

7. eCommerce Marketing Concepts



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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.

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Outline

1. **Consumers Online: The Internet Audience and Consumer Behavior**
2. Basic Marketing Concepts
3. Internet Marketing Technologies
4. B2C and B2B E-commerce Marketing and Branding Strategies

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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

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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 geolocation services like Groupon and LivingSocial take off.
- Video advertising continues to be one of the fastest growing formats.
- Search engine marketing and advertising continues its dominance, 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

GROUP	THE PERCENT OF EACH GROUP ONLINE	
	2009	2002
Total Adults	79%	50%
Women	81%	56%
Men	77%	60%
<i>AGE</i>		
18–29	92%	74%
30–49	87%	67%
50–64	79%	52%
65+	42%	18%
<i>RACE/ETHNICITY</i>		
White, Non-Hispanic	79%	60%
Black, Non-Hispanic	67%	45%
Hispanic (English-speaking)	84%	54%

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TABLE 6.2

CHANGING DEMOGRAPHIC DIFFERENCES IN INTERNET ACCESS

GROUP	THE PERCENT OF EACH GROUP ONLINE	
<i>COMMUNITY TYPE</i>		
Urban	75%	67%
Suburban	77%	66%
Rural	65%	52%
<i>HOUSEHOLD INCOME</i>		
Less than \$30,000/yr	60%	38%
\$30,000–\$50,000	80%	65%
\$50,000–\$75,000	88%	74%
More than \$75,000	94%	86%
<i>EDUCATIONAL ATTAINMENT</i>		
Less than High School	50%	N/A
High School	69%	45%
Some College	88%	72%
College +	94%	82%

SOURCE: Based on data from Pew Internet & American Life Project, 2009b, 2005a, 2005b.

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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

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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

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A General Model of Consumer Behavior



Figure 6.1, Page 355

SOURCE: Adapted from Kotler and Armstrong, 2009.

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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

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Why consumers choose the online channel?

Lower prices	59%
Shop from home	53%
Shop 24/7	44%
Wider variety of products available	29%
Easier to compare and research products and offers	27%
Products only available online	22%
Online customer reviews	18%
Better product information available	7%
Promotion via e-mail or text	7%
Social media influence	1%

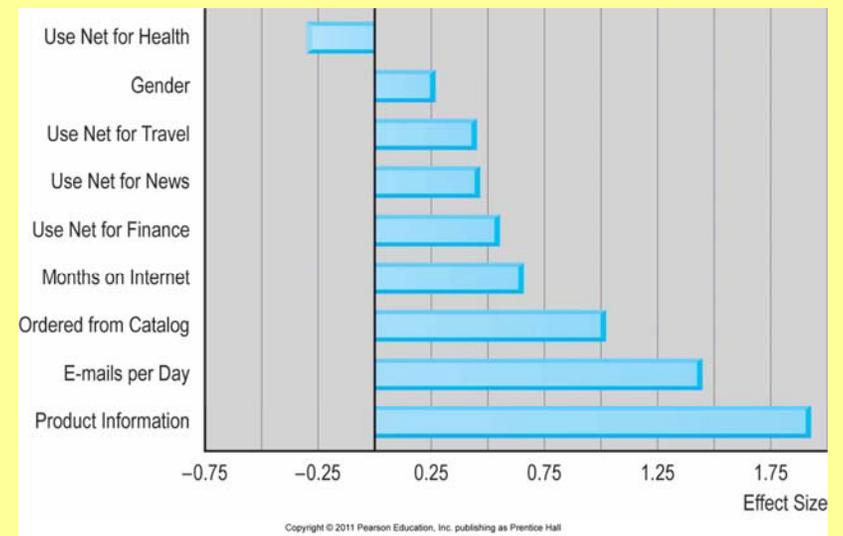
7-12

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

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Factors that predict online buying behavior



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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 359

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A Model of Online Consumer Behavior

- Decision process similar for online and offline behavior
- General online behavior model
 - Consumer skills
 - Product characteristics
 - Attitudes toward online purchasing
 - Perceptions about control over Web environment
 - Web site features: latency, usability, security
- Clickstream behavior: transaction log for consumer from search engine to purchase

