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Chapter 5
Selling to Consumers Online

Learning Objectives

In this chapter, you will learn:

- How firms use product-based and customer-based marketing strategies

- About communicating with different market segments

- To identify customer relationship characteristics

- About the customer relationship life cycle

- How companies advertise on the Web

Learning Objectives (cont'd.)

- About e-mail marketing strategies
- About technology-enabled customer relationship management
- How to create and maintain brands on the Web
- How businesses use social media in viral marketing campaigns
- About search engine positioning tactics and domain name selection strategies

Web Marketing Strategies

- **Marketing mix**
  - Element combination to achieve goals
    - Selling and promoting products and services
- **Marketing strategy**
  - Marketing mix with elements defined

The Four Ps of Marketing

- **Product**
  - Physical item or service sold
  - **Brand**: customers' product perception
- **Price**
  - Amount customer pays for product
  - **Customer value**: customer benefits minus total cost
- **Promotion**
  - Any means to spread word about product

The Four Ps of Marketing (cont'd.)

- **Place** (**distribution**)
  - Need to have products or services available in many different locations
  - Getting right products to the right places at the best time to sell them

Product
Quality
Design
Features
Branding
Packaging
Customer perception

Price
Value to customer
Price of competing products
Customer price sensitivity
Discounts
Differential pricing

Marketing Strategy

Promotion
Advertising
Public relations
Personal selling
Online communications

Place
Distribution channels
Market coverage
Logistics
Inventory management

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FIGURE 5-1 The four Ps of marketing contribute to marketing strategy

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7

Product-Based Marketing Strategies

- Web presence must integrate with image and brand
- Managers often think in terms of products and services sold
  - Useful Web site design when customers use product categories
    - Web site examples: Home Depot and Staples
  - Not a useful Web site design when customers look to fulfill a specific need
- Design Web site to meet individual customer needs
  - Offer alternative shopping paths

Customer-Based Marketing Strategies

- Web sites to meet various types of customers' specific needs

  – Initial step: identify customer groups sharing common characteristics

  – Make site more accessible and useful for each group

- Companies need to take view beyond internal perspective

  – Example: university Web sites today focus design on needs of stakeholders (current students, prospective students, parents of students, potential donors, faculty)

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Communicating with Different Market Segments

- Communications media selection to carry message
  - Physical world
    - Uses building construction and floor space design
  - Online firm
    - Communications media selection: critical
    - No physical presence
    - Customer contact made through image projected through media and Web site
  - Online firm challenge
    - Obtain customer trust with no physical presence

