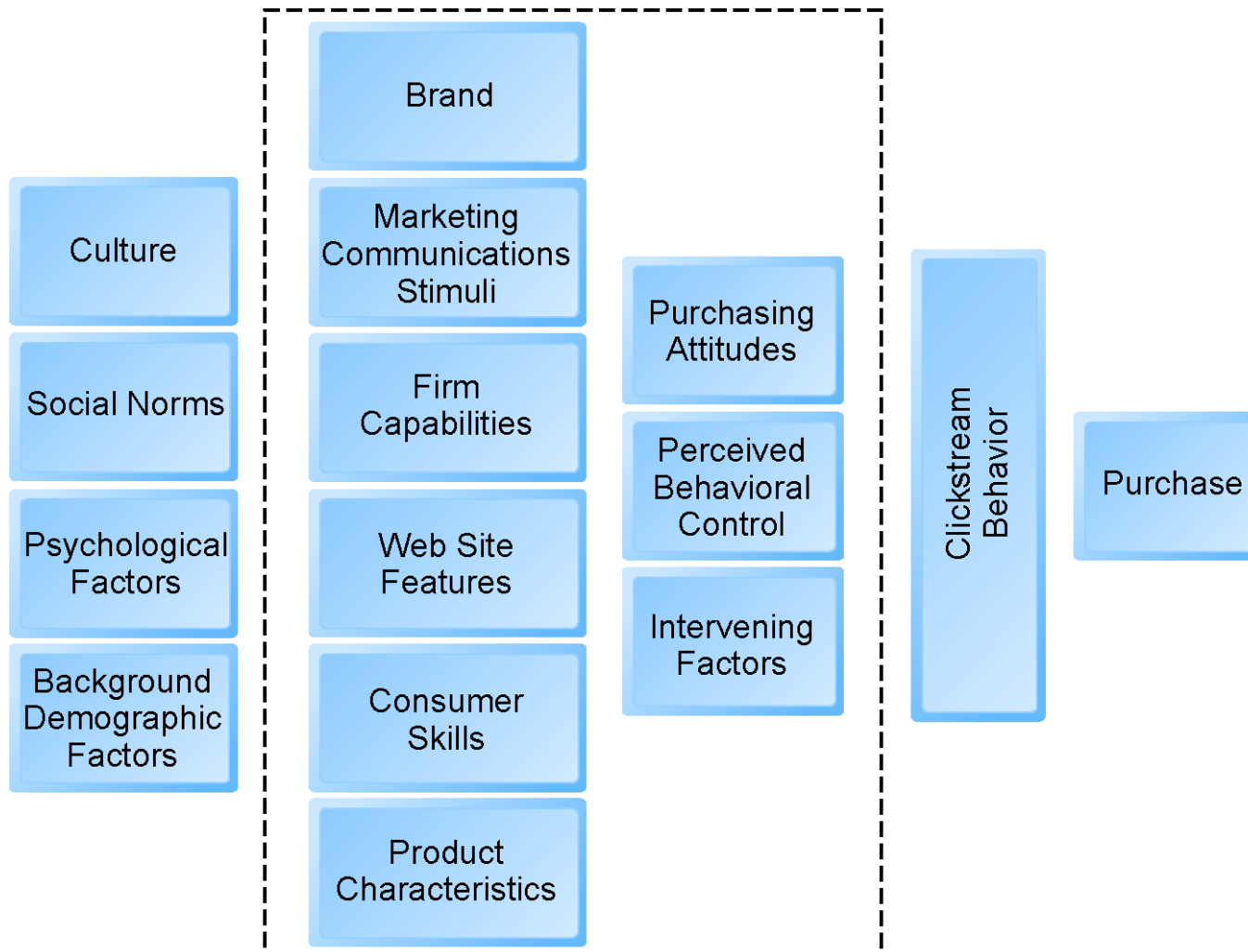
**SOURCE:** Adapted from Kotler and Armstrong, 2009.