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A Model of Online Consumer Behavior

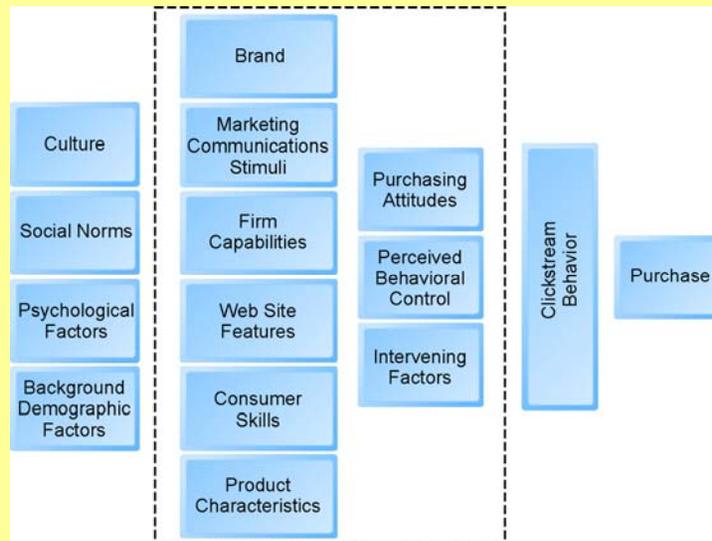


Figure 6.3, Page 360

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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

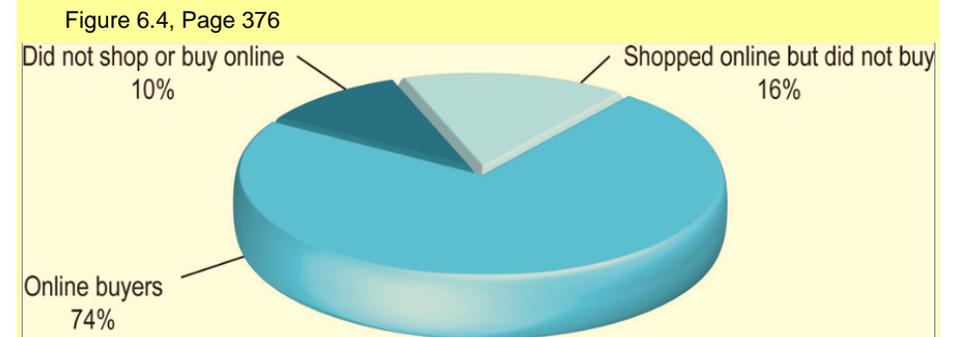
7-18

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

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Online Shoppers and Buyers



SOURCE: Based on data from eMarketer, Inc., 2013g.

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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

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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.)

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TABLE 6.7 WHY INTERNET USERS DO NOT BUY ONLINE

Want to see and touch before buying	34%
Concerns about personal financial information	31%
Delivery costs are too high	30%
Concerns that returns will be a hassle	26%
Prefer to research online, then buy in a store	24%
No need to buy products online	23%
Can't speak to a sales assistant in person	14%

Table 6.7, Page 366

SOURCES: Based on data from eMarketer, Inc., 2011d.

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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

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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

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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

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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

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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?

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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

