



e-commerce

business. technology. society.

eighth edition

Kenneth C. Laudon

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Chapter 1

Introduction to E-commerce

Facebook: The New Face of E-commerce?

Class Discussion

- Do you use Facebook, and if so, how often?
What has the experience been like?
- Have you purchased anything based on an advertisement on Facebook or by using a link provided by a friend?
- Are you concerned about the privacy of the information you have posted on Facebook?

E-commerce Trends 2011–2012

- Social networking continues to grow
- Expansion of social e-commerce platform
- Mobile platform begins to rival PC platform
- Localization of e-commerce (Groupon)
- Explosive growth in online video viewing
- Continued privacy and security concerns

The First 30 Seconds

- **First 16 years of e-commerce**
 - ❖ Just the beginning
 - ❖ Rapid growth and change
- **Technologies continue to evolve at exponential rates**
 - ❖ Disruptive business change
 - ❖ New opportunities

What Is E-commerce?

- **Use of Internet and Web to transact business**
- **More formally:**
 - ❖ Digitally enabled commercial transactions between and among organizations and individuals

E-commerce vs. E-business

■ E-business:

- ❖ Digital enabling of transactions and processes *within* a firm, involving information systems under firm's control
- ❖ *Does not* include commercial transactions involving an exchange of value across organizational boundaries

Why Study E-commerce?

- E-commerce technology is different, more powerful than previous technologies
- E-commerce brings fundamental changes to commerce
- Traditional commerce:
 - ❖ Consumer as passive targets
 - ❖ Sales-force driven
 - ❖ Fixed prices
 - ❖ Information asymmetry

Unique Features of E-commerce Technology

1. Ubiquity
2. Global reach
3. Universal standards
4. Information richness
5. Interactivity
6. Information density
7. Personalization/customization
8. Social technology

Web 2.0

■ User-centered applications and social media technologies

- ❖ User-generated content and communication
- ❖ Highly interactive, social communities
- ❖ Large audiences; yet mostly unproven business models
- ❖ e.g., Twitter, YouTube, Facebook, Second Life, Wikipedia, Digg

Types of E-commerce

■ Classified by market relationship

- ❖ Business-to-Consumer (B2C)
- ❖ Business-to-Business (B2B)
- ❖ Consumer-to-Consumer (C2C)

■ Classified by technology used

- ❖ Peer-to-Peer (P2P)
- ❖ Mobile commerce (M-commerce)

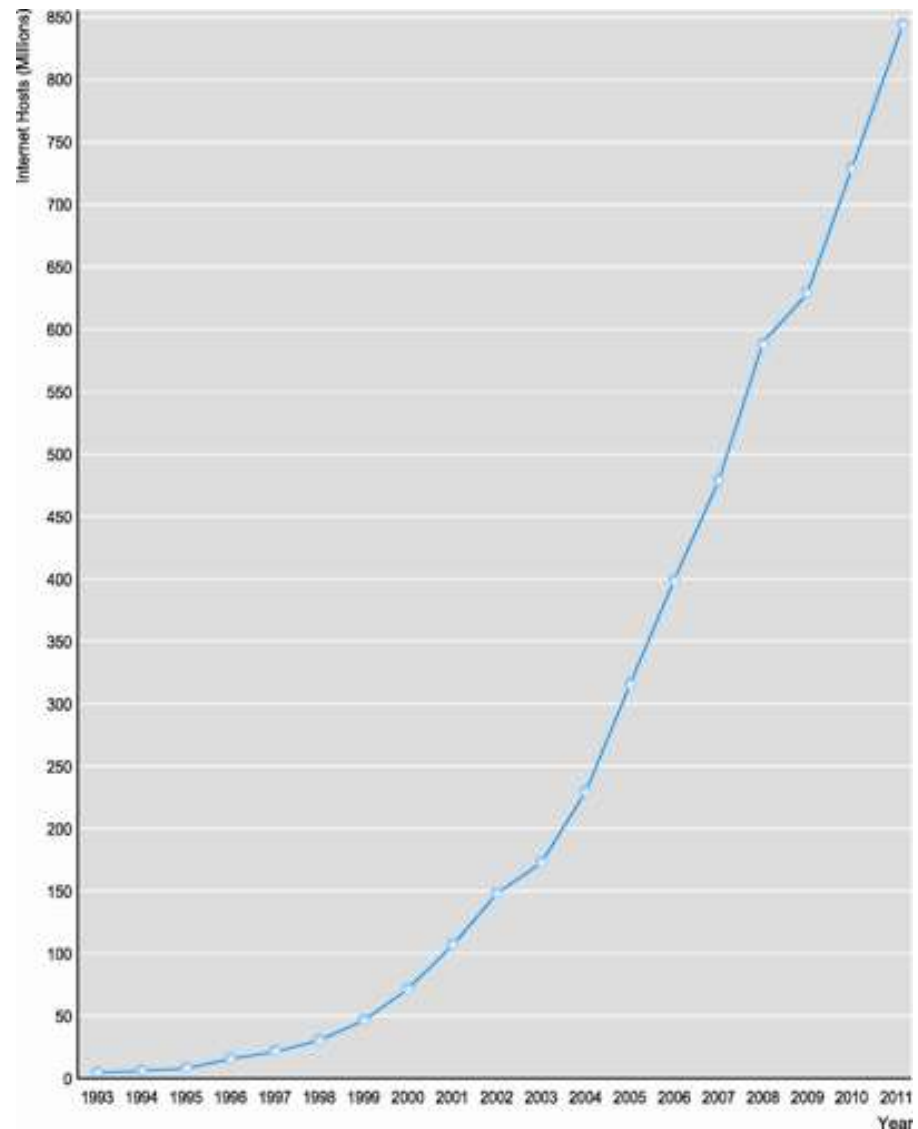
The Internet

- **Worldwide network of computer networks built on common standards**
- **Created in late 1960s**
- **Services include the Web, e-mail, file transfers, etc.**
- **Can measure growth by looking at number of Internet hosts with domain names**

The Growth of the Internet, Measured by Number of Internet Hosts with Domain Names

Figure 1.2, Page 23

SOURCE: Internet Systems Consortium, Inc., 2011.



The Web

- **Most popular Internet service**
- **Developed in early 1990s**
- **Provides access to Web pages**
 - ❖ HTML documents that may include text, graphics, animations, music, videos
- **Web content has grown exponentially**
 - ❖ Google reports 1 trillion unique URLs; 120 billion pages indexed

Spider Webs, Bow Ties, Scale-Free Networks, and the Deep Web

- **What is the “small world” theory of the Web?**
- **What is the significance of the “bow-tie” form of the Web?**
- **Why does Barabasi call the Web a “scale-free network” with “very connected super nodes”?**

Origins and Growth of E-commerce

■ Precursors:

- ❖ Baxter Healthcare
- ❖ Electronic Data Interchange (EDI)
- ❖ French Minitel (1980s videotex system)
- ❖ None had functionality of Internet

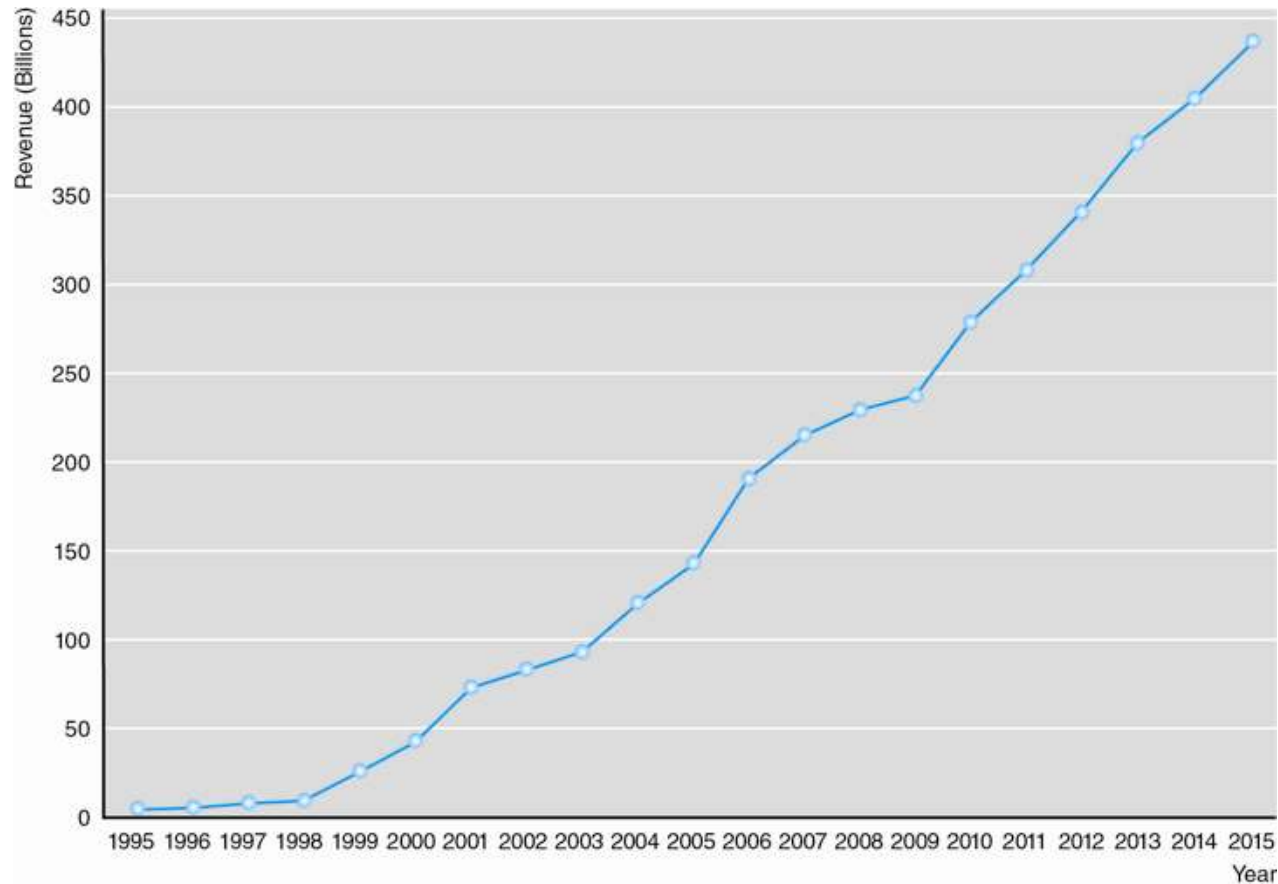
■ 1995: Beginning of e-commerce

- ❖ First sales of banner advertisements

■ E-commerce fastest growing form of commerce in United States

The Growth of B2C E-commerce

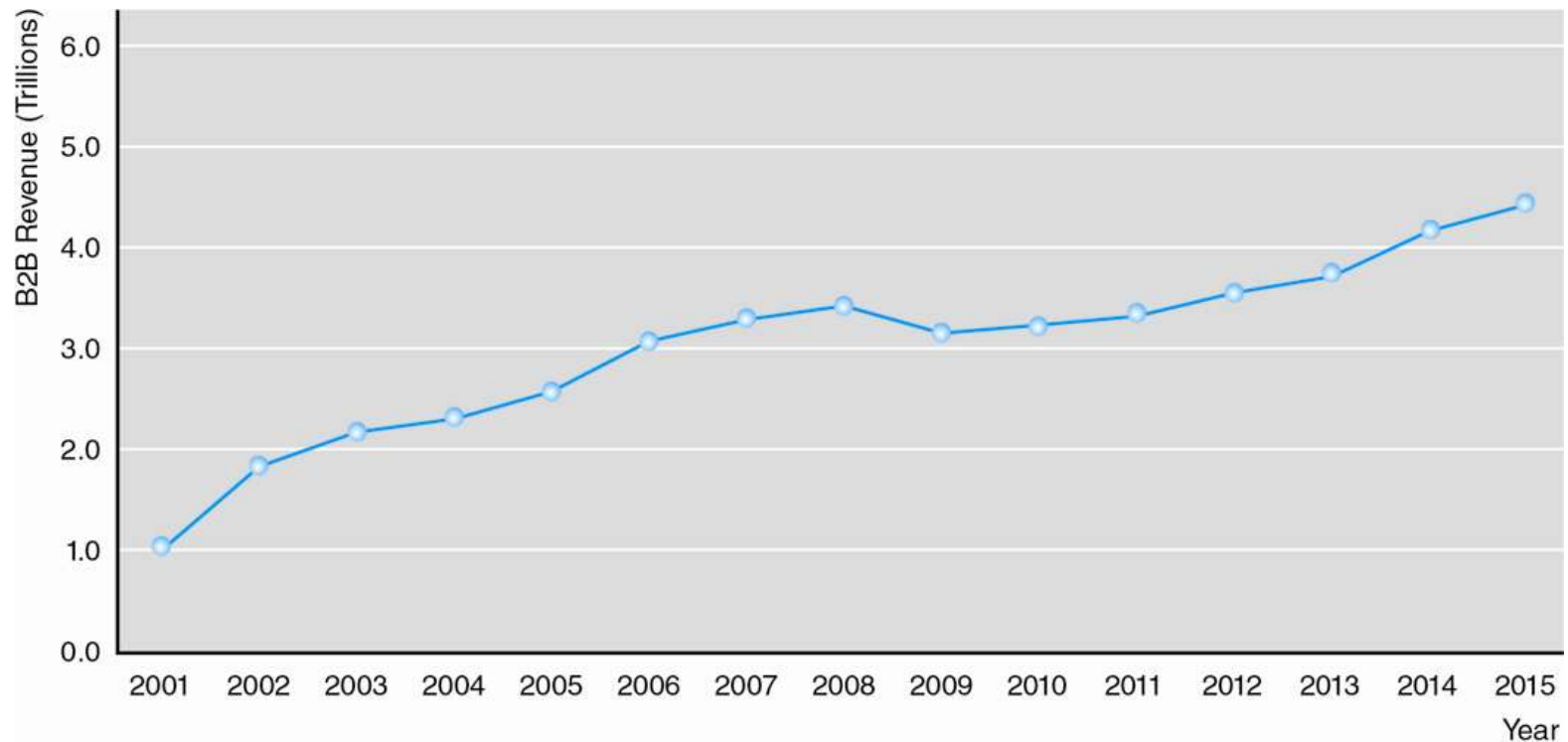
Figure 1.3, Page 25



SOURCES: Based on data from eMarketer, Inc., 2011a; authors' estimates.

