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: Broaderest impact
  - Subculture (ethnicity, age, lifestyle, geography)

- Social
  - Reference groups
    - Direct reference groups
    - Indirect reference groups
    - Opinion leaders (viral influencers)
    - Lifestyle groups

- Psychological
  - Psychological profiles
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:
  - 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 352*

<table>
<thead>
<tr>
<th>MARKET COMMUNICATIONS</th>
<th>Awareness—Need Recognition</th>
<th>Search</th>
<th>Evaluation of Alternatives</th>
<th>Purchase</th>
<th>Post-purchase Behavior—Loyalty</th>
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<td><strong>Offline Communications</strong></td>
<td>Mass media</td>
<td>Catalogs</td>
<td>Reference groups</td>
<td>Promotions</td>
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<td>Online promotions</td>
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<td>User evaluations</td>
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A Model of Online Consumer Behavior

Figure 6.4, Page 353

- Brand
- Marketing Communications Stimuli
- Firm Capabilities
- Web Site Features
- Consumer Skills
- Product Characteristics
- Purchase Attitudes
- Perceived Behavioral Control
- Intervening Factors
- Clickstream Behavior
- Purchase

Culture
Social Norms
Psychological Factors
Background Demographic Factors
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

- 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

- Did not shop or buy online: 20%
- Research, shop online but did not buy: 12%
- Buy online: 68%

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
    - Expanding
  - Small ticket items:
    - On average, $100 or less
    - Apparel, books, office supplies, software, etc.
    - Sold by first movers
      - Physically small
      - High margin items
      - Broad selection of products available
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

- 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 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
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

AUGMENTED PRODUCT
- Installation
- Warranty
- Brand Name
- Packaging
- Delivery Terms
- Core Benefit
- Quality
- Features
- Design
- After-sale Support
- Credit
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:**
  - Marketers directly influencing design of core product based on market research and feedback
  - E-commerce enables unique opportunities for this
Products, Brands and the Branding Process (cont’d)

- **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 362

Product design

Marketing consumer research

Consumer experience

Consumer

Branded product

CORE PRODUCT

AUGMENTED PRODUCT

DIFFERENTIATING FEATURES

Quality
Price
Support
Reliability

CREATE EXPECTATIONS

Trust
Affection
Loyalty
Reputation
Segmenting, Targeting, and Positioning

- Major ways used to segment, target customers
  - 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
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

- 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
Insight on Society
Marketing with Web Bugs
Class Discussion

- Are Web bugs innocuous? Or are they an invasion of personal privacy?
- Do you think your Web browsing should be known to marketers?
- What are the different types of Web bugs?
- What are the Privacy Foundation guidelines for Web bugs?
- What protections are available?
Databases

- **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
A Relational Database View of E-commerce Customers

Figure 6.12, Page 378

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<th>Customer table</th>
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<td><a href="mailto:hwilson@ibm.com">hwilson@ibm.com</a></td>
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<td>Sarah Wood</td>
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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

# Market Entry Strategies

**Figure 6.15, Page 385**

<table>
<thead>
<tr>
<th>“CLICKS”</th>
<th>NEW FIRM</th>
<th>EXISTING FIRM</th>
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<td>PURE PLAY</td>
<td><strong>First mover</strong></td>
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<tr>
<td></td>
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<td>Wal-Mart</td>
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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

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

MERCHANT SITE

CONSUMER

ADVERTISING NETWORK

DoubleClick.Net

User Profile Database

Network Member Firms

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Slide 6-46
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
Insight on Business

Social Network Marketing: New Influencers Among the Chattering Masses

Class Discussion

- Why do social networks represent such a promising opportunity for marketers?
- What are some of the new types of marketing that social networks have spawned?
- What are some of the risks of social network marketing? What makes it dangerous?
- What are some of the tools companies use to keep track of social network activity?
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
# The Mass Market-Personalization Continuum

**Figure 6.17, Page 397**

<table>
<thead>
<tr>
<th>MARKETING STRATEGIES</th>
<th>MARKETING ATTRIBUTES</th>
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<td><strong>Mass Marketing</strong></td>
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<td><strong>Direct Marketing</strong></td>
<td>Product: Stratified</td>
<td>Target: Segments</td>
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<tr>
<td><strong>Micromarketing</strong></td>
<td>Product: Complex</td>
<td>Target: Micro-segments</td>
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<tr>
<td><strong>Personalized, One-to-one Marketing</strong></td>
<td>Product: Highly complex</td>
<td>Target: Individual</td>
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</table>
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

- 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