7-30

Feature Set

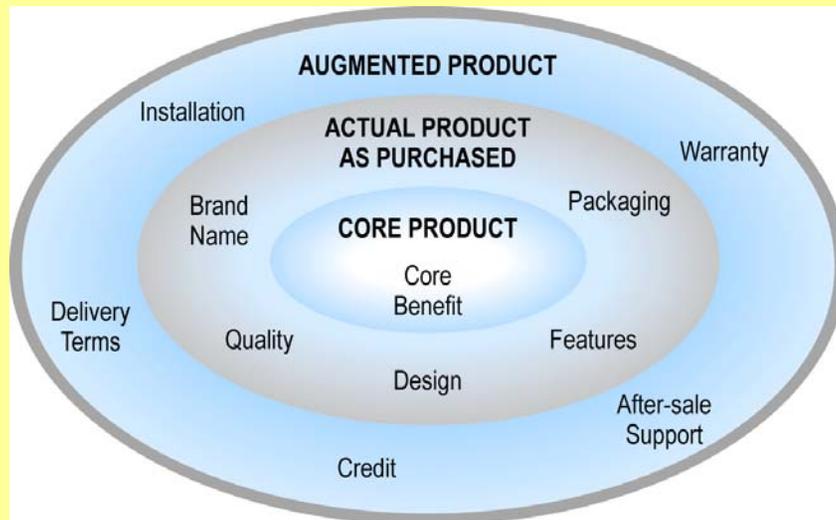
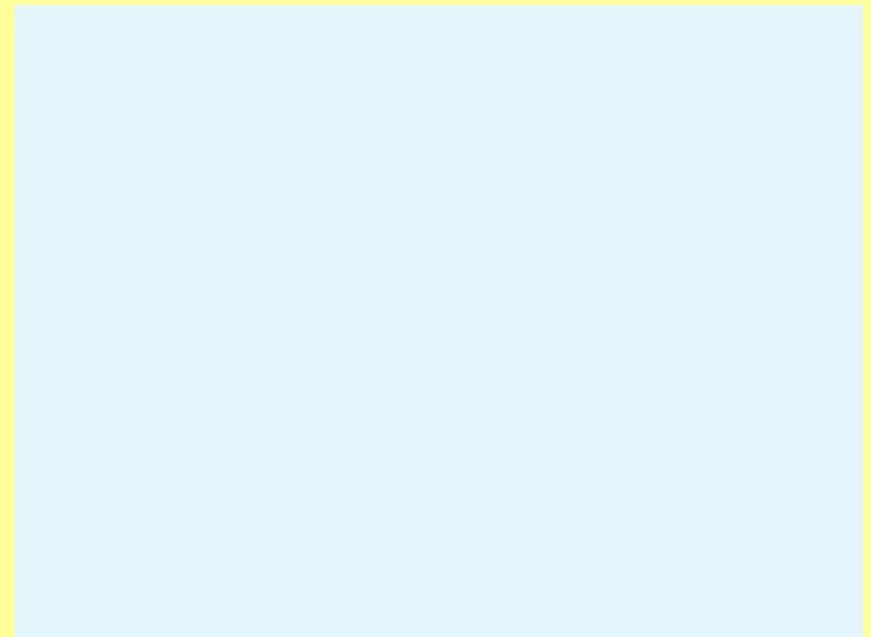


Figure 6.8, Page 368

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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

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Marketing Activities: From Products to Brands

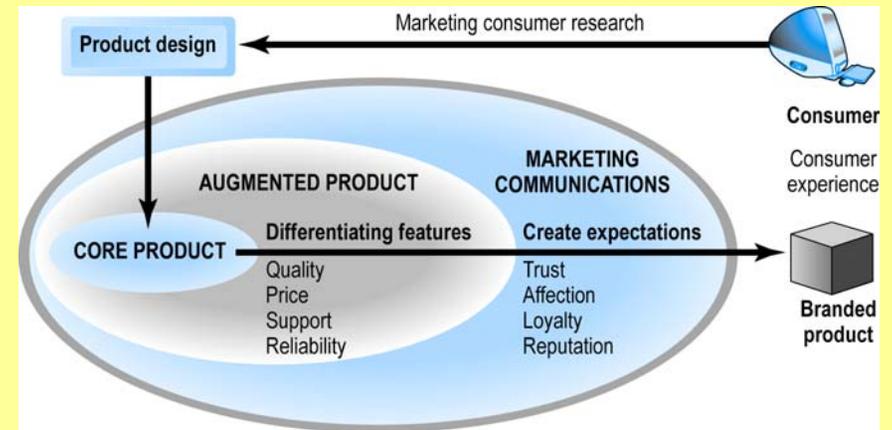


Figure 6.7, Page 369

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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

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TABLE 6.7 MAJOR TYPES OF ONLINE MARKET SEGMENTATION AND TARGETING

Behavioral	Segmenting on the basis of behavior in the marketplace. In traditional stores, this involves observing how customers walk through stores. 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.
Demographic	Using age, ethnicity, religion, and other demographic factors to segment. On the Internet, using registration data or other self-revelations. Sites visited also serves as proxy measures of age, e.g., music sites are visited by young persons.
Psychographic	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.
Technical	Using information gathered by a shopping technology as a basis for segmentation. Nearly 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.
Contextual	Using the context of an event, or the content 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 <i>Wall Street Journal</i> are very good targets for financial service advertising.
Search	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 "sell them what they want."