Trust, Complexity, and Media Choice

- The Web
  - Broad intermediate step
    - Between mass media and personal contact
- Web communication offers:
  - Advantages of personal contact selling
  - Cost savings of mass media
- Mass media advertising offers lowest trust level
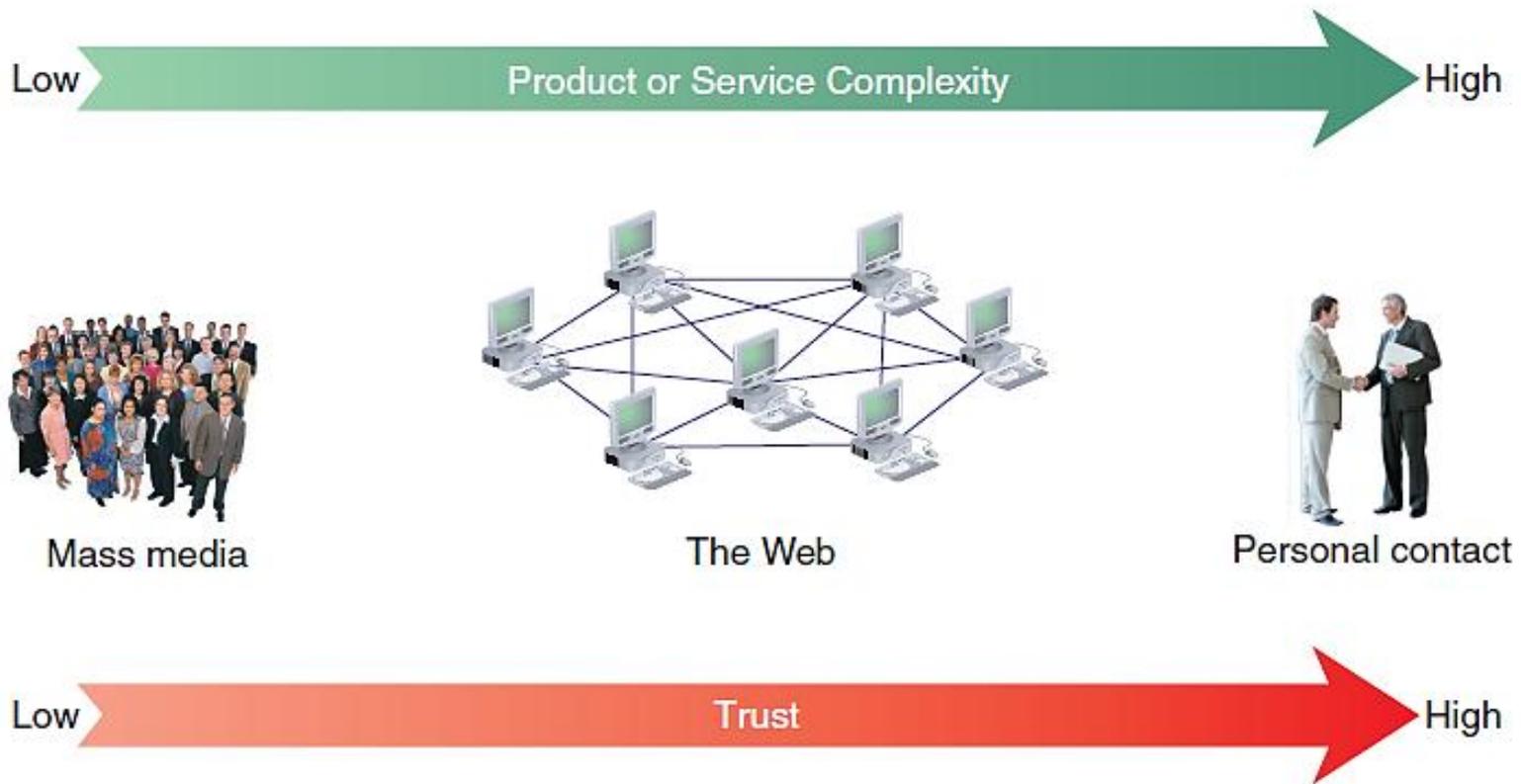 - Still used successfully because costs spread over many people

FIGURE 5-2 Trust in three information dissemination models

Trust, Complexity, and Media Choice (cont'd.)

- Complexity level inherent in product and service
  - Important factor in media choice
- Products with few characteristics and easy to understand
  - Promotes well with mass media
  - Mass media: expensive to produce
    - Used primarily for short messages
- Highly complex products and services
  - Promote well with personal contact
    - Customers may ask questions

Trust, Complexity, and Media Choice (cont'd.)

- Web occupies a wide middle ground
  - Offers various elements
    - Mass media messaging
    - Personal contact interaction
    - Anything in between
- People now resistant to mass media messages
  - Successful mass media campaigns
    - Rely on passive nature of media consumption
- Web user likely to be in an active state
  - Better to use a trust-based model approach

Trust, Complexity, and Media Choice (cont'd.)

- New Internet communications modalities for individuals and companies
  - **Web log** or **blog**
    - Website allowing people to post thoughts and inviting others to add commentary
  - Retailers experimenting with blogs and **social media** as adjunct communication means
    - Companies use the Web to engage in two-way communications resembling a high-trust personal contact mode of communication

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15

Market Segmentation

- Divides potential customer pool into **segments**
  - Defined in demographic characteristics terms
- **Micromarketing**
  - Practice of targeting very small market segments
  - Hampered by cost increases
- Three categories to identify market segments
  - **Geographic segmentation**
  - **Demographic segmentation**
  - **Psychographic segmentation**
- Television advertisers use all three categories