# 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

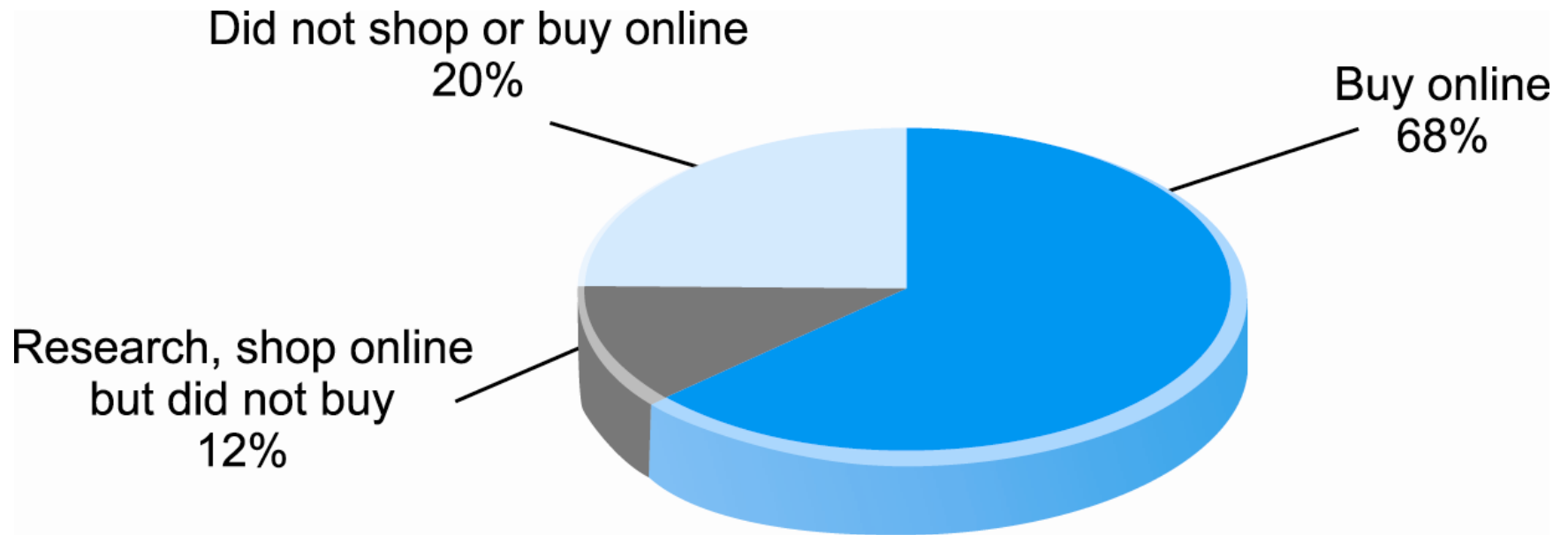
- Seven categories of user sessions
  - “Quickies,” “Just the Facts,” “Single Mission,” “Do It Again,” “Loitering,” “Information Please,” “Surfing.”
- Clickstream factors include:
  - Number of days since last visit
  - Speed of clickstream behavior
  - Number of products viewed, etc.
- Clickstream marketing:
  - 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



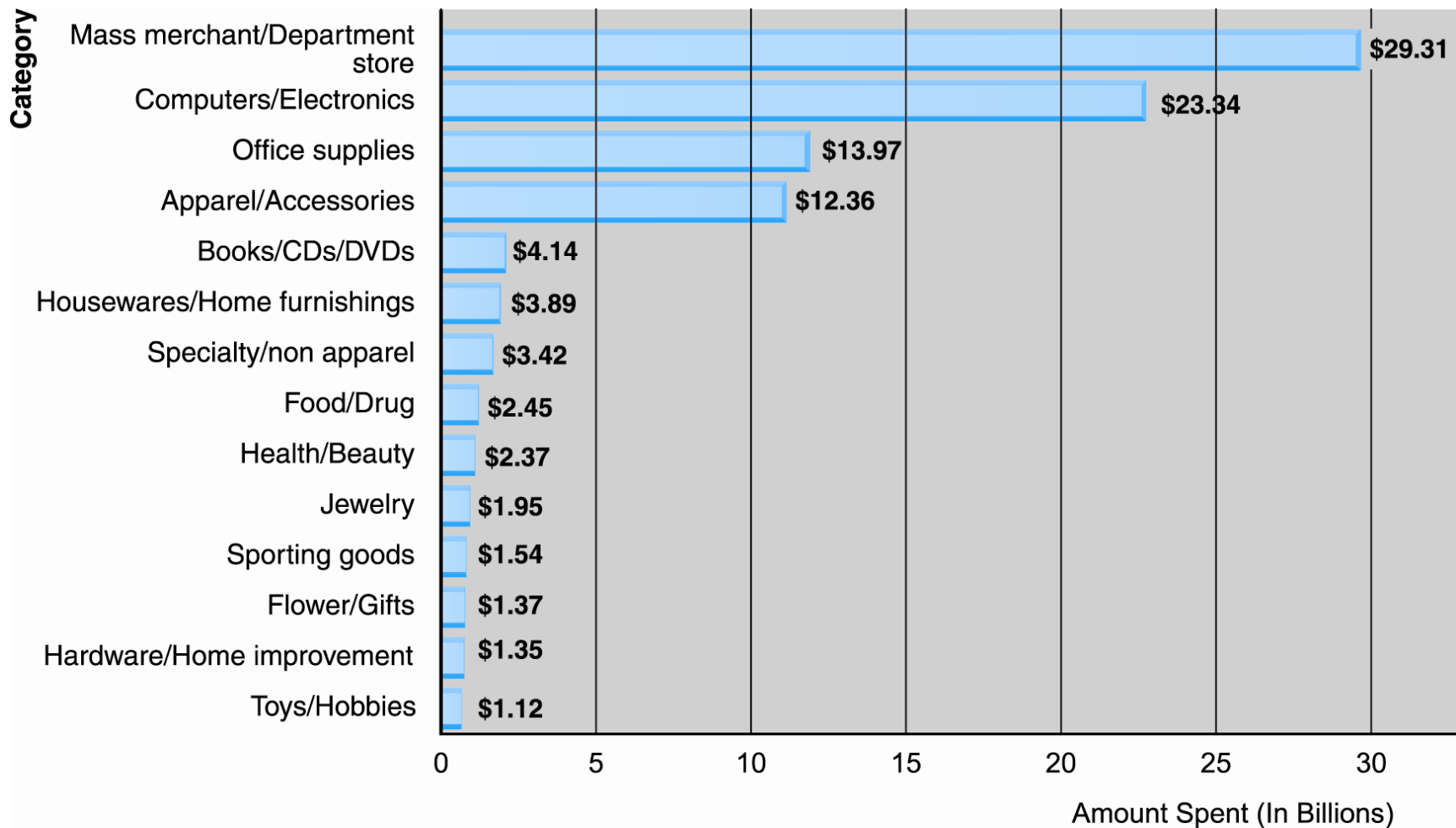
**SOURCE:** Based on data from eMarketer, Inc., 2008a; authors' estimates.