The Growth of B2B E-commerce

Figure 1.4, Page 28



SOURCES: Based on data from U.S. Census Bureau, 2011b; authors' estimates.

Technology and E-commerce in Perspective

- **The Internet and Web: Just two of a long list of technologies that have greatly changed commerce. Others:**
 - ❖ Automobiles
 - ❖ Radio
- **E-commerce growth will eventually cap as it confronts its own fundamental limitations.**

Potential Limitations on the Growth of B2C E-commerce

- Expensive technology
- Sophisticated skill set
- Persistent cultural attraction of physical markets and traditional shopping experiences
- Persistent global inequality limiting access to telephones and computers
- Saturation and ceiling effects

E-commerce: A Brief History

■ 1995–2000: Innovation

- ❖ Key concepts developed
- ❖ Dot-coms; heavy venture capital investment

■ 2001–2006: Consolidation

- ❖ Emphasis on business-driven approach

■ 2006–Present: Reinvention

- ❖ Extension of technologies
- ❖ New models based on user-generated content, social networks, services

Party Like It's 1999

- **What explains the rapid growth in private investment in e-commerce firms in the period 1998–2000? Was this investment irrational?**
- **What type of Internet investments became popular in late 2008 through early 2010, and why?**
- **What is the value to investors of a company such as Groupon, which has yet to show profitability?**
- **Why do you think investors today would be interested in investing in or purchasing e-commerce companies? Would you invest in an e-commerce company today?**

Early Visions of E-commerce

■ Computer scientists:

- ❖ Inexpensive, universal communications and computing environment accessible by all

■ Economists:

- ❖ Nearly perfect competitive market; friction-free commerce
- ❖ Lowered search costs, disintermediation, price transparency, elimination of unfair competitive advantage

■ Entrepreneurs:

- ❖ Extraordinary opportunity to earn far above normal returns on investment—first mover advantage

Assessing E-commerce

■ Many early visions not fulfilled

❖ Friction-free commerce

- Consumers less price sensitive
- Considerable price dispersion

❖ Perfect competition

- Information asymmetries persist

❖ Intermediaries have not disappeared

❖ First mover advantage

- Fast-followers often overtake first movers

Predictions for the Future

- Technology will propagate through all commercial activity
- Prices will rise to cover the real cost of doing business
- E-commerce margins and profits will rise to levels more typical of all retailers
- Cast of players will change
 - ❖ Traditional Fortune 500 companies will play dominant role
 - ❖ New startup ventures will emerge with new products, services
- Number of successful pure online stores will remain smaller than integrated offline/online stores
- Regulatory activity worldwide will grow
- Cost of energy will have an influence

Understanding E-commerce: Organizing Themes

■ Technology:

- ❖ Development and mastery of digital computing and communications technology

■ Business:

- ❖ New technologies present businesses with new ways of organizing production and transacting business

■ Society:

- ❖ Intellectual property, individual privacy, public welfare policy

The Internet and the Evolution of Corporate Computing

Figure 1.8, Page 82

COMPUTER TECHNOLOGY

Mainframe Computers
1950 – 1975



Minicomputers
1970 – 1980



Personal Computers
1980 – Present



Local Area Networks
Client/Server Computing
1980 – Present



Enterprise-wide Computing
1990 – Present



Internet and Web
Mobile digital platform
1995 – Present



BUSINESS APPLICATION

Transaction automation
Payroll
Accounts receivable

Business function automation
Marketing
Human resources
Design

Desktop automation
Word processing
Spreadsheets
Databases

Workgroup automation
Document sharing
Project management
Messaging, e-mail

Enterprise-wide automation
Resource planning systems
Integrated finance-manufacturing systems
Human resource planning

Industrial system automation
Supply chain management
Customer relationship management
Channel management systems
Web and cloud services

Online Privacy: Is the Age of Privacy Over?

- **Why are social network sites interested in collecting user information?**
- **What types of privacy invasion are described in the case? Which is the most privacy-invading, and why?**
- **Is e-commerce any different than traditional markets with respect to privacy? Don't merchants always want to know their customer?**
- **How do you protect your privacy on the Web?**

Academic Disciplines Concerned with E-commerce

■ Technical approach

- ❖ Computer science
- ❖ Management science
- ❖ Information systems

■ Behavioral approach

- ❖ Information systems
- ❖ Economics
- ❖ Marketing
- ❖ Management
- ❖ Finance/accounting
- ❖ Sociology



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Chapter 5

Business Models for E-commerce

Tweet Tweet: What's Your Business Model?

Class Discussion

- What characteristics or benchmarks can be used to assess the business value of a company such as Twitter?
- Have you used Twitter to communicate with friends or family? What are your thoughts on this service?
- What are Twitter's most important assets?
- Which of the various methods described for monetizing Twitter's assets do you feel might be most successful?

E-commerce Business Models

■ Business model

- ❖ Set of planned activities designed to result in a profit in a marketplace

■ Business plan

- ❖ Describes a firm's business model

■ E-commerce business model

- ❖ Uses/leverages unique qualities of Internet and Web

8 Key Elements of a Business Model

1. Value proposition
2. Revenue model
3. Market opportunity
4. Competitive environment
5. Competitive advantage
6. Market strategy
7. Organizational development
8. Management team

1. Value Proposition

- **“Why should the customer buy from you?”**
- **Successful e-commerce value propositions:**
 - ❖ Personalization/customization
 - ❖ Reduction of product search, price discovery costs
 - ❖ Facilitation of transactions by managing product delivery

2. Revenue Model

- **“How will the firm earn revenue, generate profits, and produce a superior return on invested capital?”**
- **Major types:**
 - ❖ Advertising revenue model
 - ❖ Subscription revenue model
 - ❖ Transaction fee revenue model
 - ❖ Sales revenue model
 - ❖ Affiliate revenue model

3. Market Opportunity

■ “What marketspace do you intend to serve and what is its size?”

- ❖ Marketspace: Area of actual or potential commercial value in which company intends to operate
- ❖ Realistic market opportunity: Defined by revenue potential in each market niche in which company hopes to compete

■ Market opportunity typically divided into smaller niches

4. Competitive Environment

■ “Who else occupies your intended marketplace?”

- ❖ Other companies selling similar products in the same marketplace
- ❖ Includes both direct and indirect competitors

■ Influenced by:

- ❖ Number and size of active competitors
- ❖ Each competitor's market share
- ❖ Competitors' profitability
- ❖ Competitors' pricing

5. Competitive Advantage

■ “What special advantages does your firm bring to the marketplace?”

- ❖ Is your product superior to or cheaper to produce than your competitors’?

■ Important concepts:

- ❖ Asymmetries
- ❖ First-mover advantage, complementary resources
- ❖ Unfair competitive advantage
- ❖ Leverage
- ❖ Perfect markets

6. Market Strategy

- **“How do you plan to promote your products or services to attract your target audience?”**
 - ❖ Details how a company intends to enter market and attract customers
 - ❖ Best business concepts will fail if not properly marketed to potential customers

7. Organizational Development

- **“What types of organizational structures within the firm are necessary to carry out the business plan?”**
- **Describes how firm will organize work**
 - ❖ Typically, divided into functional departments
 - ❖ As company grows, hiring moves from generalists to specialists

8. Management Team

- “What kind of backgrounds should the company’s leaders have?”
- **A strong management team:**
 - ❖ Can make the business model work
 - ❖ Can give credibility to outside investors
 - ❖ Has market-specific knowledge
 - ❖ Has experience in implementing business plans

Is Groupon's Business Model Sustainable?

- **What is the value of Groupon to merchants?
What types of merchants benefit the most?**
- **What is the value of Groupon to investors?
Is Groupon overvalued ?**
- **What obstacles does Groupon face?**
- **Does Google Offers present a threat to
Groupon's business model?**

Categorizing E-commerce Business Models

- **No one correct way**
- **We categorize according to:**
 - ❖ E-commerce sector (e.g. B2B)
 - ❖ E-commerce technology (e.g. m-commerce)
- **Similar business models appear in more than one sector**
- **Some companies use multiple business models (e.g. eBay)**

B2C Business Models: Portal

- Search plus an integrated package of content and services
- Revenue models:
 - ❖ Advertising, referral fees, transaction fees, subscriptions
- Variations:
 - ❖ Horizontal/General
 - ❖ Vertical/Specialized (Vortal)
 - ❖ Search

B2C Models: E-tailer

- **Online version of traditional retailer**
- **Revenue model: Sales**
- **Variations:**
 - ❖ Virtual merchant
 - ❖ Bricks-and-clicks
 - ❖ Catalog merchant
 - ❖ Manufacturer-direct
- **Low barriers to entry**

B2C Models: Content Provider

■ Digital content on the Web

- ❖ News, music, video

■ Revenue models:

- ❖ Subscription; pay per download (micropayment); advertising; affiliate referral fees

■ Variations:

- ❖ Content owners
- ❖ Syndication
- ❖ Web aggregators

B2C Models: Transaction Broker

■ Process online transactions for consumers

- ❖ Primary value proposition—saving time and money

■ Revenue model:

- ❖ Transaction fees

■ Industries using this model:

- ❖ Financial services
- ❖ Travel services
- ❖ Job placement services

Battle of the Titans: Music in the Cloud

- **Have you purchased music online or subscribed to a music service? What was your experience?**
- **What revenue models do cloud music services use?**
- **Do cloud music services provide a clear advantage over download and subscription services?**
- **Of the cloud services from Google, Amazon, and Apple, which would you prefer to use and why?**

B2C Models: Market Creator

- Create digital environment where buyers and sellers can meet and transact
- Examples:
 - ❖ Priceline
 - ❖ eBay
- Revenue model: Transaction fees

B2C Models: Service Provider

■ Online services

- ❖ e.g., Google—Google Maps, Gmail, etc.