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Type of television program	Type of advertising
Children's cartoons	Children's toys and games
Daytime dramas	Household and laundry goods, pet foods
Late-night talk shows	Snack foods and nonprescription sleep aids
Golf tournaments	Golf equipment, investment services, and life insurance
Baseball and football games	Snack foods, beer, autos
Documentary films	Books, CDs, educational DVDs

FIGURE 5-3 Television advertising messages tailored to program audience

- Companies try to:
  - Match advertising messages to market segments
  - Build sales environment for a product or service
    - Corresponds to market segment trying to reach

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Market Segmentation on the Web

- Web opportunity
  - Present different store environments online
    - Juicy Couture site targets young, fashion-conscious buyers
    - Talbots site targets older, more established buyers
- Limitations of physical retail stores
  - Floor and display space
  - Must convey one particular message
- Web stores
  - Separate virtual spaces for different market segments

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18

Offering Customers a Choice on the Web

- **One-to-one marketing**
  - Offering products, services matched to needs of a particular customer
- Example: Dell
  - Offers several different ways to do business
  - Home page links for each major customer group
    - Specific products, product categories links available
  - Dell Premier accounts
    - High level of customer-based market segmentation

Beyond Market Segmentation: Customer Behavior and Relationship Intensity

- Recap
  - Companies target similar customer groups as market segments
  - One-to-one marketing
    - Chance to create individually unique Web experiences

- Next step
  - Use the Web to target specific customers in different ways at different times

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Segmentation Using Customer Behavior

- Same person
  - Needs different combinations of products and services
    - Depending on the occasion
- **Behavioral segmentation**
  - Creation of separate customer experiences based on behavior
  - **Occasion segmentation**
    - Behavioral segmentation based on things happening at a specific time or occasion

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Segmentation Using Customer Behavior (cont'd.)

- Online world single Web site design
  - Easier to meet needs of different behavioral modes
  - Can include elements appealing to different behavioral segments
- **Usage-based market segmentation**
  - Customizing visitor experiences to match the site usage behavior patterns of each visitor or type of visitor
- Categories of online behavior patterns
  - Browsers, buyers, and shoppers

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Segmentation Using Customer Behavior (cont'd.)

- Browsers
  - Visitors just surfing or browsing
  - Web site must offer something to pique visitors' interest
  - **Trigger words**
    - Prompt visitor to stay and investigate products or services

- Have links to site explanations, instructions

- Include extra content related to product, service
  - Leads to favorable impression (bookmark)

Segmentation Using Customer Behavior (cont'd.)

- Buyers
  - Ready to make a purchase right away
  - Offer direct route into purchase transaction
- **Shopping cart**
  - Part of the Web site
    - Keeps track of selected items for purchase
    - Automates purchasing process
  - Page offers link back into shopping area
- Primary goal: get buyer to shopping cart as quickly as possible

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Segmentation Using Customer Behavior (cont'd.)

- Shoppers
  - Motivated to buy
  - Looking for more information before purchase
- Offer comparison tools, product reviews, and features lists
- People do not retain behavioral categories from one visit to the next
  - Even for the same Web site

Segmentation Using Customer Behavior (cont'd.)

- Alternative models
  - McKinsey & Company's six behavior-based categories
    - Simplifiers (convenience)
    - Surfers (find information, explore new ideas, or shop)
    - Bargainers (search for good deals)
    - Connectors (stay in touch with other people)
    - Routiners (return to same sites over and over)
    - Sportsters (spend time on sports, entertainment sites)
- Must identify groups and formulate ways of generating revenue