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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

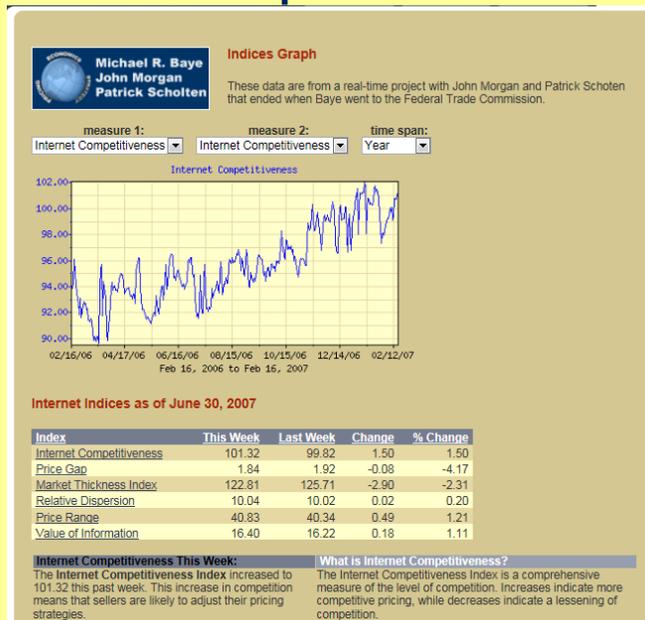
7-37

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”

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nash-equilibrium.com



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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

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TABLE 6.8

IMPACT OF UNIQUE FEATURES OF E-COMMERCE TECHNOLOGY ON MARKETING

E-COMMERCE TECHNOLOGY DIMENSION	SIGNIFICANCE FOR MARKETING
Ubiquity	Marketing communications have been extended to the home, work, and mobile platforms; geographic limits on marketing have been reduced. The marketplace has been replaced by "marketspace" and is removed from a temporal and geographic location. Customer convenience has been enhanced, and shopping costs have been reduced.
Global reach	Worldwide customer service and marketing communications have been enabled. Potentially hundreds of millions of consumers can be reached with marketing messages.
Universal standards	The cost of delivering marketing messages and receiving feedback from users is reduced because of shared, global standards of the Internet.
Richness	Video, audio, and text marketing messages can be integrated into a single marketing message and consuming experience.

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TABLE 6.8

IMPACT OF UNIQUE FEATURES OF E-COMMERCE TECHNOLOGY ON MARKETING

E-COMMERCE TECHNOLOGY DIMENSION	SIGNIFICANCE FOR MARKETING
Interactivity	Consumers can be engaged in a dialog, dynamically adjusting the experience to the consumer, and making the consumer a co-producer of the goods and services being sold.
Information density	Fine-grained, highly detailed information on consumers' real-time behavior can be gathered and analyzed for the first time. "Data mining" Internet technology permits the analysis of terabytes of consumer data everyday for marketing purposes
Personalization/Customization	This feature potentially enables product and service differentiation down to the level of the individual, thus strengthening the ability of marketers to create brands.
Social technology	User-generated content and social networking sites, along with blogs, have created new, large, online audiences where the content is provided by users. These audiences have greatly expanded the opportunity for marketers to reach new potential customers in a nontraditional media format. Entirely new kinds of marketing techniques are evolving. These same technologies expose marketers to the risk of falling afoul of popular opinion by providing more market power to users who now can "talk back."

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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?