# 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

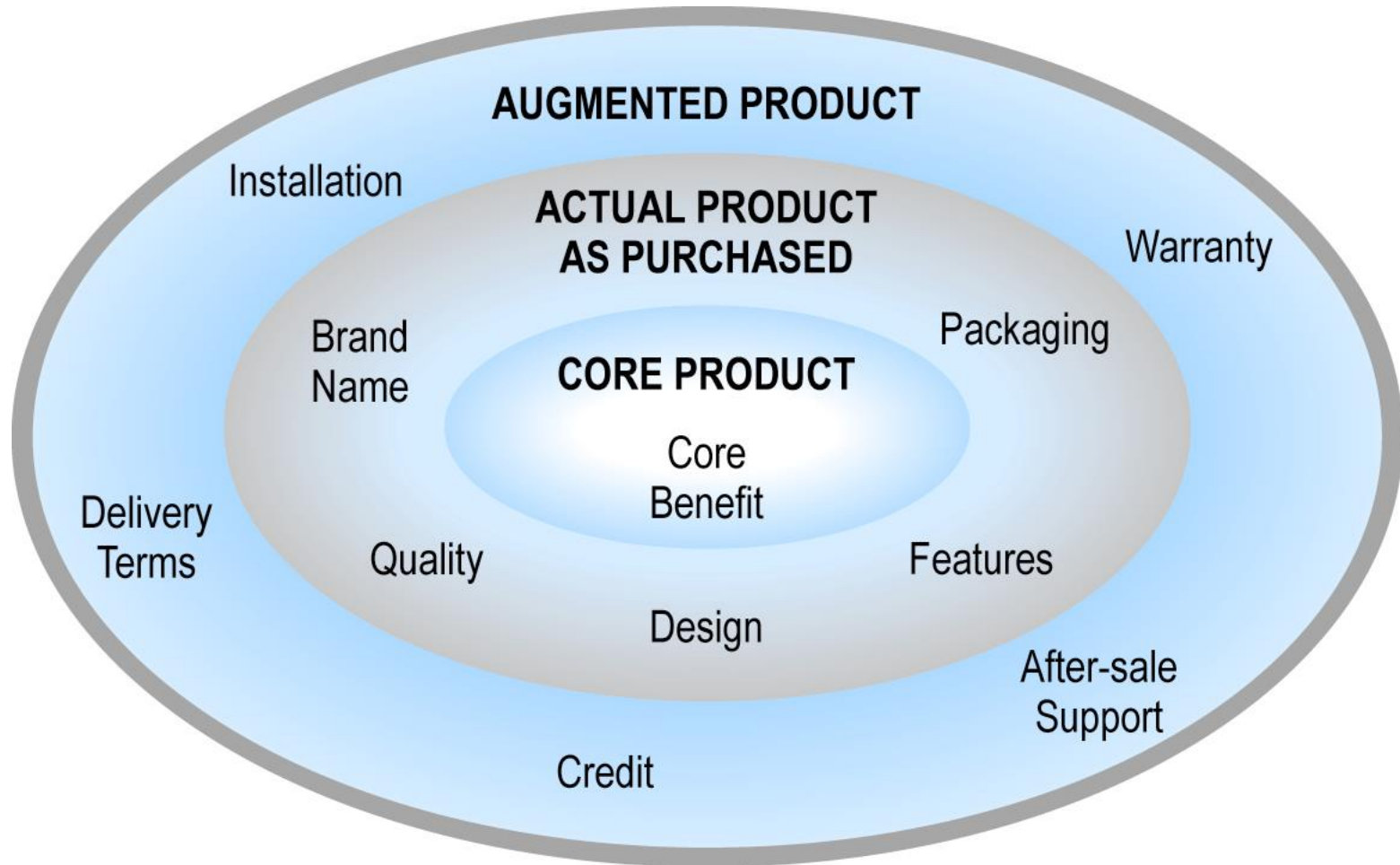
- Characteristics that deliver core benefits
- e.g. cell phone, music player with wide screen that connects through wireless networks to Internet