Customer Relationship Intensity and Life-Cycle Segmentation

- One-to-one marketing and usage-based segmentation value

  – Strengthen companies' relationships with customers

- Good customer experiences

  – Create intense loyalty feeling

- Typical five-stage model of customer loyalty

  – First four stages show increase in relationship intensity

  – Fifth stage (separation)
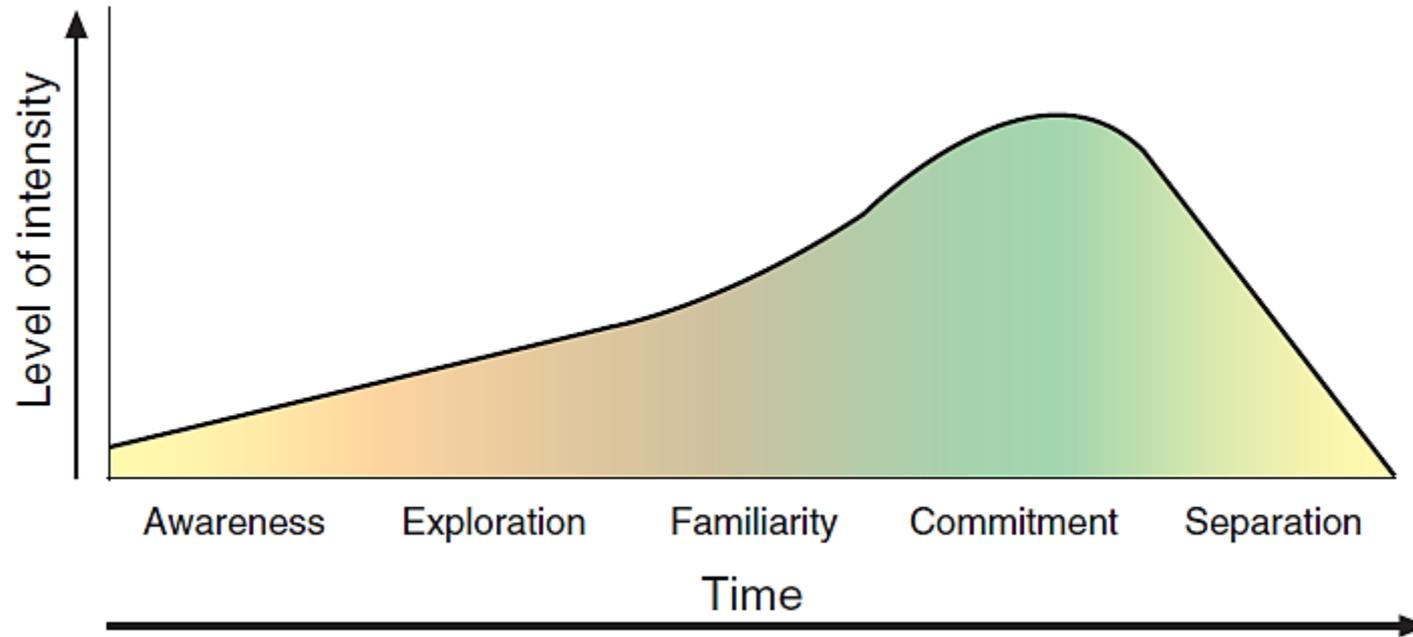
    • Decline occurs, relationship terminates

FIGURE 5-4 Five stages of customer loyalty

- **Touchpoints**
  - Online and offline customer contact points
- **Touchpoint consistency**
  - Goal of providing similar levels and quality of service at all touchpoints

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Customer Relationship Intensity and Life-Cycle Segmentation (cont'd.)

- Characteristics of the five stages
  - Awareness
    - Customers recognize company name, product
  - Exploration
    - Customers learn more about company, products
  - Familiarity
    - Customers have completed several transactions
    - Customers aware of returns and credits policies
    - Customers aware of pricing flexibility
    - Customers just as likely to shop competitors

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Customer Relationship Intensity and Life-Cycle Segmentation (cont'd.)

- Characteristics of the five stages (cont'd.)
  - Commitment
    - Customer experiences highly satisfactory encounters
    - Customer develops fierce loyalty or strong preference
  - Separation
    - Conditions that made relationship valuable change
    - Parties enter separation stage
  - **Life-cycle segmentation**
    - **Customer life cycle** (the five stages)
    - Using stages to create customer groups in each stage