7-44

1s from the web transaction log of azimuth-interactive.com

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TABLE 6.9 MARKETING USES OF DATA FROM WEB TRANSACTION LOGS

DATA ELEMENT	MARKETING USE
IP address of the visitor: dsl254-068-173.nyc1.dsl.speakeasy.net	Can be used to send return e-mails for marketing when the visitor is using a dedicated URL as opposed to a dial-in modem. Dial-in modems use temporary IPs and cannot be used for return mail.
Date and time stamp: [22/Oct/2009:11:29:32 -0400]	Used to understand patterns in the time of day and year of consumer activity.
Pages and objects requested and visited ("Get" statements): "GET /masthead.cgi?page=hompage&ad=1 HTTP/1.1"	Used to understand what this specific consumer was interested in finding (the clickstream). Can be used later to send "personalized" messages, "customized products," or simply return mail regarding related products.

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TABLE 6.9 MARKETING USES OF DATA FROM WEB TRANSACTION LOGS

DATA ELEMENT	MARKETING USE
Response of site server: 200	Used to monitor for broken links, pages not returned.
Size of pages sent (bytes of information): 3646	Used to understand capacity demands on servers and communications links.
Name of page or site from which the consumer came to this site: "http://www.azimuth-interactive.com/"	Used to understand how consumers come to a site, and once there, their patterns of behavior.
Name and version of the browser used: "Mozilla/5.0 (Windows; U; Windows NT 5.0; en-US; rv:1.6) Gecko/20040113"	Useful for understanding target browsers, ensuring your site is compatible with browsers being used.
Name and version of the operating system of the consumer's client computer: (Windows; U; Windows NT 5.0; en-US; rv:1.6)	Useful for understanding the capabilities of target client computers; more recent operating systems indicates new computer, or technically savvy user.
History of all the pages and objects visited during a session at the site.	Used to establish personal profiles of individuals, analyze site activity, and understand the most popular pages and resources.

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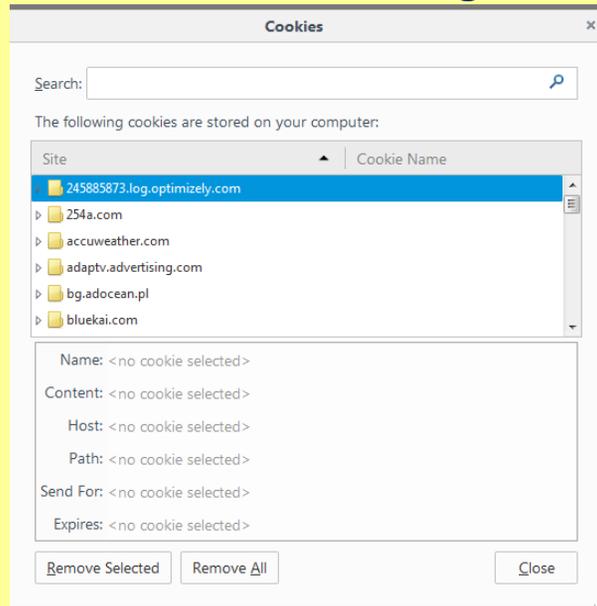
7-47

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

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Firefox cookies dialog box



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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

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A Relational Database View of E-commerce Customers

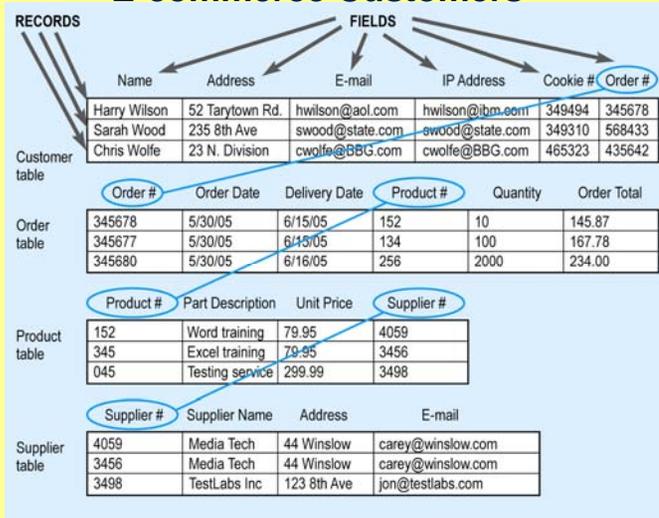


Figure 6.9, Page 383

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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