■ Value proposition

- ❖ Valuable, convenient, time-saving, low-cost alternatives to traditional service providers

■ Revenue models:

- ❖ Sales of services, subscription fees, advertising, sales of marketing data

B2C Models: Community Provider

- **Provide online environment (social network) where people with similar interests can transact, share content, and communicate**
 - ❖ e.g., Facebook, LinkedIn, Twitter
- **Revenue models:**
 - ❖ Typically hybrid, combining advertising, subscriptions, sales, transaction fees, affiliate fees

B2B Business Models

■ Net marketplaces

- ❖ E-distributor
- ❖ E-procurement
- ❖ Exchange
- ❖ Industry consortium

■ Private industrial network

B2B Models: E-distributor

- **Version of retail and wholesale store, MRO goods and indirect goods**
- **Owned by one company seeking to serve many customers**
- **Revenue model: Sales of goods**
- **e.g., Grainger.com**

B2B Models: E-procurement

- **Creates digital markets where participants transact for indirect goods**
 - ❖ B2B service providers, application service providers (ASPs)
- **Revenue model:**
 - ❖ Service fees, supply-chain management, fulfillment services
- **e.g., Ariba**

B2B Models: Exchanges

- **Independently owned vertical digital marketplace for direct inputs**
- **Revenue model: Transaction, commission fees**
- **Create powerful competition between suppliers**
- **Tend to force suppliers into powerful price competition; number of exchanges has dropped dramatically**

B2B Models: Industry Consortia

- **Industry-owned vertical digital marketplace open to select suppliers**
- **More successful than exchanges**
 - ❖ Sponsored by powerful industry players
 - ❖ Strengthen traditional purchasing behavior
- **Revenue model: Transaction, commission fees**
- **e.g., Exostar**

Private Industrial Networks

- Digital network
- Used to coordinate communication among firms engaged in business together
- Typically evolve out of company's internal enterprise system
- e.g., Walmart's network for suppliers

Other E-commerce Business Models

■ Consumer-to-consumer (C2C)

- ❖ eBay, Craigslist

■ Peer-to-peer (P2P)

- ❖ The Pirate Bay, Cloudmark

■ M-commerce:

- ❖ Extends existing e-commerce business models to service mobile workforce, consumers
- ❖ Unique features include mobility, cameras to scan product codes, GPS

Foursquare: Check In/Check Out

- **Why should you care if companies track your location via cell phone?**
- **Are privacy concerns the only shortcoming of location-based mobile services?**
- **Should business firms be allowed to call cell phones with advertising messages based on location?**

E-commerce Enablers: The Gold Rush Model

- **E-commerce infrastructure companies have profited the most:**
 - ❖ Hardware, software, networking, security
 - ❖ E-commerce software systems, payment systems
 - ❖ Media solutions, performance enhancement
 - ❖ CRM software
 - ❖ Databases
 - ❖ Hosting services, etc.

How the Internet and the Web Change Business

■ E-commerce changes industry structure by changing:

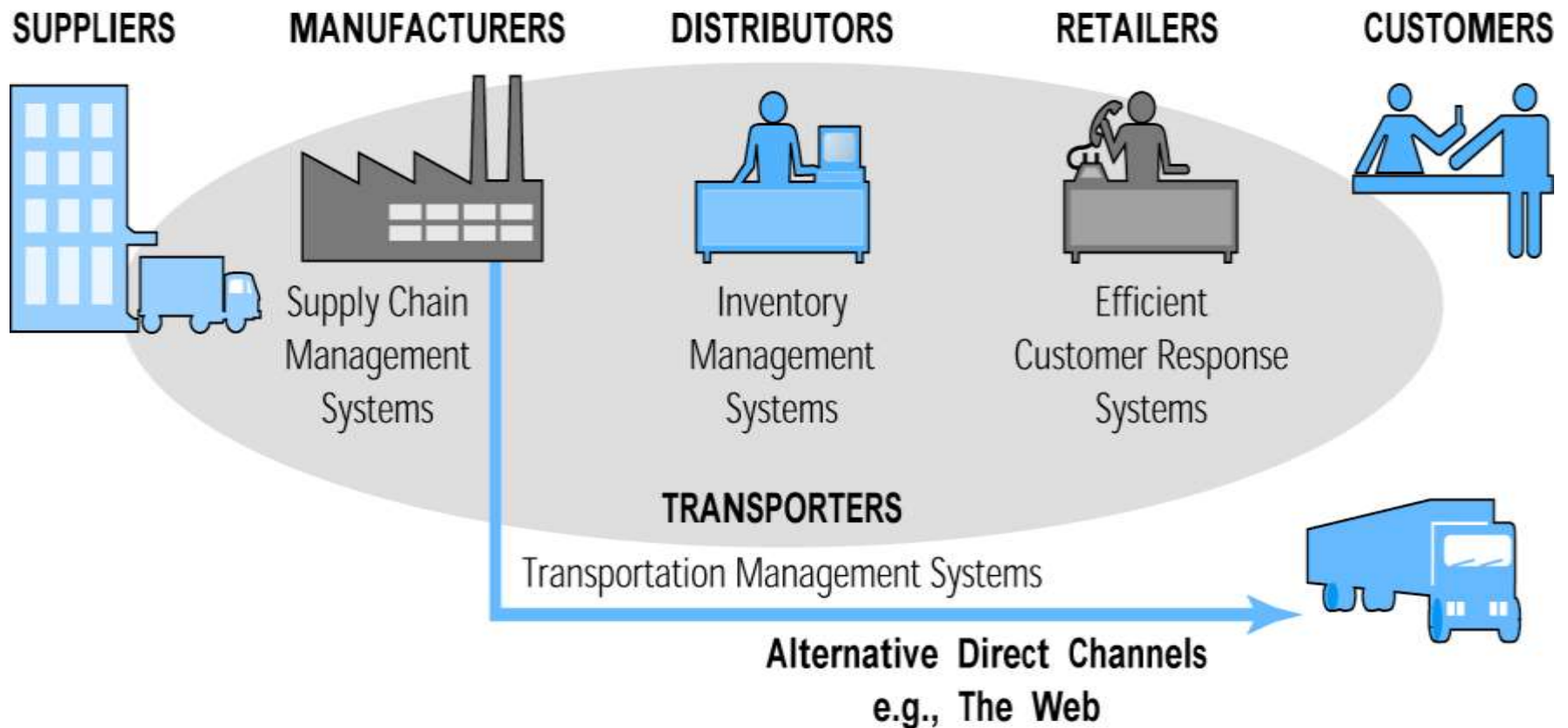
- ❖ Basis of competition among rivals
- ❖ Barriers to entry
- ❖ Threat of new substitute products
- ❖ Strength of suppliers
- ❖ Bargaining power of buyers

Industry Value Chains

- Set of activities performed by suppliers, manufacturers, transporters, distributors, and retailers that transform raw inputs into final products and services
- Internet reduces cost of information and other transactional costs
- Leads to greater operational efficiencies, lowering cost, prices, adding value for customers

E-commerce and Industry Value Chains

Figure 5.4, Page 364



Firm Value Chains

- Activities that a firm engages in to create final products from raw inputs
- Each step adds value
- Effect of Internet:
 - ❖ Increases operational efficiency
 - ❖ Enables product differentiation
 - ❖ Enables precise coordination of steps in chain

E-commerce and Firm Value Chains

Figure 5.5, Page 365

Administration
Human Resources
Information Systems
Procurement
Finance/Accounting

SECONDARY ACTIVITIES

PRIMARY ACTIVITIES



Firm Value Webs

- **Networked business ecosystem**
- **Uses Internet technology to coordinate the value chains of business partners**
- **Coordinates a firm's suppliers with its own production needs using an Internet-based supply chain management system**

Internet-enabled Value Web

Figure 5.6, Page 366



Business Strategy

- **Plan for achieving superior long-term returns on the capital invested in a business firm**
- **Four generic strategies**
 - ❖ Differentiation
 - ❖ Cost
 - ❖ Scope
 - ❖ Focus



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Chapter 6

E-commerce Marketing: Social, Mobile, Local

Netflix: The Next Blockbuster?

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?
- What is Netflix's "recommender system"?
- How does Netflix use data mining?
- Has Netflix's changes in business model damaged its brand permanently?

Consumers Online: The Internet Audience and Consumer Behavior

- Around 73% (86 million) U.S. households have Internet access in 2011
- Growth rate has slowed
- Intensity and scope of use both increasing
- Some demographic groups have much higher percentages of online usage than others
 - ❖ Gender, age, ethnicity, community type, income, education

The Internet Audience and Consumer Behavior (cont.)

- **Broadband vs. dial-up audiences, new mobile audience**
- **Internet purchasing affected by neighborhood**
- **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
 - ❖ Television viewing has increased with Internet usage

Consumer Behavior Models

■ Study of consumer behavior

- ❖ Attempts to 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

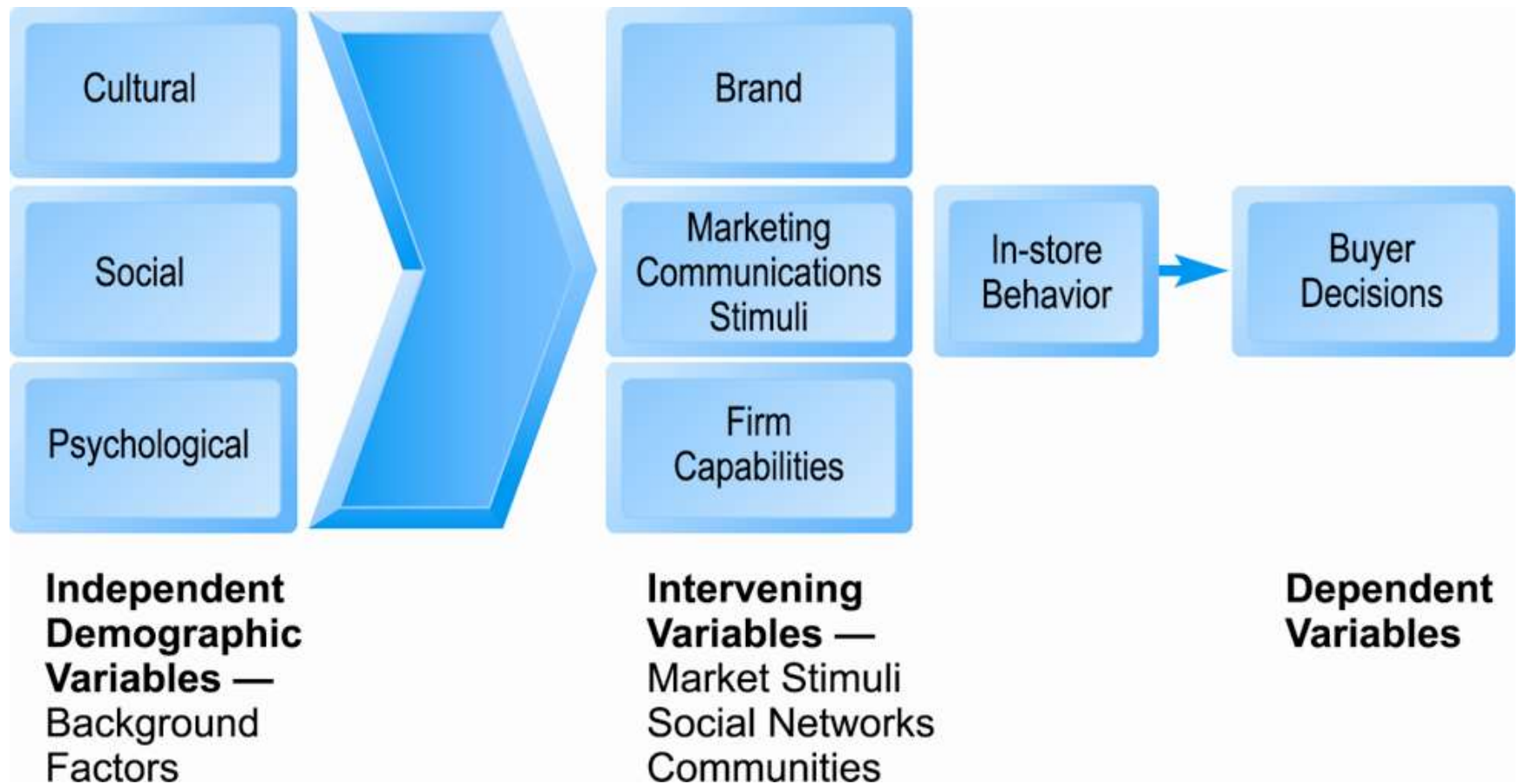


Figure 6.1, Page 393

SOURCE: Adapted from Kotler and Armstrong, 2009.