### ■ 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:

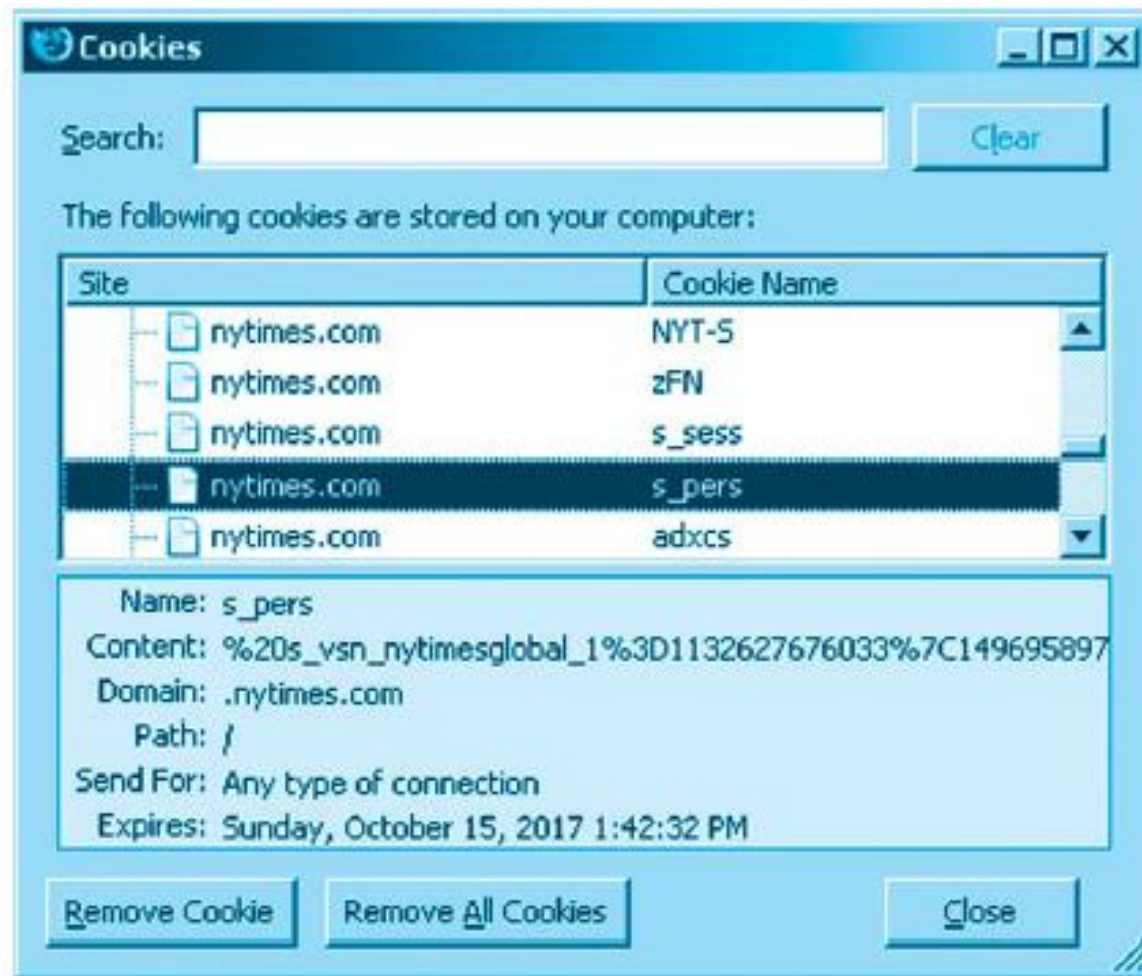
- Small text file Web sites place on visitor's PC every time they visit, as specific pages are accessed
- Provide Web marketers with very quick means of identifying customer and understanding prior behavior
- Location of cookie files on PC depends on browser