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Data Mining and Personalization

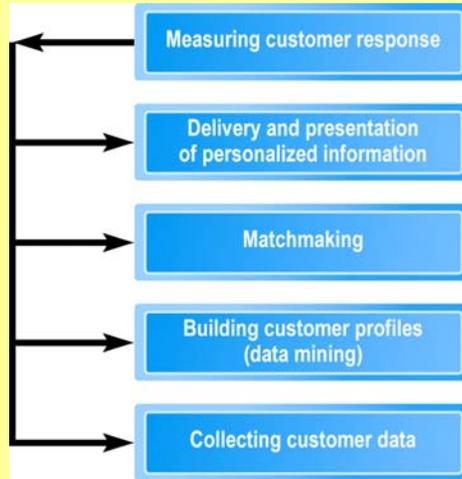


Figure 6.13, Page 382

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

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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

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A Customer Relationship Management System

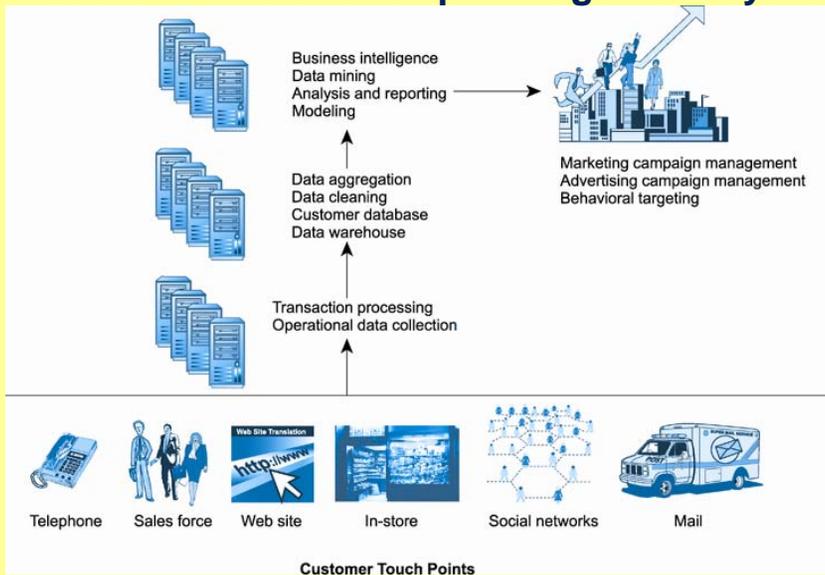


Figure 6.10, Page 389

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2. Basic Marketing Concepts
3. Internet Marketing Technologies
- 4. B2C and B2B E-commerce Marketing and Branding Strategies**

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Generic Market Entry Strategies

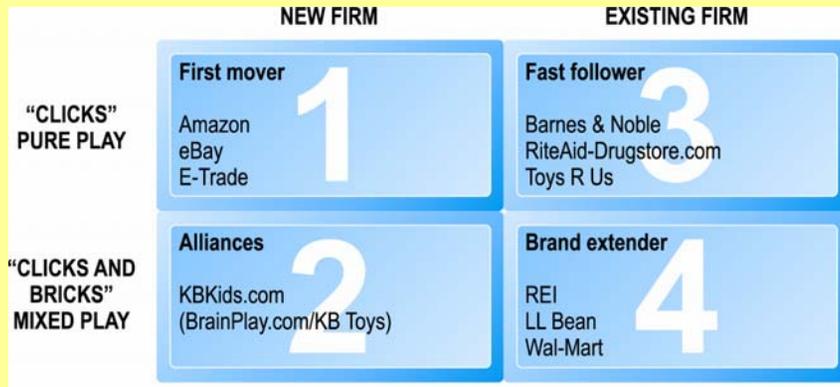


Figure 6.15, Page 389

7-57

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

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How an Advertising Network such as DoubleClick Works