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**

The Online Purchasing Decision

■ Psychographic research

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

■ Stages in 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

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 397

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**

A Model of Online Consumer Behavior

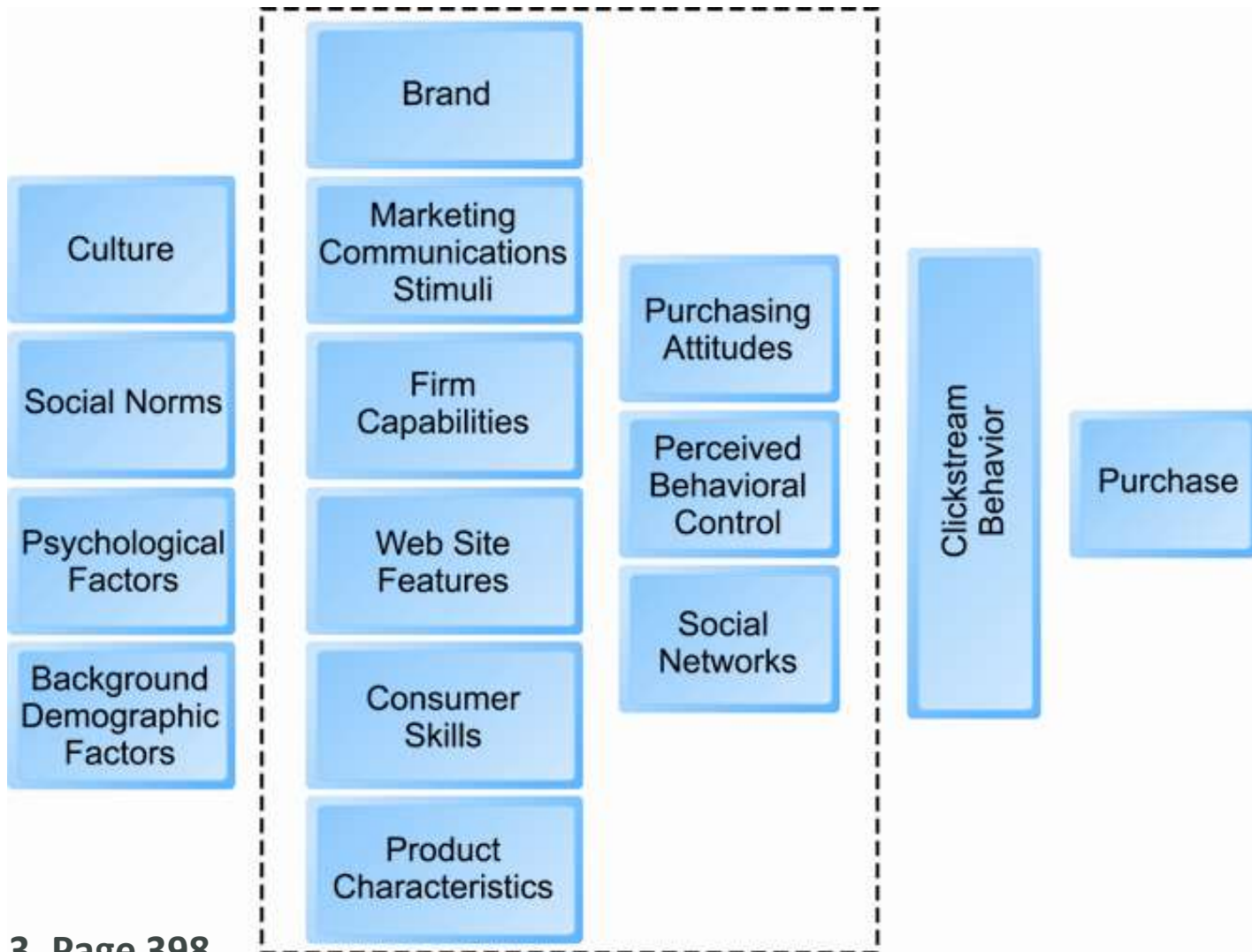


Figure 6.3, Page 398

A Model of Online Consumer Behavior (cont.)

■ Clickstream factors include:

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

■ Clickstream marketing

- ❖ Developed dynamically as customers use Internet

Shoppers: Browsers and Buyers

- **Shoppers: 87% of Internet users**
 - ❖ 73% buyers
 - ❖ 15% browsers (purchase offline)
- **One-third of 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

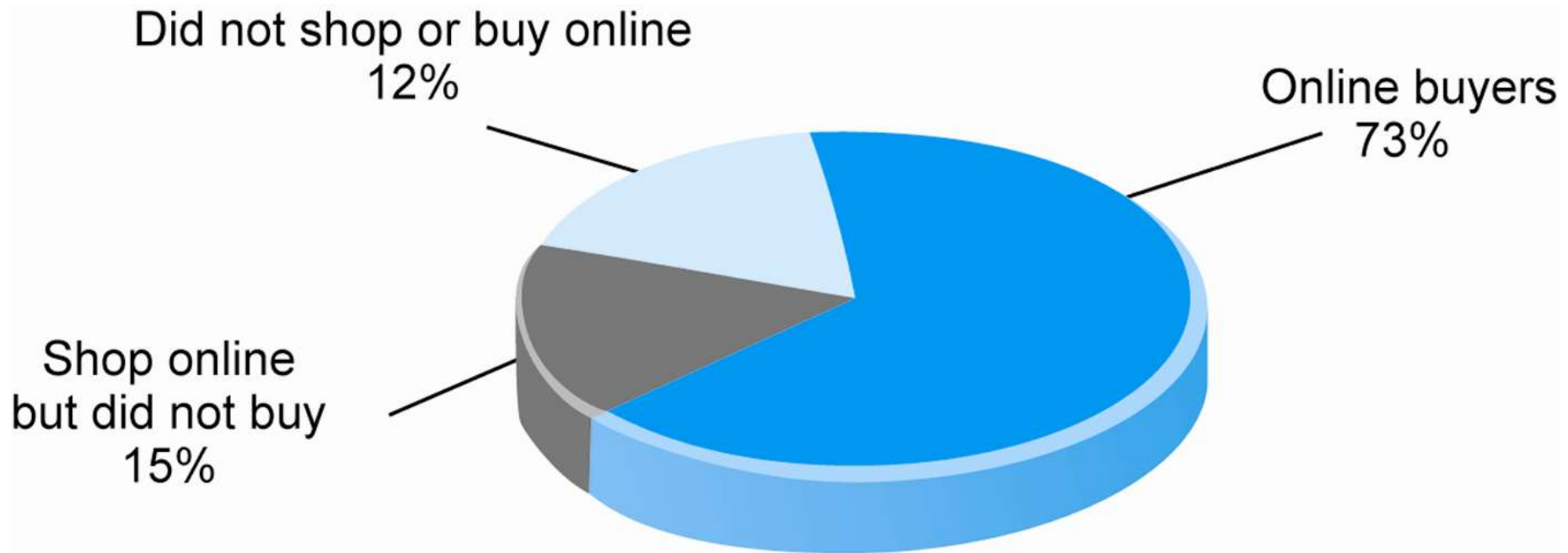


Figure 6.4, Page 401

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

What Consumers Shop for and Buy Online

■ Big ticket items

- ❖ Travel, computer hardware, electronics
- ❖ Consumers now more confident in purchasing costlier items

■ Small ticket items (\$100 or less)

- ❖ Apparel, books, office supplies, software, etc.
- ❖ Sold by first movers on Web
 - Physically small items
 - High margin items

What Consumers Buy Online

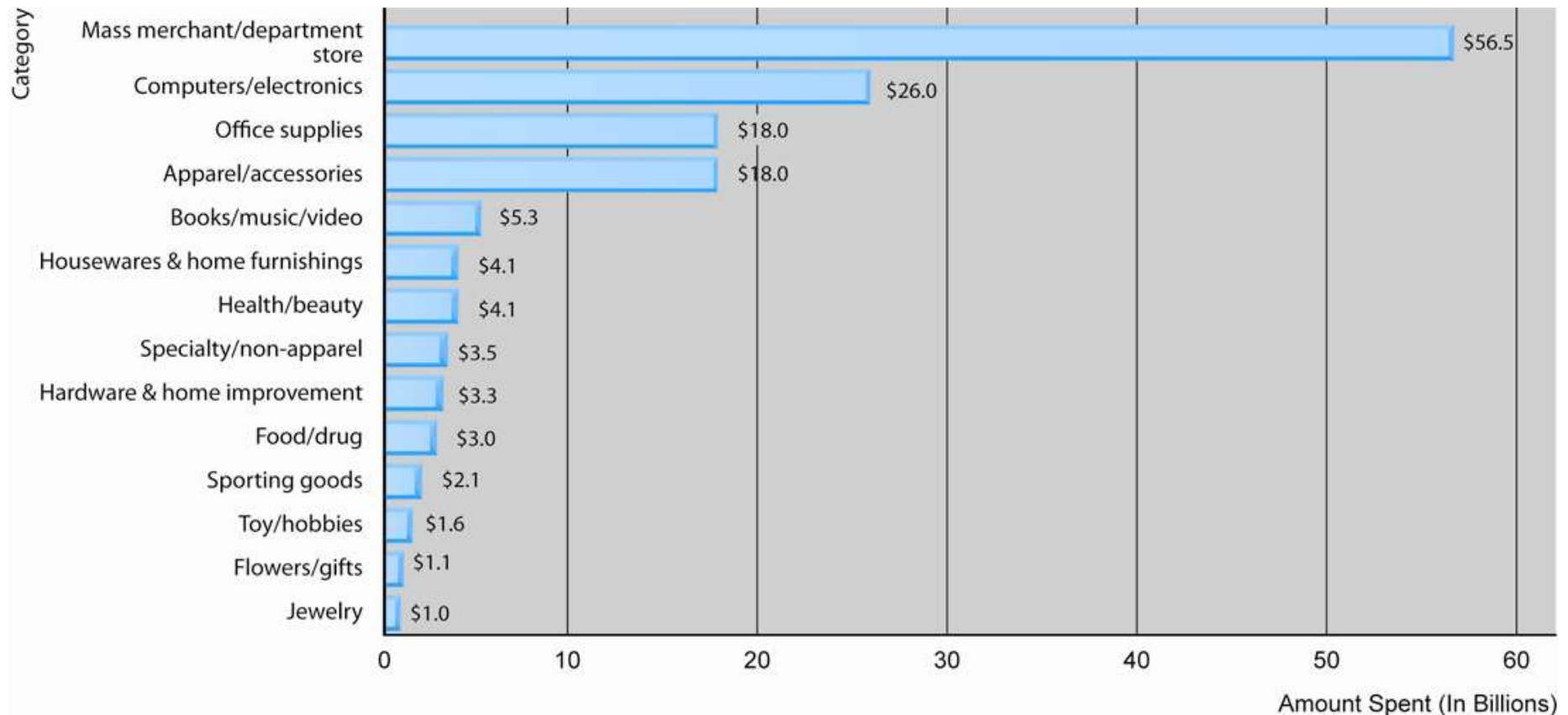


Figure 6.5, Page 403

SOURCES: Based on data from Internet Retailer, 2011.

How Consumers Shop

■ How shoppers find online vendors

- ❖ Search engines—59%
- ❖ Marketplaces (Amazon, eBay)—28%
- ❖ Direct to retail sites—10%
- ❖ Other methods—3%

■ Online shoppers are highly intentional

- ❖ Look for specific products, companies, services

■ StumbleUpon

■ Recommender systems

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%

Trust, Utility, and Opportunism in Online Markets

■ Two most important factors shaping decision to purchase online:

❖ Utility:

- Better prices, convenience, speed

❖ Trust:

- 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 to establish relationship with consumer and encourage purchases
- ❖ 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

Feature Sets

■ Three levels of product or service

❖ Core product

- e.g., cell phone

❖ Actual product

- Characteristics that deliver core benefits
- e.g., wide screen that connects to Internet

❖ Augmented product

- Additional benefits
- Basis for building the product's brand
- e.g., product warranty