## ■ 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:

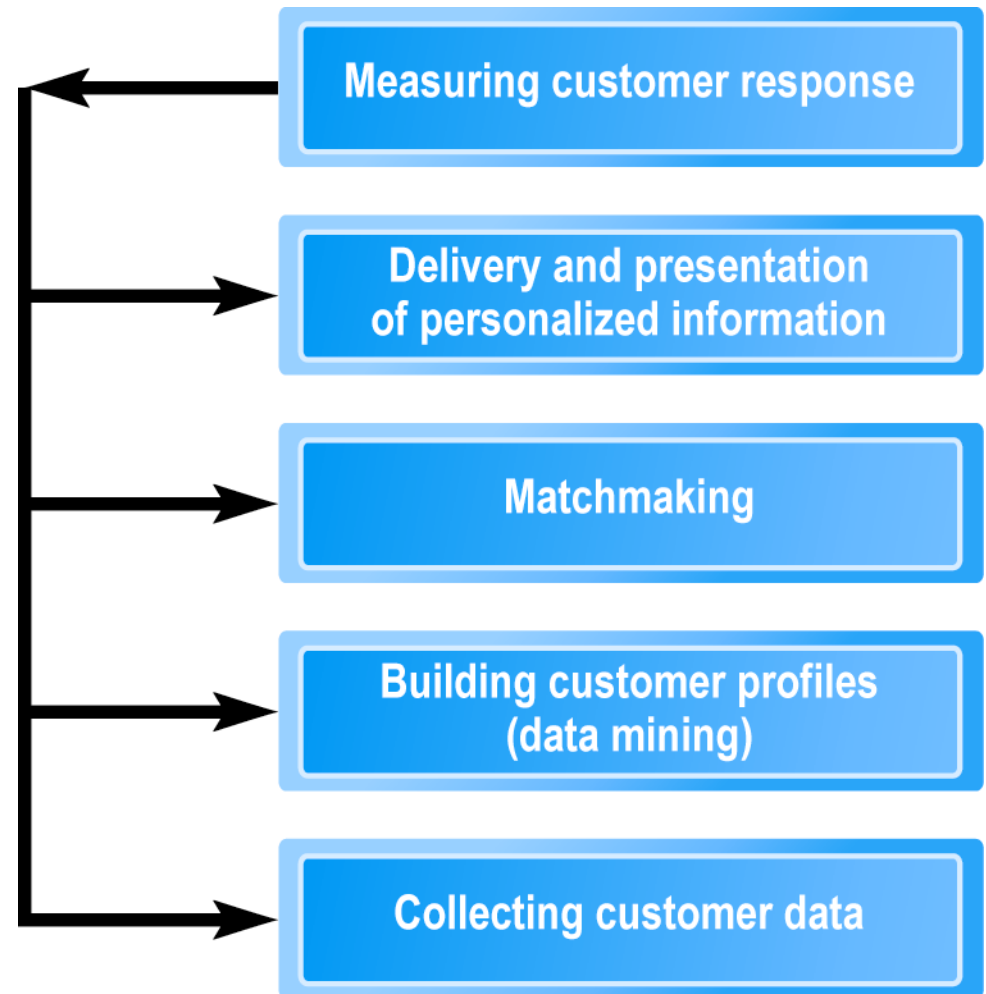
- Database that collects a firm's transactional and customer data in a single location for offline analysis by marketers and site managers