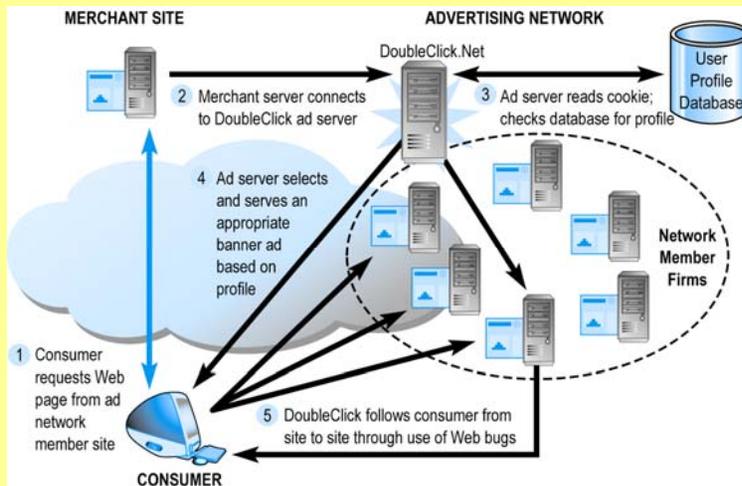


Figure 6.12, Page 394

7-59

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

7-60

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

7-61

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

7-62

The Mass Market-Personalization Continuum

MARKETING STRATEGIES	MARKETING ATTRIBUTES			
	Product	Target	Pricing	Techniques
Mass Marketing	Simple	All consumers	One nation, one price	Mass media
Direct Marketing	Stratified	Segments	One price	Targeted communications, e.g., mail and phone
Micromarketing	Complex	Micro-segments	Variable pricing	Segment profiles
Personalized, One-to-one Marketing	Highly complex	Individual	Unique pricing	Individual and social network profiles

Figure 6.13, Page 407

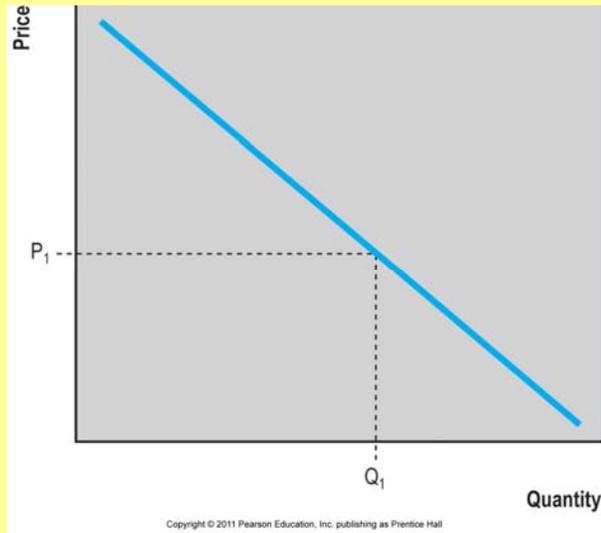
7-63

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

7-64

A demand curve



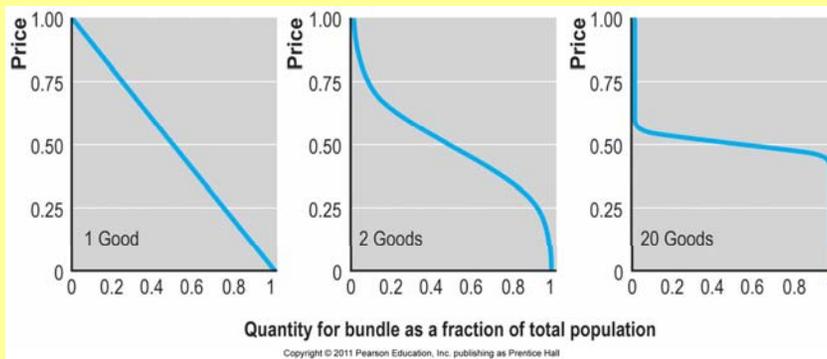
7-65

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

7-66

The demand for bundles of 1-20 goods



7-67

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

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