Feature Set

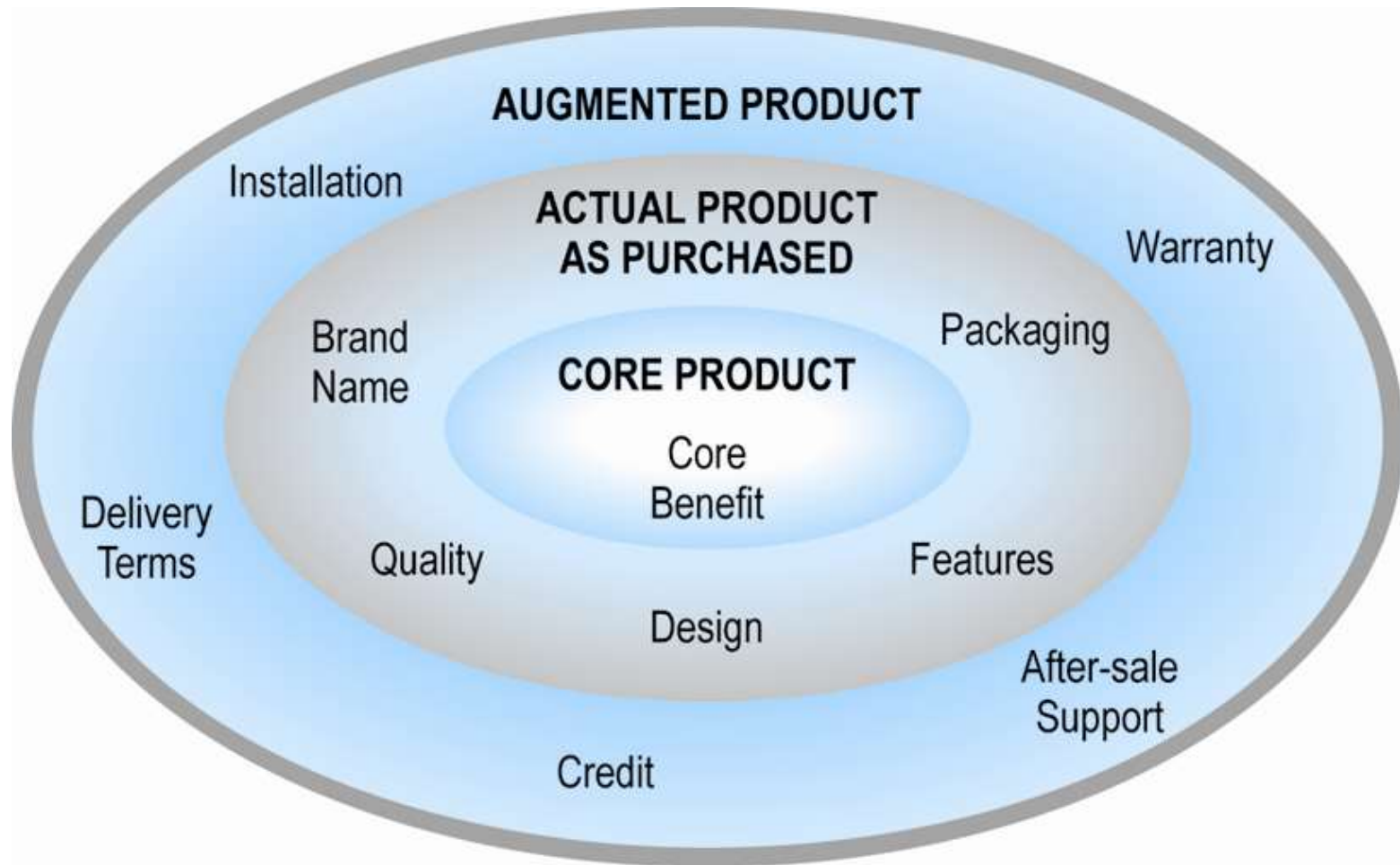


Figure 6.6, Page 406

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

Marketing Activities: from Products to Brands

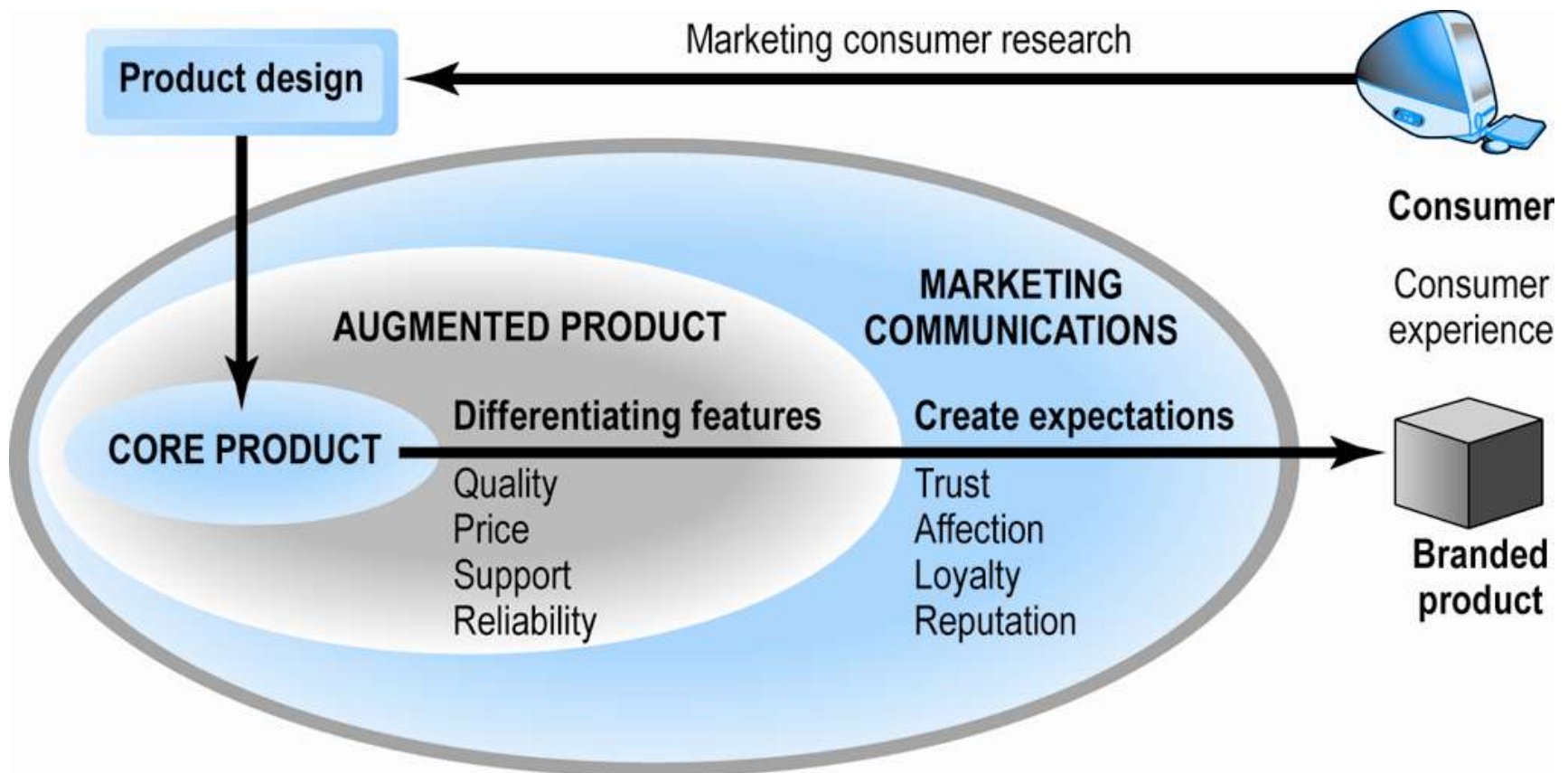


Figure 6.7, Page 407

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:

- ❖ 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 postulation: “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
 - ❖ Substantial price dispersion
 - ❖ Large differences in price sensitivity for same product
 - ❖ “Library effect”

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
- ❖ Tracking files
- ❖ Databases, data warehouses, data mining
- ❖ Advertising networks
- ❖ Customer relationship management systems

Web Transaction Logs

- Built into Web server software
- Record user activity at Web site
- Webtrends: Leading log analysis tool
- Provides much marketing data, especially combined with:
 - ❖ Registration forms
 - ❖ Shopping cart database
- Answers questions such as:
 - ❖ What are major patterns of interest and purchase?
 - ❖ After home page, where do users go first? Second?

Tracking Files

- Allow users browsing activities to be tracked as they move from site to site
- Four types of tracking files
 - ❖ Cookies
 - Small text file placed by Web site
 - Allows Web marketers to gather data
 - ❖ Flash cookies
 - ❖ Beacons (“bugs”)
 - ❖ Apps

Every Move You Make, Every Click You Make, We'll Be Tracking You

- Are beacons innocuous? Or are they an invasion of personal privacy?
- Do you think your Web browsing should be known to marketers?
- What are the Privacy Foundation guidelines for Web beacons?
- Should online shopping be allowed to be a private activity?

Databases

- **Database: Stores records and attributes**
- **Database management system (DBMS):**
 - ❖ Software used to create, maintain, and access databases
- **SQL (Structured Query Language):**
 - ❖ Industry-standard database query and manipulation language used in a relational database
- **Relational database:**
 - ❖ Represents data as two-dimensional tables with records organized in rows and attributes in columns; data within different tables can be flexibly related as long as the tables share a common data element

A Relational Database View of E-commerce Customers

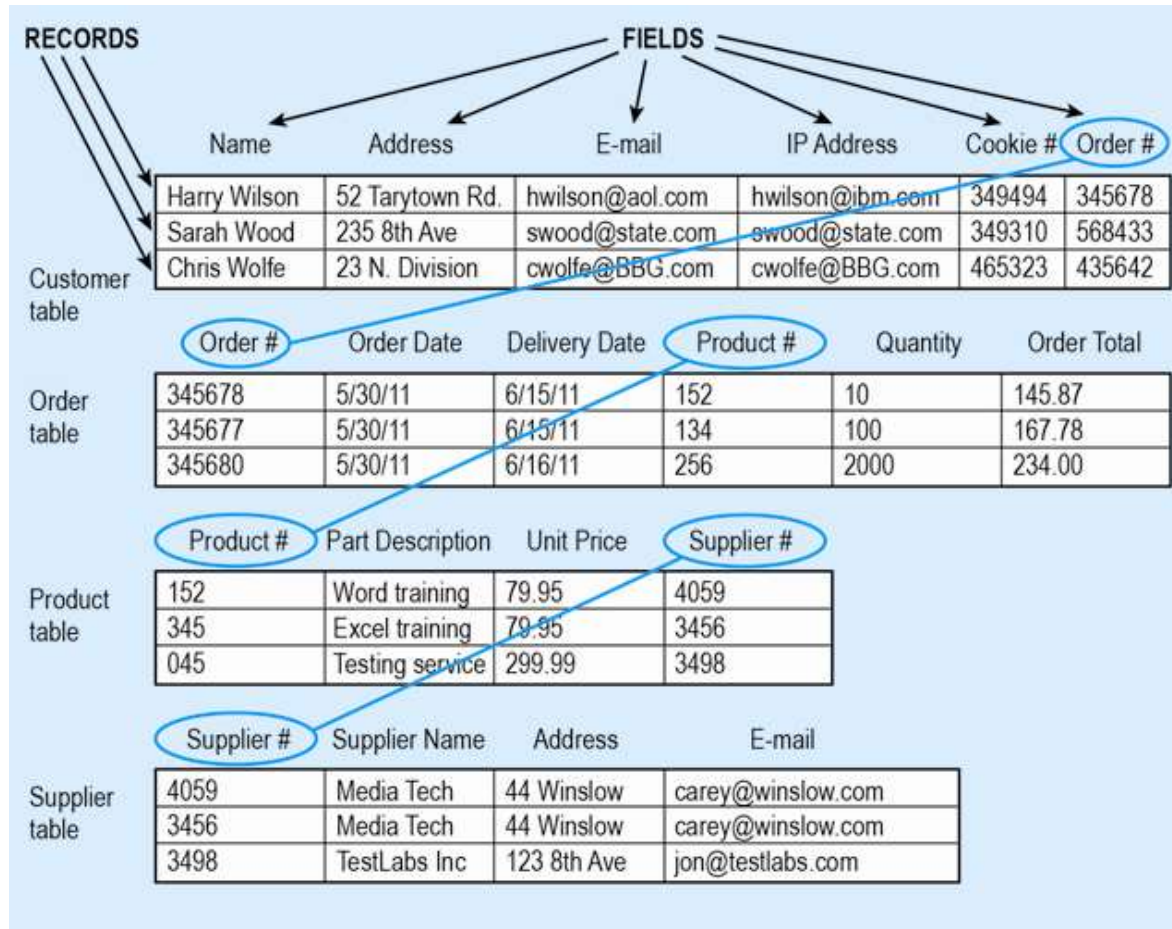


Figure 6.9, Page 421

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

The Long Tail: Big Hits and Big Misses

- **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

- Record all contact that customer has with firm
- Generate 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