## ■ 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**

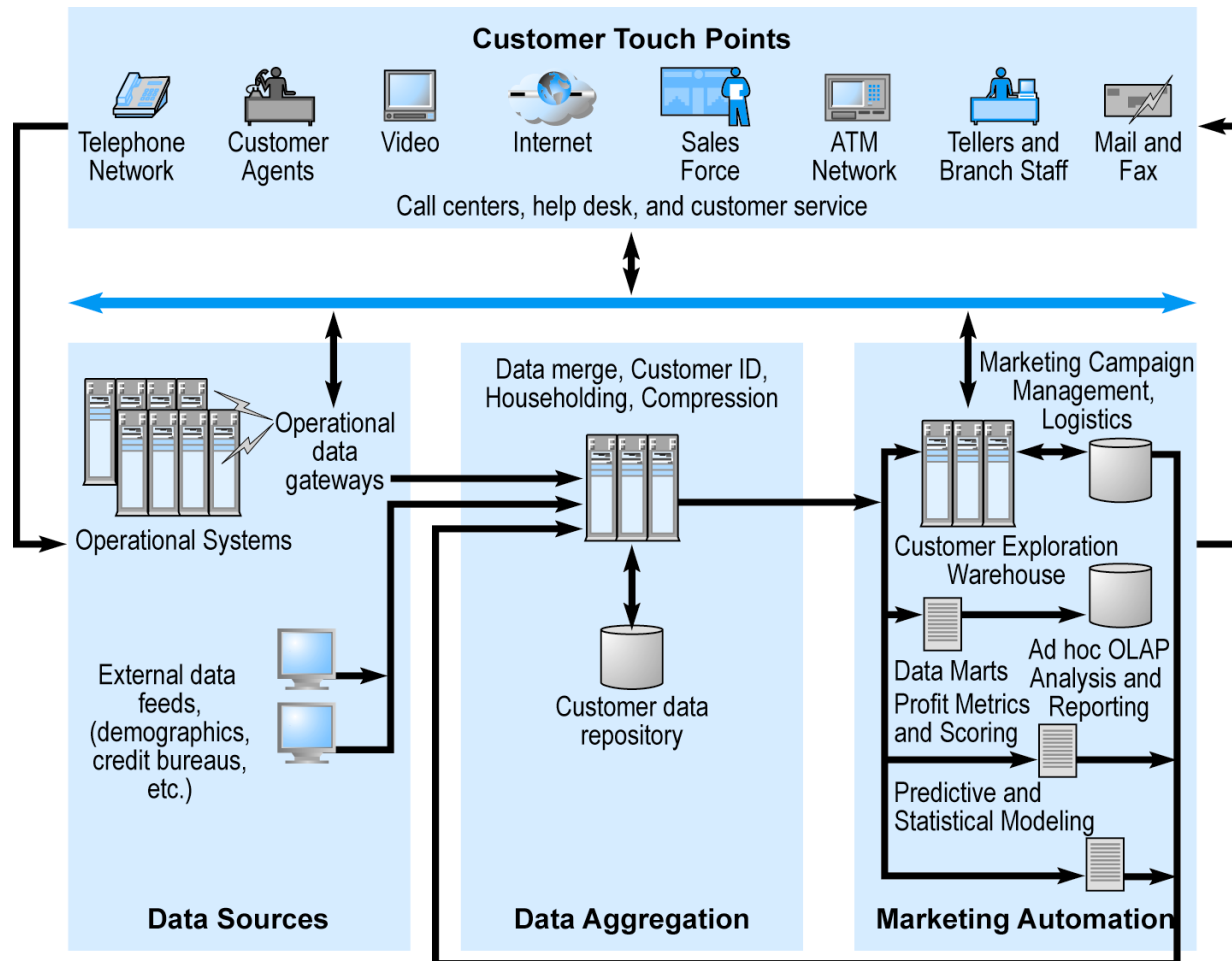
- What are “recommender systems”? Give an example you have used.
- What is the “Long Tail” and how do recommender systems support sales of items in the Long Tail?
- How can human editors, including consumers, make recommender systems more helpful?