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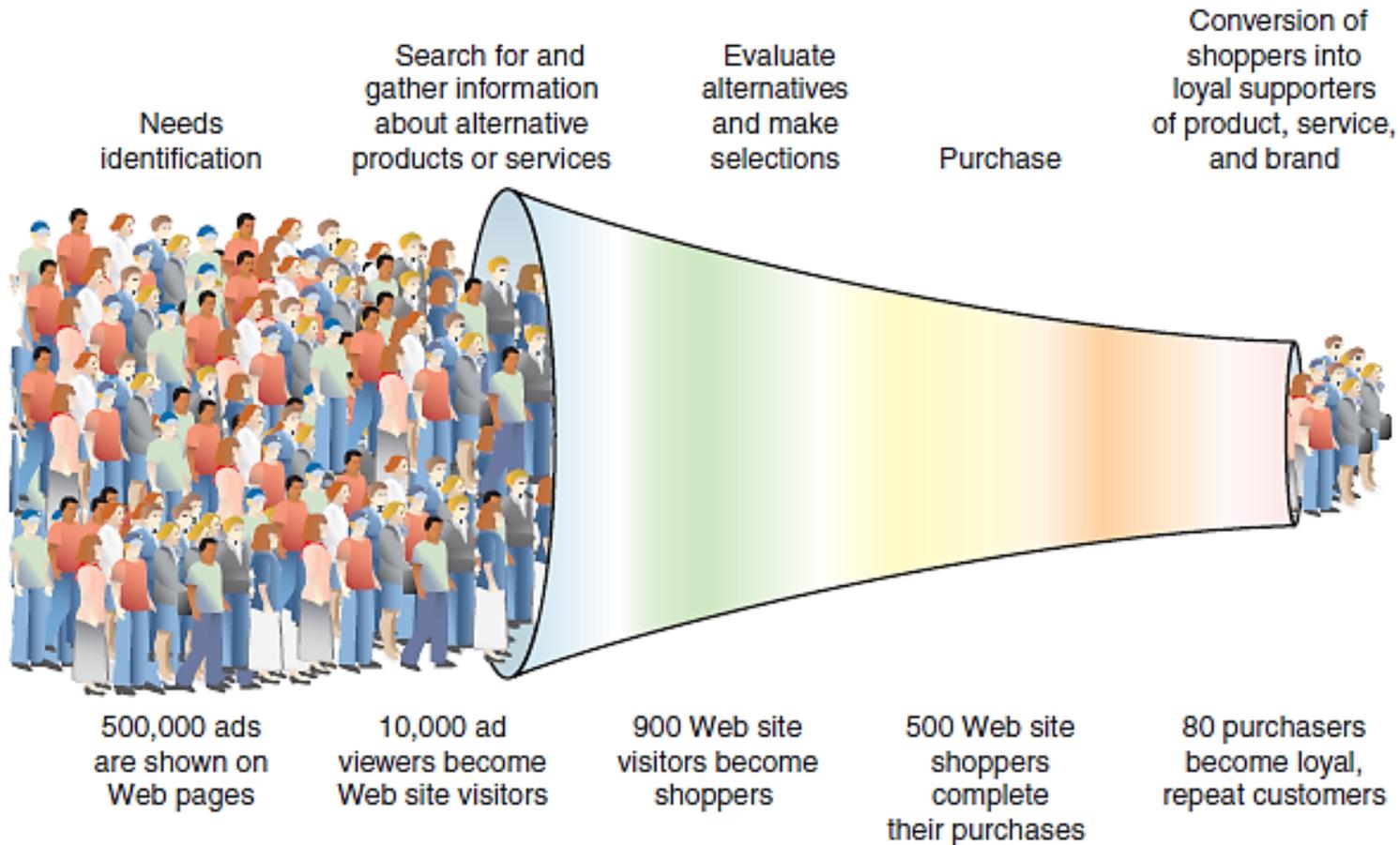# Acquisition, Conversion, and Retention of Customers

- Goal
  - Attract new visitors to a Web site
- **Acquisition cost**
  - Total amount of money site spends drawing one visitor to site
- **Conversion**
  - Convert first-time visitor into a customer
- **Conversion cost**
  - Total amount of money site spends to induce one visitor to make a purchase, sign up for a subscription, or register
  - May exceed profit earned on average sale

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31

Acquisition, Conversion, and Retention of Customers (cont'd.)