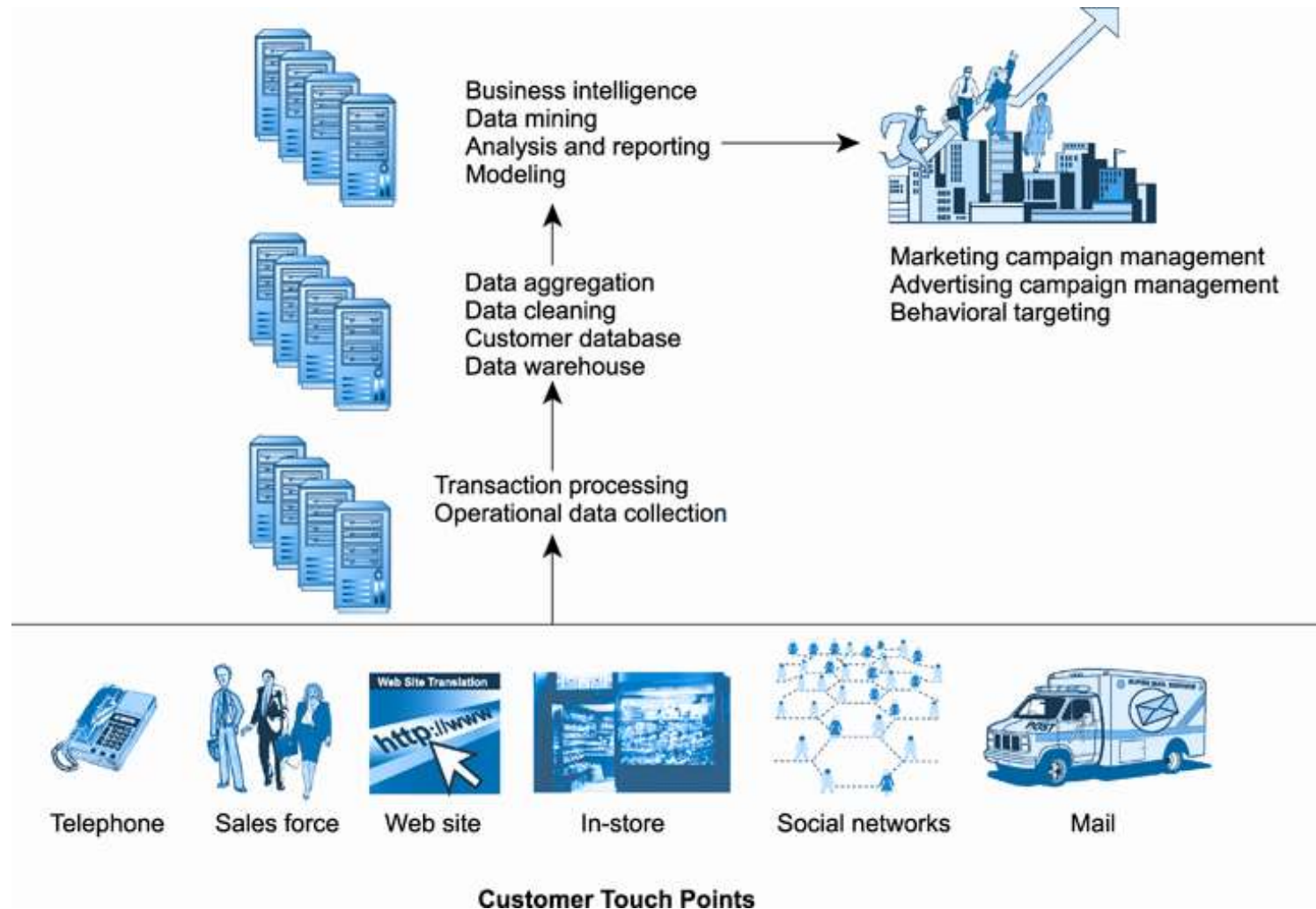


Figure 6.10, Page 427

Generic Market Entry Strategies

	NEW FIRM	EXISTING FIRM
“CLICKS” PURE PLAY	First mover Amazon.com eBay.com Netflix 1	Fast follower Barnes & Noble RiteAid Toys R Us 3
“BRICKS AND CLICKS” MIXED PLAY	Alliances KBKids.com (BrainPlay.com/KB Toys) 2	Brand extender REI L.L.Bean Walmart 4

Figure 6.11, Page 429

Establishing the Customer Relationship

■ Advertising networks

- ❖ Ad server selects appropriate ad based on cookies, Web bugs, backend user profile databases

■ Advertising exchanges

- ❖ Auction ad slots over many advertising networks

■ Permission marketing

■ Affiliate marketing

How an Advertising Network Such as DoubleClick Works

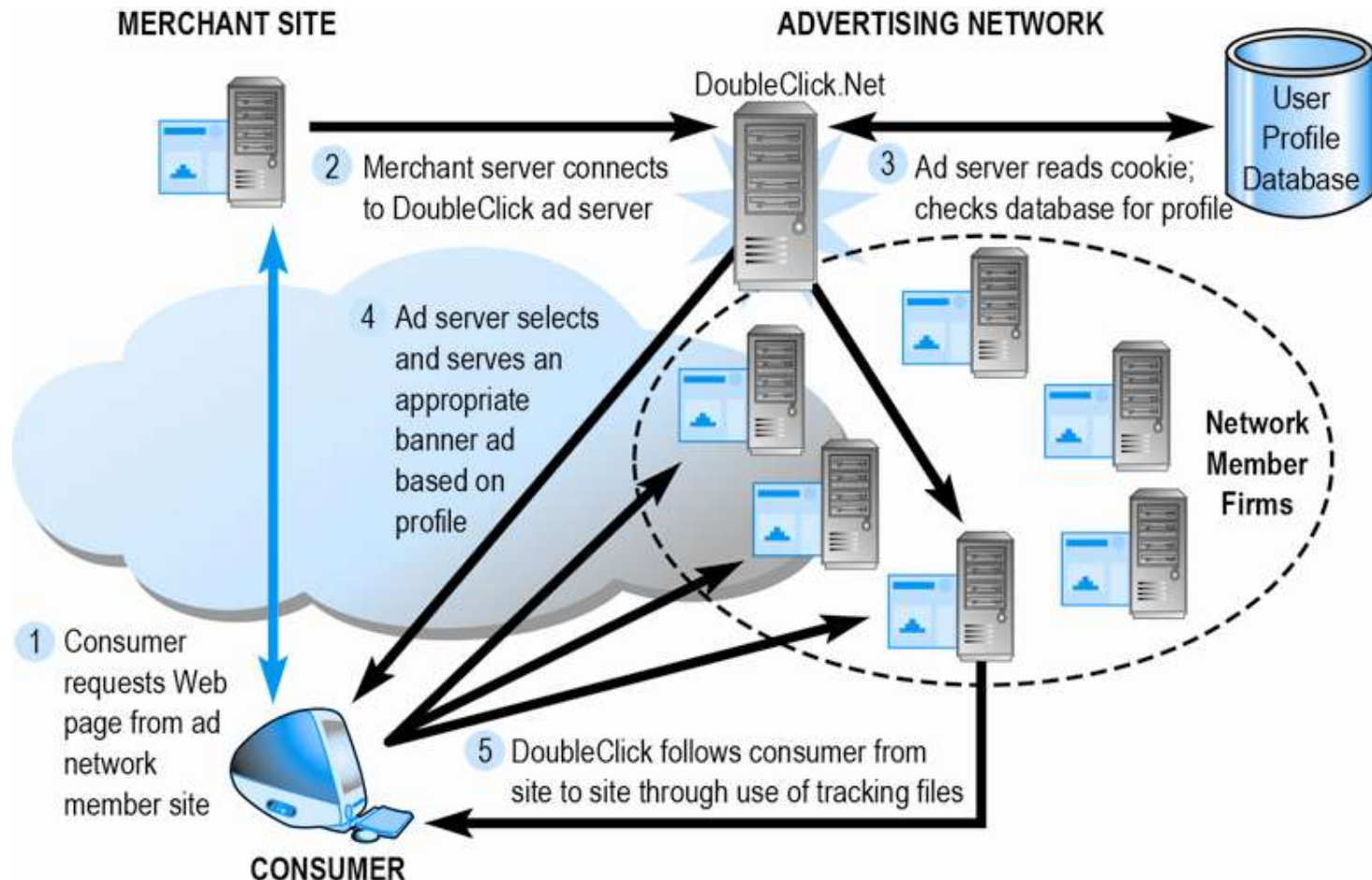


Figure 6.12, Page 432

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**

Social Network Marketing: Let's Buy Together

- **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?**
- **Have you ever responded to marketing messages on Facebook or another network?**

Establishing the Customer Relationship

■ Social marketing and wisdom of crowds

❖ Large aggregates produce better estimates and judgments, e.g.,

- “Like” button
- Folksonomies
- Social tagging

■ Mobile platform marketing

■ Local marketing

■ Brand leveraging

Customer Retention

- **Mass marketing**
- **Direct marketing**
- **Micromarketing**
- **Personalized, one-to-one marketing**
 - ❖ Segmenting market on precise and timely understanding of individual's needs
 - ❖ Targeting specific marketing messages to these individuals
 - ❖ Positioning product vis-à-vis competitors to be truly unique
- **Personalization**
 - ❖ Can increase consumers sense of control, freedom
 - ❖ Can also result in unwanted offers or reduced anonymity

The Mass Market-Personalization Continuum

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 445

Other Customer Retention Marketing Techniques

■ Customization

- ❖ Customizing product to user preferences

■ Customer co-production

- ❖ Customer interactively involved in product creation

■ Customer service

- ❖ FAQs
- ❖ Real-time customer service chat systems
- ❖ Automated response systems

Net Pricing Strategies

■ Pricing

- ❖ Integral part of marketing strategy
- ❖ Traditionally based on:
 - Fixed cost
 - Variable costs
 - Demand curve

■ Price discrimination

- ❖ Selling products to different people and groups based on willingness to pay

Net Pricing Strategies (cont.)

■ Free and freemium

- ❖ Can be used to build market awareness

■ Versioning

- ❖ Creating multiple versions of product and selling essentially same product to different market segments at different prices

■ Bundling

- ❖ Offers consumers two or more goods for one price

■ Dynamic pricing:

- ❖ Auctions
- ❖ Yield management
- ❖ Flash marketing

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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e-commerce

business. technology. society.

eighth edition

Kenneth C. Laudon

Carol Guercio Traver

Chapter 7

E-commerce Advertising

Video Ads: Shoot, Click, Buy

Class Discussion

- What advantages do video ads have over traditional banner ads?
- Where do sites such as YouTube fit in to a marketing strategy featuring video ads?
- What are some of the challenges and risks of placing video ads on the Web?
- Do you think Internet users will ever develop “blindness” toward video ads as well?

Marketing Communications

■ Two main purposes:

- ❖ Sales—promotional sales communications
- ❖ Branding—branding communications

■ Online marketing communications

- ❖ Takes many forms
- ❖ Online ads, e-mail, public relations, Web sites

Online Advertising

- **\$31.3 billion in 2011**

- **Advantages:**

- ❖ Internet is where audience is moving
- ❖ Ad targeting
- ❖ Greater opportunities for interactivity

- **Disadvantages:**

- ❖ Cost vs. benefit
- ❖ How to adequately measure results
- ❖ Supply of good venues to display ads

Online Advertising from 2003–2015

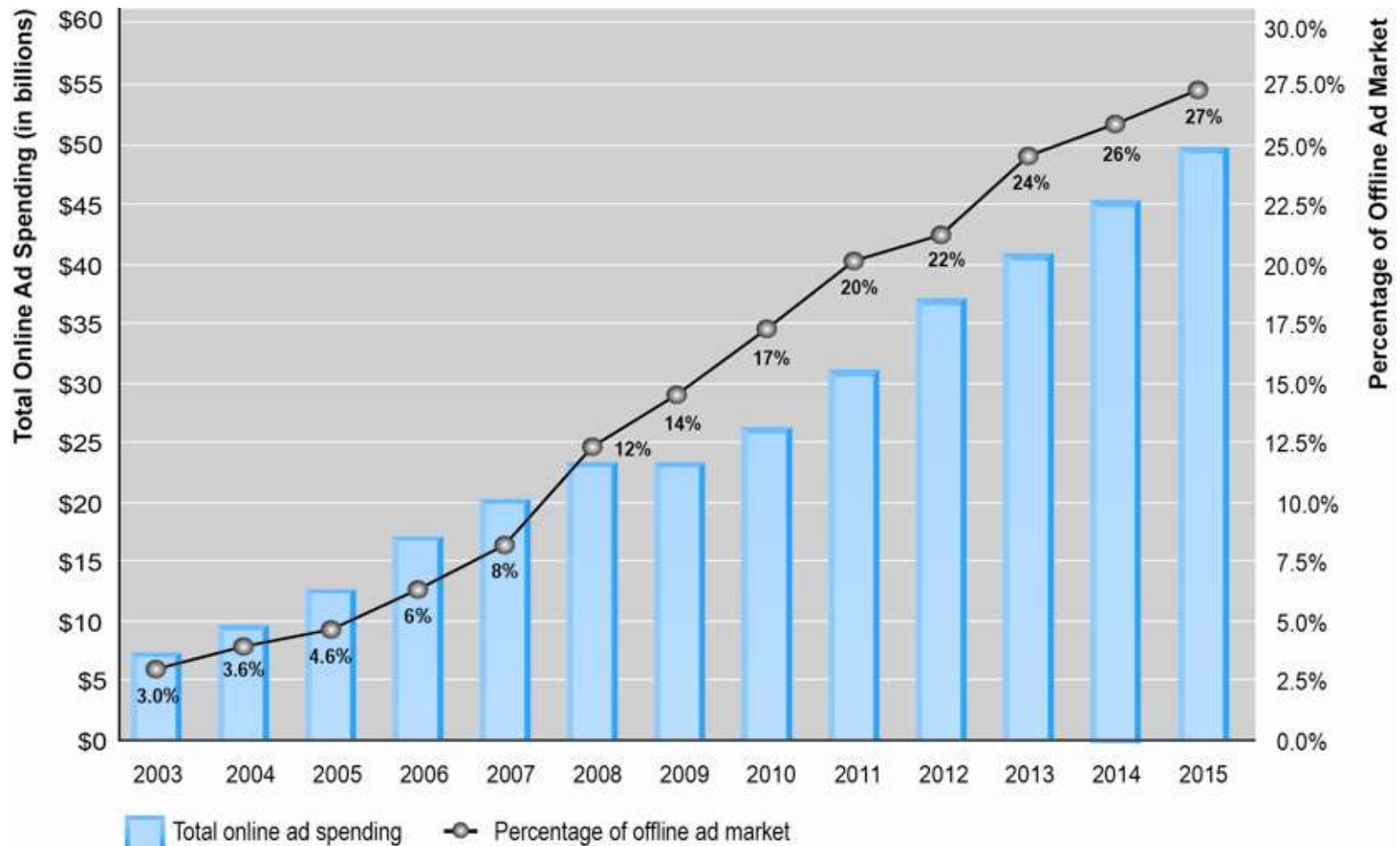


Figure 7.1, Page 472

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

Forms of Online Advertisements

- Display ads
- Rich media
- Video ads
- Search engine advertising
- Mobile and local advertising
- Referrals
- E-mail marketing
- Online catalogs
- Social network, blog, app, and game advertising