# 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

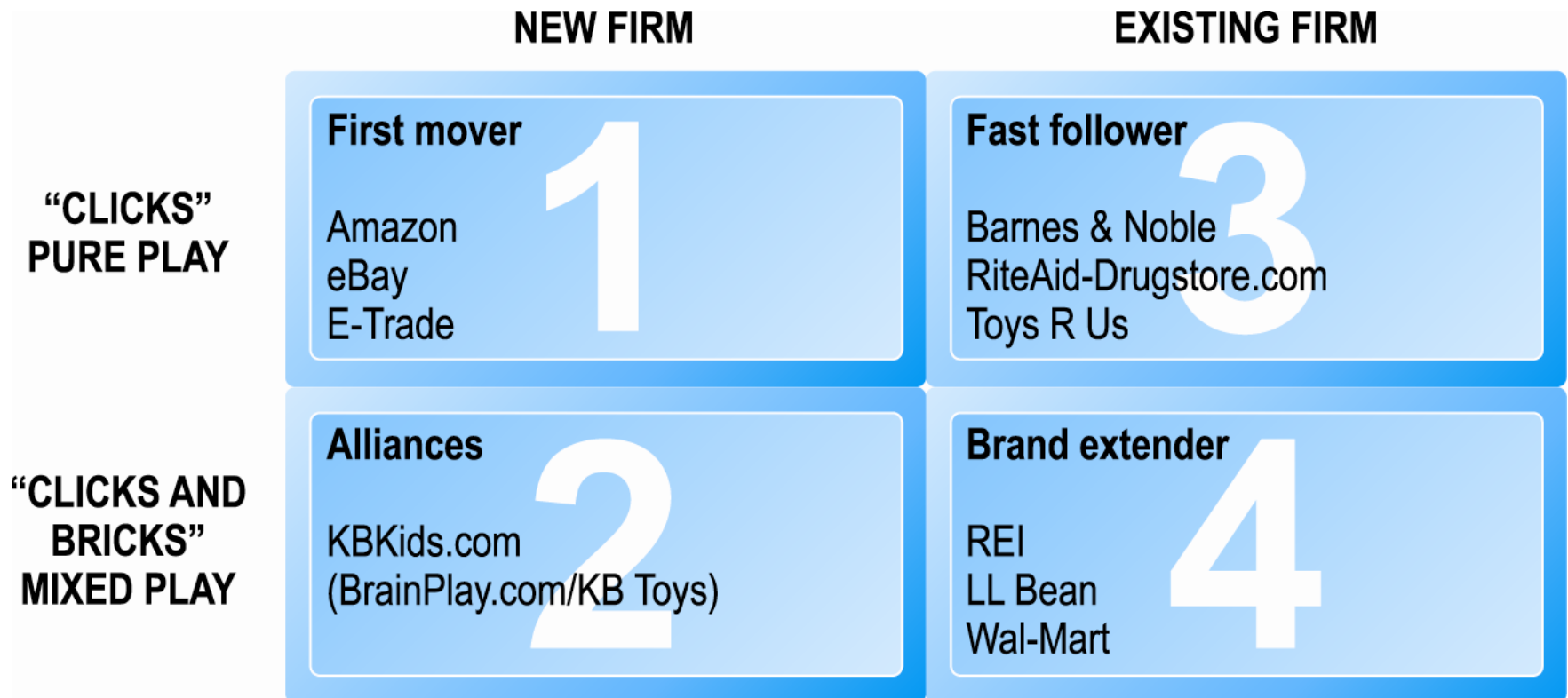
Figure 6.14, Page 384



**SOURCE: Compaq, 1998.**

# Market Entry Strategies

Figure 6.15, Page 385



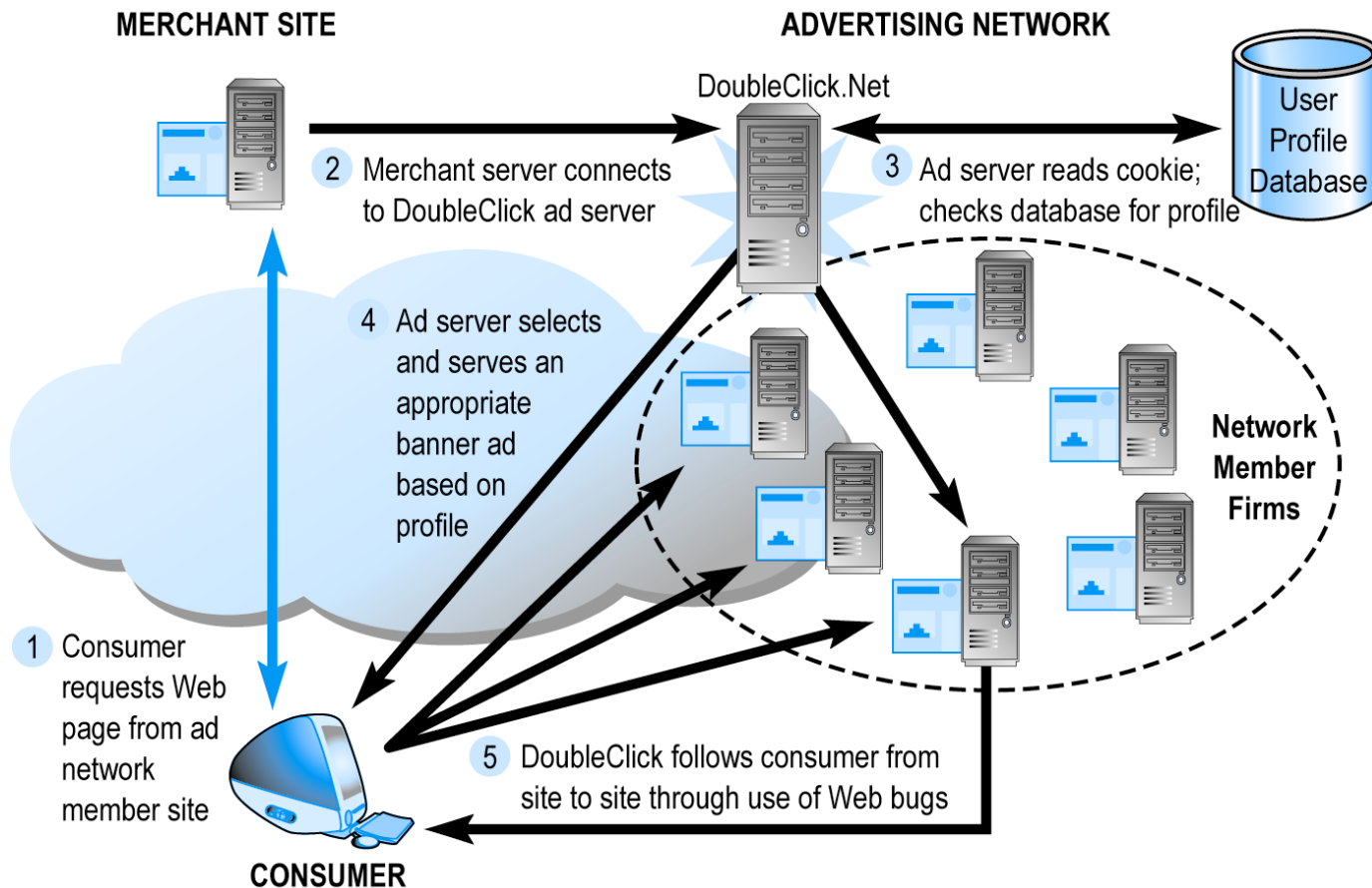