- **Retained customers**
  - Return one or more times after making first purchases
- **Retention costs**
  - Costs of inducing customers to return and buy again
- Importance of measuring these costs
  - Indicates successful advertising, promotion strategies
    - More precise than classifying into five loyalty stages

Customer Acquisition, Conversion, and Retention: The Funnel Model

- Funnel model
  - Conceptual tool
    - Provides understanding of overall nature of marketing strategy
    - Clear structure for evaluating specific strategy elements
  - Very similar to customer life-cycle model
    - Less abstract
    - Better at showing effectiveness of two or more specific strategies
  - Provides good analogy: large number of prospects with fewer and fewer converted to loyal patrons

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FIGURE 5-5 Funnel model of customer acquisition, conversion, and retention

- Funnel model: tool for conceptualizing and evaluating alternative strategies

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Advertising on the Web

- Effective advertising involves communication
- Five-stage customer loyalty model helpful in creating advertising messages
  - Awareness stage
    - Advertising message should inform
  - Exploration stage
    - Message should explain how product, service works
    - Encourage switching brands

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Advertising on the Web (cont'd.)

- Five-stage customer loyalty model (cont'd.)
  - Familiarity stage
    - Message should be persuasive, convince customer to buy
  - Commitment stage
    - Customer sent reminder messages
  - Separation stage
    - Customer not targeted
- Online advertising
  - Always coordinate with existing advertising efforts

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Banner Ads

- **Banner ad**
  - Small rectangular object with stationary or moving graphic
  - Includes hyperlink to advertiser's Web site
  - Versatile: informative and persuasive functions
- Attention-grabbing banner ads
  - Use **animated GIFs** and **rich media objects**
    - Created using Shockwave, Java, Flash
- **Interactive marketing unit** (**IMU**) **ad formats**
  - Voluntary standard banner sizes
  - **Universal ad package** (**UAP**)

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Banner Ads (cont'd.)

- **Leaderboard ad**
  - Designed to span Web page top or bottom
- **Skyscraper ad**
  - Designed to be placed on Web page side
    - Remains visible as user scrolls through page
- Advertising agencies
  - Create banner ads for online clients
    - Price range: $100 to more than $5000
- Companies can make their own banner ads

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Banner Ads (cont'd.)

- Banner ad placement
  - Use a **banner exchange network**
    - Coordinates ad sharing
  - Find Web sites appealing to company's market segments
    - Pay sites to carry ad
  - Use a **banner advertising network**
    - Acts as broker between advertisers and Web sites that carry ads

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Banner Ads (cont'd.)

- New strategies for banner ads
  - Banner ads were a novelty initially
    - Lost ability to attract attention
  - Solutions
    - Introduce animated GIFs with moving elements
    - Create ads displaying rich media effects (movie clips)
    - Add interactive effects (Java programs): respond to user's click with some action
    - Create ads acting like mini video game
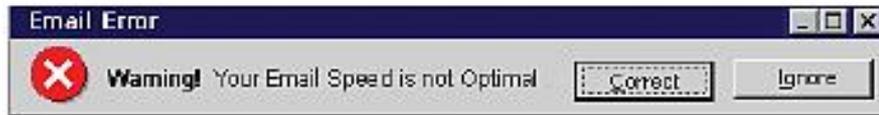   - Create ads appearing to be dialog boxes

FIGURE 5-6 Disguised banner ads

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Text Ads

- Short promotional message
  - No graphic elements
    - Usually placed along Web page top or right side
- Deceptively simple but very effective
- Example: Google
  - Initially criticized for including unobtrusive ads on its pages
  - Now clearly labels ads to prevent confusion
- **Inline text ad**
  - Text in stories displayed as hyperlinks

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Other Web Ad Formats

- **Pop-up ad**
  - Appears in its own window
    - When user opens or closes Web page
  - Considered to be extremely annoying
    - Must click close button (small) in window of ad
- **Pop-behind ad**
  - Pop-up ad followed by a quick command
    - Returns focus to original browser window
  - Appears when browser is closed
- **Ad-blocking software**
  - Prevents banner ads and pop-up ads from loading

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Other Web Ad Formats (cont'd.)