Display Ads

■ Banner ads

- ❖ Rectangular box linking to advertiser's Web site
- ❖ IAB guidelines
 - e.g., full banner is 468 x 60 pixels, 13K

■ Pop-up ads

- ❖ Appear without user calling for them
- ❖ Provoke negative consumer sentiment
- ❖ Twice as effective as normal banner ads
- ❖ Pop-under ads: Open beneath browser window

Rich Media Ads

- Use Flash, DHTML, Java, JavaScript
- About 5% of all online advertising expenditures
- Tend to be more about branding
- Boost brand awareness by 10%
- Interstitials
- Superstitials

Video Ads

- **Fastest growing form of online advertising**
- **IAB standards**
 - ❖ Linear video ad
 - ❖ Non-linear video ad
 - ❖ In-banner video ad
 - ❖ In-text video ad
- **Ad placement**
 - ❖ Advertising networks
 - ❖ Advertising exchanges
 - ❖ Banner swapping

Search Engine Advertising

- 46% of online ad spending in 2011

- Types:

- ❖ Paid inclusion or rank

- Inclusion in search results
- Sponsored link areas

- ❖ Keyword advertising

- e.g., Google AdWords

- ❖ Network keyword advertising (context advertising)

- e.g., Google AdSense

Search Engine Advertising (cont.)

- **Nearly ideal targeted marketing**
- **Social search**
 - ❖ Google's +1, Facebook's Like
- **Issues:**
 - ❖ Disclosure of paid inclusion and placement practices
 - ❖ Link farms
 - ❖ Content farms
 - ❖ Click fraud

Mobile and Local Advertising

■ 91 million users access Internet from smartphones, tablets

❖ Messaging

- Especially effective for local advertising

❖ Display ads

❖ Search

❖ Video

■ Local advertising

❖ Enabled by mobile platform

❖ 60% of mobile advertising

Sponsorships and Referrals

■ Sponsorships

- ❖ Paid effort to tie advertiser's name to particular information, event, and venue in a way that reinforces brand in positive yet not overtly commercial manner

■ Referrals

- ❖ Affiliate relationship marketing
- ❖ Permits firm to put logo or banner ad on another firm's Web site from which users of that site can click through to affiliate's site

E-mail Marketing and the Spam Explosion

■ Direct e-mail marketing

- ❖ Low cost, primary cost is purchasing addresses

■ Spam: Unsolicited commercial e-mail

- ❖ Approximately 75% of all e-mail

- ❖ Efforts to control spam:

- Technology (filtering software)
- Government regulation (CAN-SPAM and state laws)
- Voluntary self-regulation by industries (DMA)
- Volunteer efforts

Percentage of E-mail That Is Spam

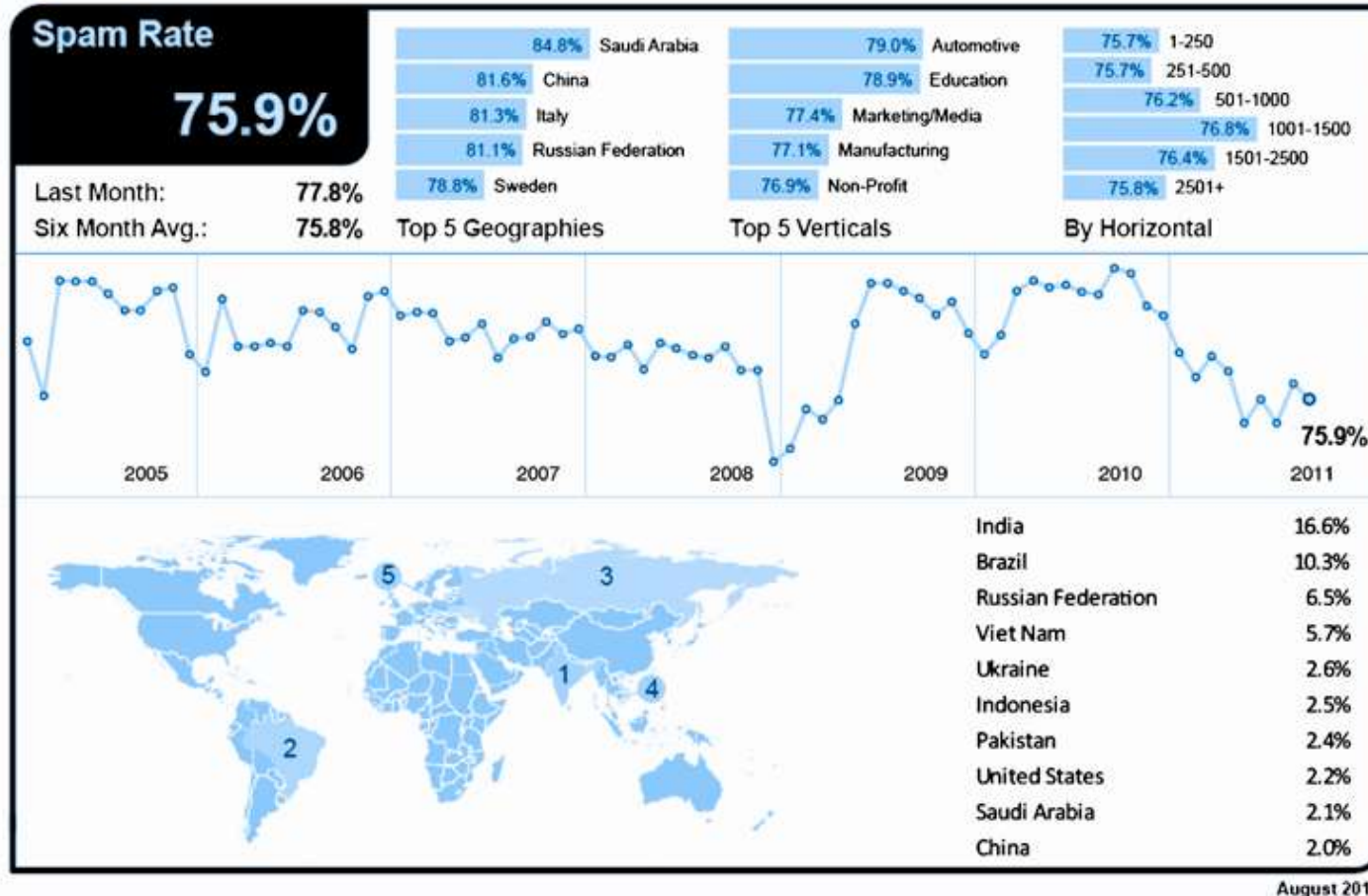


Figure 7.5, Page 487

SOURCE: Symantec MessageLabs, 2010.

Online Catalogs

- Equivalent of paper-based catalogs
- Graphics-intense; use increasing with increase in broadband use
- Two types:
 - ❖ Full-page spreads, e.g., Landsend.com
 - ❖ Grid displays, e.g., Amazon.com
- In general, online and offline catalogs complement each other

Social Advertising

■ Social advertising

- ❖ Uses social graph to promote message
- ❖ Many-to-many model

■ Social network advertising

- ❖ Social network sites are advertising platforms
 - Corporate Facebook pages
 - Twitter ads
 - ❖ Promoted tweets
 - ❖ Promoted trends
 - ❖ Promoted accounts

Social Advertising

■ Blog advertising

- ❖ Blogs difficult to monetize
 - Audience size
 - Subject matter
 - Search engines have difficulty indexing

■ Game advertising

- ❖ In-game billboard display ads
- ❖ Branded virtual goods
- ❖ Sponsored banners
- ❖ Downloadable “advergames”

Marketing to Children of the Web in the Age of Social Networks

- Why is online marketing to children a controversial practice?
- What is the Children's Online Privacy Protection Act (COPPA) and how does it protect the privacy of children?
- How do companies verify the age of online users?
- Should companies be allowed to target marketing efforts to children under the age of 13?

Behavioral Targeting

- Interest-based advertising (behavioral targeting)
- Social marketing
- Personal information sold to third party advertisers, who deliver ads based on profile
 - ❖ Search engine queries, browsing history, offline data
- Ad exchanges
 - ❖ Enable advertisers to retarget ads at users as they browse
 - ❖ 16% online ads are targeted

Mixing Offline and Online Marketing Communications

- **Most successful marketing campaigns incorporate both online and offline tactics**
- **Offline marketing**
 - ❖ Drive traffic to Web sites
 - ❖ Increase awareness and build brand equity
- **Consumer behavior increasingly multi-channel**
 - ❖ 60% consumers research online before buying offline

Are the Very Rich Different from You and Me?

- **Why have online luxury retailers had a difficult time translating their brands and the look and feel of luxury shops into Web sites?**
- **Why did Neiman Marcus' first effort fail?**
- **Why did Tiffany's first effort fail?**
- **Visit the Armani Web site. What do you find there?**

Online Marketing Metrics: Lexicon

■ Measuring audience size or market share

- ❖ Impressions
- ❖ Click-through rate (CTR)
- ❖ View-through rate (VTR)
- ❖ Hits
- ❖ Page views
- ❖ Stickiness (duration)
- ❖ Unique visitors
- ❖ Loyalty
- ❖ Reach
- ❖ Recency

Online Marketing Metrics (cont.)

■ Conversion of visitor to customer

- ❖ Acquisition rate
- ❖ Conversion rate
- ❖ Browse-to-buy-ratio
- ❖ View-to-cart ratio
- ❖ Cart conversion rate
- ❖ Checkout conversion rate
- ❖ Abandonment rate
- ❖ Retention rate
- ❖ Attrition rate

■ Social networking

- ❖ User insights
- ❖ Interaction insights

■ E-mail metrics

- ❖ Open rate
- ❖ Delivery rate
- ❖ Click-through rate (e-mail)
- ❖ Bounce-back rate

An Online Consumer Purchasing Model

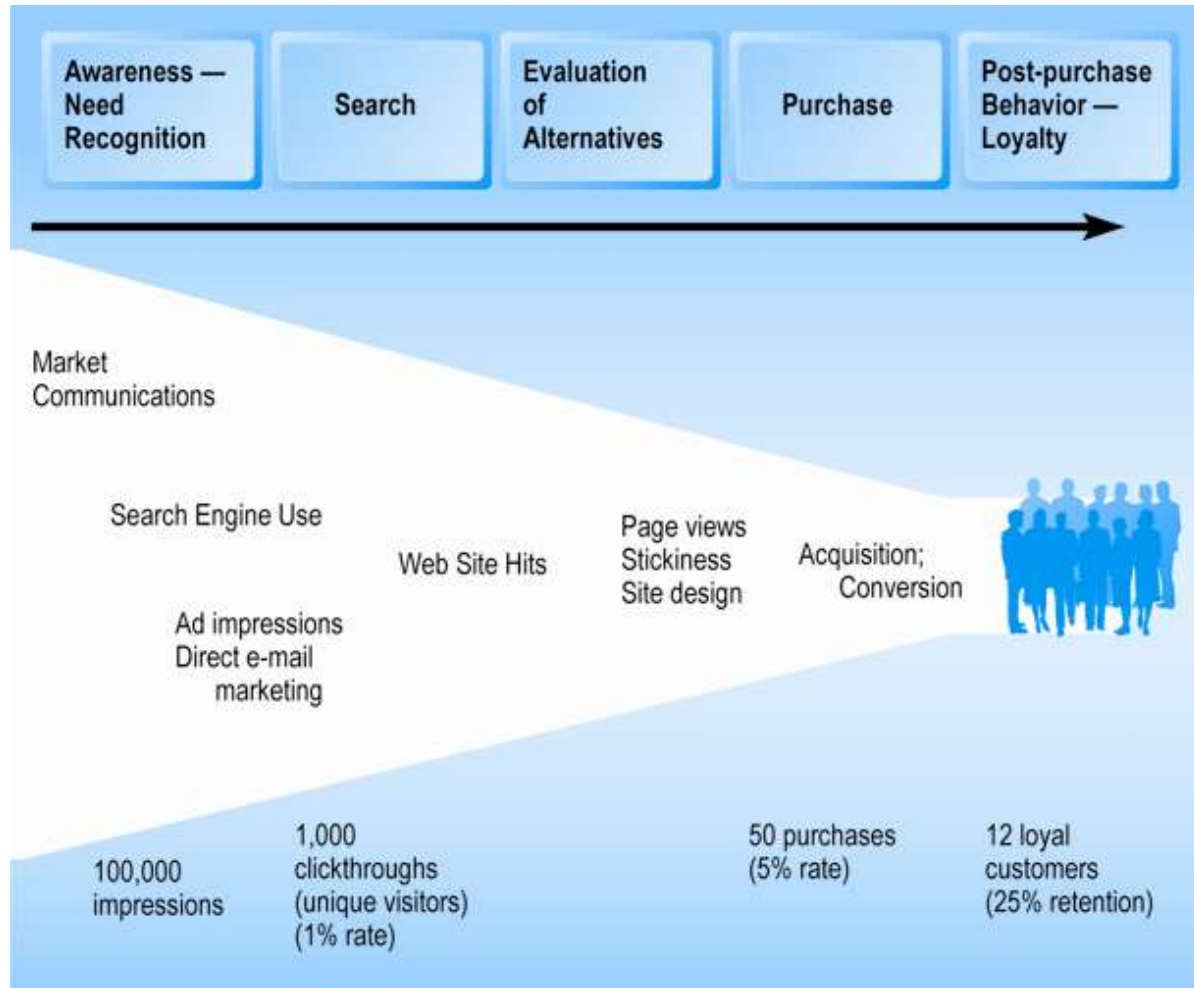


Figure 7.7, Page 509

How Well Does Online Advertising Work?