# Establishing the Customer Relationship

## ■ 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:

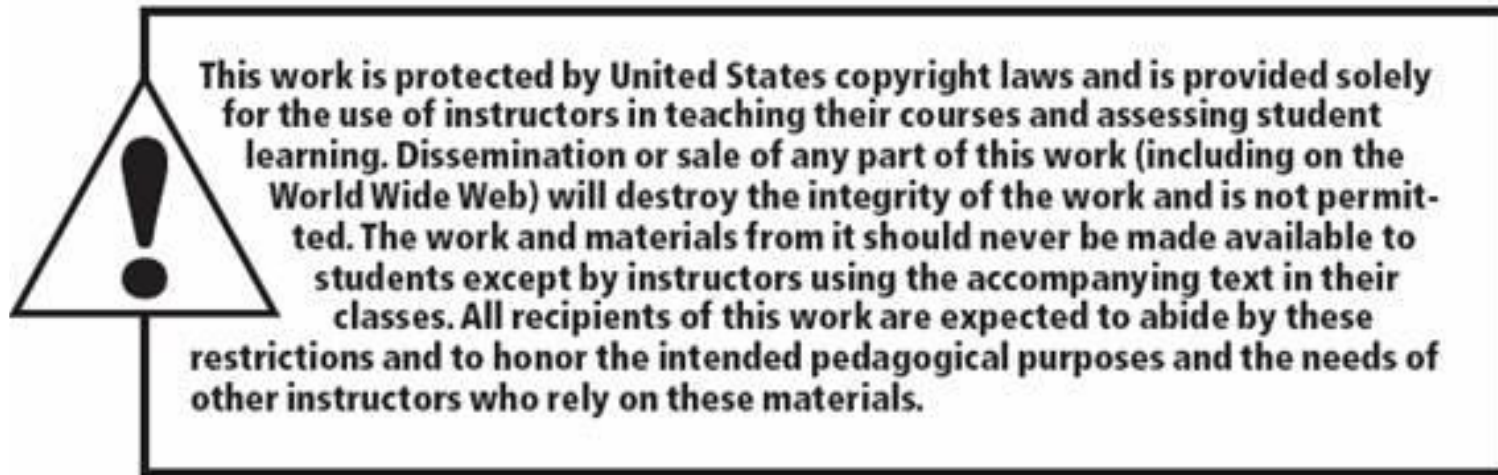
- Different methods by which goods can be distributed and sold

## ■ 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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