- **Interstitial ad**
  - User clicks link to load page
    - Interstitial ad opens in its own browser window
    - Instead of page user intended to load
  - Many close automatically
  - Others require user to click a button
- **Rich media ads** (**active ads**)
  - Generate graphical activity that "floats" over the Web page itself
  - Example: 30 second ad before television show

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Mobile Device Advertising

- Tremendous usage growth for mobile devices connected to Internet

- Some mobile software applications (**mobile apps**) include advertising element
  - Messages displayed from advertisers
  - Part of the app screen or in a separate screen
  - Mobile apps' advertising space marketed in same way as Web sites' banner advertising

Site Sponsorships

- Web sites offer advertisers opportunity to sponsor all (or parts) of their sites

  - More subtle

- Goals similar to sporting event sponsors, television program sponsors

  - Tie company (product) name to an event (set of information)

- Ethical concerns raised

  - If sponsor is allowed to create content or weave advertising message into site's content

Online Advertising Cost and Effectiveness

- Companies want Web sites to make favorable impression on potential customers
- Raises issue of measuring Web site effectiveness
- **Cost per thousand** (**CPM**) for mass media advertising
  - "M" from Roman numeral for "thousand"
  - Dollar amount paid for every thousand people in the estimated audience

Online Advertising Cost and Effectiveness (cont'd.)

- Measuring Web audiences (complicated)
  - Web's interactivity
  - Value of visitor to an advertiser
    - Depends on information site gathers from visitor
- **Visit**
  - Occurs when visitor requests a page from Web site
- **Trial visit**
  - First time a particular visitor loads Web site page
- **Repeat visits**
  - Subsequent page loads

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48

Online Advertising Cost and Effectiveness (cont'd.)

- **Page view**

  – Each page loaded by a visitor

- **Ad view**

  – Occurs if page contains an ad

- **Impression**

  – Each time banner ad loads

- **Click** (**click-through**)

  – Action whereby a visitor clicks banner ad to open advertiser's page

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Medium	Description	Audience size	Cost per thousand (CPM)
Network television	30-second commercial	10 million–50 million	$5–$30
Local television station	30-second commercial	50,000–2 million	$3–$25
Cable television	30-second commercial	100,000–500,000	$8–$20
Radio	60-second commercial	50,000–2 million	$1–$18
Major metro newspaper	Full-page ad	100,000–600,000	$80–$130
Regional edition of a national magazine	Full-page ad	50,000–900,000	$40–$80
Local magazine	Full-page ad	3000–80,000	$100–$140
Direct mail coupon pack	Mailed in letter-sized envelope	10,000–200,000	$15–$20
Billboard	Highway billboard	100,000–3 million	$2–$5
World Wide Web	Banner ad	10,000–50 million	$1–$50
World Wide Web	Rich media ad	10,000–50 million	$18–$50
World Wide Web	Text ad	10,000–50 million	$1–$200
World Wide Web	Site sponsorship (exclusive)	10,000–50 million	$60–$100
World Wide Web	Site sponsorship (shared)	10,000–50 million	$20–$50
Targeted e-mail	Single mailing	10,000–10 million	$5–$15
Mobile ads	App-embedded	10,000–5 million	$10–$15

FIGURE 5-7 CPM rates for advertising in various media

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50

Online Advertising Cost and Effectiveness (cont'd.)

- New metrics to evaluate advertising yield outcomes
  - Measure number of new visitors who buy first time after arriving at site
    - By way of click-through
  - Calculate advertising cost of acquiring one customer on the Web
    - Compare to how much it costs to acquire one customer through traditional channels

Effectiveness of Online Advertising

- Online advertising effectiveness
  - Remains difficult to measure
- Major problem
  - Lack of single industry standard measuring service
- Solution (2004)
  - Set of media measurement guidelines
    - Used by all online advertisers
    - Produce comparable ad view numbers
- Difficulties remain
  - Site visitors change Web surfing behaviors, habits

Effectiveness of Online Advertising (cont'd.)

- Online advertising as one element in marketing strategy

  - Use variety of media to reach potential customers

- Online advertising developments

  - AdAge.com, eMarketer, Online Publishers Association

- Online advertising much more effective using market segmentation

E-Mail Marketing

- Can be a powerful element of advertising strategy
  - Used to announce new products or features
  - Used to announce sales on existing products
- **Unsolicited Commercial E-mail** (**UCE**, **Spam**)
  - Electronic junk mail
    - Wastes time, disk space, and consumes large amounts of Internet capacity
- Key element
  - Obtain customers' approvals
    - Prior to sending marketing or promotional e-mail

Permission Marketing

- **Conversion rate**

  - Percentage of recipients responding to an ad or promotion

  - Ranges from 10 percent to more than 30 percent on requested e-mail messages

- **Opt-in e-mail**

  - Practice of sending e-mail messages to people who request information

    - Part of marketing strategy: **permission marketing**

Permission Marketing (cont'd.)