- Ultimately measured by ROI on ad campaign
- Highest click-through rates: Search engine ads, permission e-mail campaigns
- Rich media, video interaction rates high
- Online channels compare favorably with traditional
- Most powerful marketing campaigns use multiple channels, including online, catalog, TV, radio, newspapers, stores

Comparative Returns on Investment

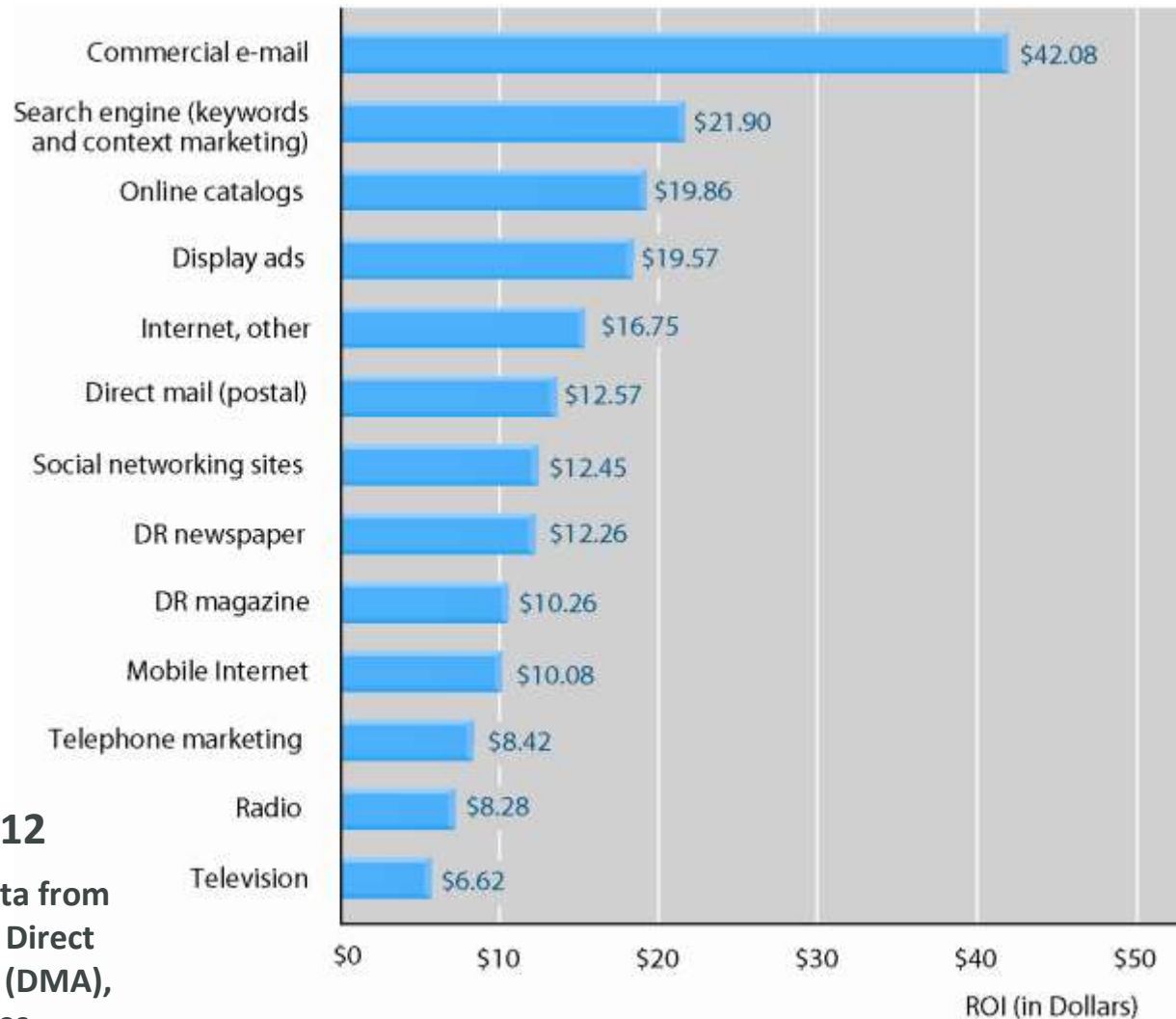


Figure 7.8, Page 512

SOURCES: Based on data from eMarketer, Inc. 2010c, Direct Marketing Association (DMA), 2009, authors' estimates.

The Costs of Online Advertising

■ Pricing models

- ❖ Barter
- ❖ Cost per thousand (CPM)
- ❖ Cost per click (CPC)
- ❖ Cost per action (CPA)

■ Online revenues only

- ❖ Sales can be directly correlated

■ Both online/offline revenues

- ❖ Offline purchases cannot always be directly related to online campaign

■ In general, online marketing more expensive on CPM basis, but more effective

Web Site Activity Analysis



Shopping Cart Executive Summary – Help Card

Abandonment rate — The percentage of **shoppers** who did not become **buyers**. This includes both **cart abandoners** and **checkout abandoners**.

Conversion rate — Percentage of visitors who became **buyers**.

Engagement rate — Percentage of visitors who become **shoppers**.

Total buyers — Number of buyers who visited your site. Buyers are visitors who reached a page that you configured as an **order complete page**.

Total shoppers — Number of shoppers who visited your site. A shopper is a visitor who reached a page that you configured as a **shopping page**.

Total visits — Number of times a visitor came to your site.

Figure 7.9, Page 515

It's 10 P.M. Do You Know Who Is On Your Web Site?

- **What are some of the services offered by Adobe's SiteCatalyst?**
- **Why would you as a webmaster be interested in these services?**
- **Why is site analysis and customer tracking so important to online marketing?**
- **How did *National Geographic* use SiteCatalyst to its benefit?**

The Web Site as a Marketing Communications Tool

- Web site as extended online advertisement
- Domain name: An important role
- Search engine optimization:
 - ❖ Search engines registration
 - ❖ Keywords in Web site description
 - ❖ Metatag and page title keywords
 - ❖ Links to other sites

Web Site Functionality

- **Main factors in effectiveness of interface**
 - ❖ Utility
 - ❖ Ease of use
- **Top factors in credibility of Web sites**
 - ❖ Design look
 - ❖ Information design/structure
 - ❖ Information focus
- **Organization is important for first-time users, but declines in importance**
 - ❖ Information content becomes major factor attracting further visits

Factors in the Credibility of Web Sites

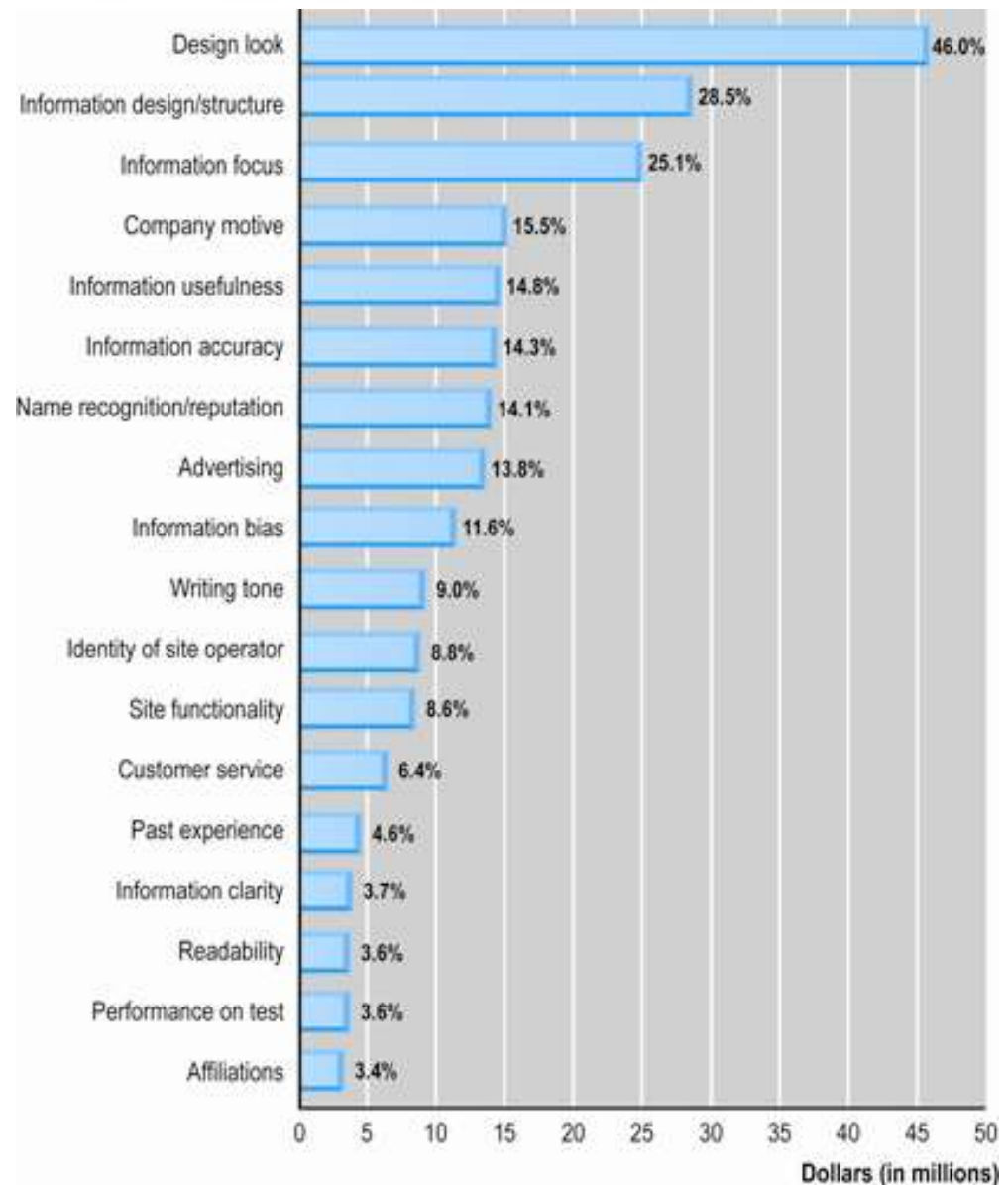


Figure 7.10, Page 521

SOURCE: Based on data from Fogg, et al., 2003.

TABLE 7.9**WEB SITE DESIGN FEATURES THAT IMPACT ONLINE PURCHASING**

DESIGN FEATURE	DESCRIPTION
Compelling experience	Provide interactivity, entertainment, human interest; site is fun to use.
Editorial content	Provide helpful content, opinions, and features on subjects of interest to visitors in order to increase stickiness.
Fast download times	Quicker is better; if longer, provide amusement.
Easy product list navigation	Consumers can easily find the products they want.
Few clicks to purchase	The shorter the click list, the greater the chance of a sale.
Customer choice agents	Recommendation agents/configurators help the consumer make quick, correct choices.
Responsiveness	Personal e-mail response; 1-800 phone capability shown on Web site.

Table 7.9, Page 522



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