- **Opt-in e-mail** (cont'd.)
  - More successful than mass media general promotional message
    - Makes better use of customer's time
  - Return Path offers opt-in e-mail services
    - Provides e-mail addresses to advertisers
    - Rates vary depending on type and price of the product
      - Minimum of about $1 to a maximum of 25–30 percent of the selling price of the product

Combining Content and Advertising

- Using articles, news stories of interest to specific market segments
  - Increases acceptance of e-mail
- Advertisers send content by:
  - Using hyperlinks inserted into e-mail messages
    - Takes customers to advertiser's Web site content
    - Easier to induce customer to stay on the site and consider making purchases
- Coordination across media outlets
  - Important element in any marketing strategy

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Outsourcing E-Mail Processing

- Number of customers opting in to information-laden e-mails
  - May outgrow capacity of an information technology staff
- Solution
  - Company may use an e-mail processing service provider

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Elements of Branding

- Three key brand elements
  - Product differentiation
    - Clearly distinguish product from all others
  - Relevance
    - Degree to which product offers utility to customer
  - Perceived value (key element)
    - Customer perceives a value in buying product
- Brands can lose their value
  - Environment changes

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Element	Meaning to customer
Differentiation	In what significant ways is this product or service unlike its competitors?
Relevance	How does this product or service fit into my life?
Perceived value	Is this product or service good?

FIGURE 5-10 Elements of a brand

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Emotional Branding vs. Rational Branding

- **Emotional appeals**
  - Work well if ad targets in passive mode of information acceptance
    - Television, radio, billboards, print media
  - Difficult to convey on Web
    - Active medium controlled by customer
- **Rational branding**
  - Offer to help Web users in some way
    - In exchange for viewing an ad
  - Relies on cognitive appeal of specific help offered

Affiliate Marketing Strategies

- **Affiliate marketing**
  - One firm's Web site (affiliate site)
    - Includes descriptions, reviews, ratings, other information about a product linked to another firm's site (offers item for sale)
  - Affiliate site receives commission
    - For every visitor following link from affiliate's site to seller's site
  - Affiliate saves expenses
    - Handling inventory, advertising and promoting product, transaction processing

Affiliate Marketing Strategies (cont'd.)

- **Cause marketing**
  - Affiliate marketing program benefiting charitable organization
  - Visitor clicks on link (on affiliate's Web page)
    - Donation made by a sponsoring company
  - Page loads after visitor clicks donation link
    - Carries advertising for sponsoring companies
  - Higher click-through rates than typical banner ad click-through rates

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Viral Marketing Strategies

- **Viral marketing**
  - Relies on existing customers
    - Tell other people (prospective customers) about products or service
  - Use individual customers to spread the word about a company
  - Example: BlueMountain Arts
    - Electronic greeting cards
    - E-mail messages that include link to greeting card site
  - Social media sites being utilized
    - Key to viral marketing: post often, but not too often

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1. Emily posts a status report that includes a tag for her favorite brand of boots, Fuzzter.

2. Emilly's friends all see the post about the Fuzzter boots and several of them share the post.

3. Friends of Emily's friends are now aware of the Fuzzter brand of boots.

FIGURE 5-11 Viral marketing through social media

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Summary

- Achieve Web marketing goals
  - Use principles of marketing strategy
  - Use the four Ps of marketing
  - Product-based marketing strategy
  - Customer-based strategy
  - Web enables companies to mix strategies
- Market segmentation works well on the Web
- Online advertising
  - More intrusive since introduction
    - Various types available

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Summary (cont'd.)

- Use Web to manage customer relationships
  - Focused CRM efforts
    - More successful than earlier comprehensive attempts
- Use rational branding instead of emotional branding techniques on the Web
- Companies must integrate Web marketing tools into a cohesive and customer-sensitive overall marketing strategy

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