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# Module 5

## E-marketing Manage



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# Overview

## **Many Products Capitalize on Internet Properties**

New-P

Creating Customer Value Online

Online Benefits

- Attributes

- Branding

- Support Services

- Labeling

E-Marketing Enhanced Product Development

- Customer Codesign

- Electronic Input

- Web Content Development

- Internet Properties Spur Other

- Opportunities

- New-Product Strategies for E-Marketing

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A Taxonomy for Internet Products

## Many Products Capitalize on Internet Properties

- **A product:**
  - A bundle of benefits that satisfies the needs of organizations/consumers and for which they exchange money or other items of value.
  - Items such as tangible goods, services, information, and virtual places.



## Many Products Capitalized on Internet Properties

- May be classified by the purpose for which they are used
  - Consumer products = purchased by an individual for personal consumption.
  - Businesses sell products to consumers in the business-to-consumer (B2C) market.
  - Consumers sell products to one another in the consumer-to-consumer (C2C) market.
  - Industrial products = used in the operations of an organization, as components for manufacturing a product, or for resale (B2B market).

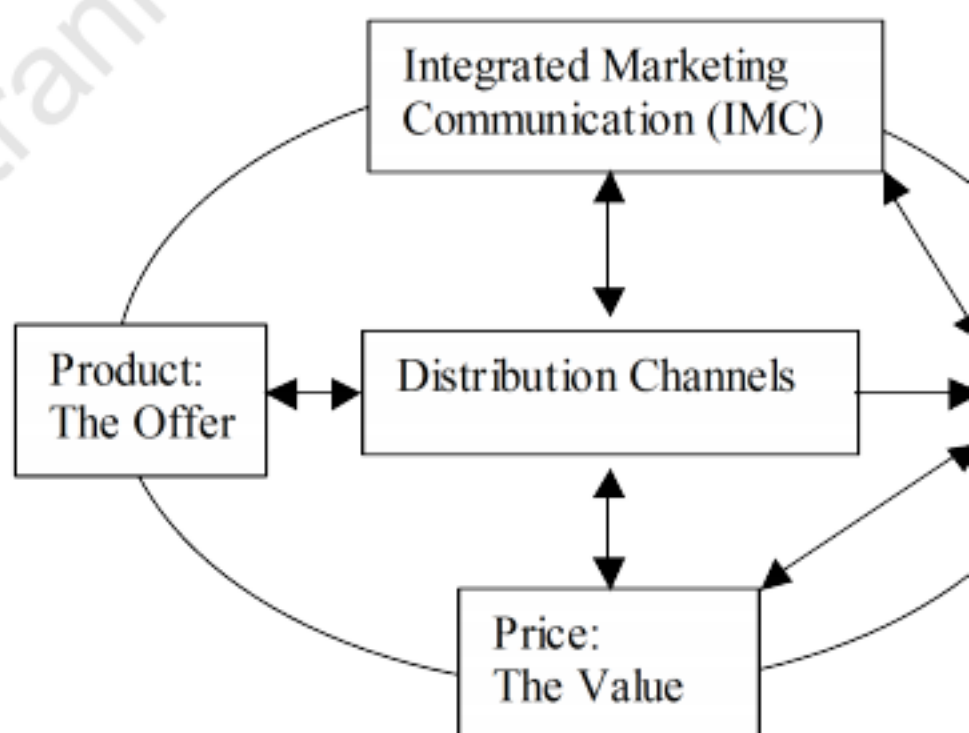


## Many Products Capitalize on Internet Properties

- **Some new products are unique to the Internet (services).**
- **Other products use the Internet as a new distribution channel for unique technology-enabled services (books).**
- **With the Internet's properties of market control, and other e-marketing trends:**
  - Many challenges,
  - A plethora of new opportunities.
- **The success of Classmates.com demonstrates that an online product can use the Internet's properties to build a brand.**

## Many Products C on Internet Pro

- **To create new products:**
  - Research to determine what is important to customer
  - Design strategies to deliver more value than do compete
- In line with the Sources, Databases, and Strategy involve the marketing mix 4Ps and customer relation
- The process of designing these strategies is closely implement them.
- The marketing mix (product, price, distribution, m customer relationship management (CRM) work to, and transactional outcomes with consumers.





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## Creating Customer Value Online

- Never has competition for online customer been more fierce.

To succeed, firms must employ that result in

Customer value = Benefits – Costs.



## Creating Customer Value Online

- But what exactly is value?
  - The entire product experience:
    - Customer's first awareness of a product,
    - All customer touch points (including the Web site from a firm),
    - The actual product usage and postpurchase customer service,
    - The compliments a consumer gets from friends and family.
- Value is defined wholly by the customer.
- Value involves customer expectations; if the actual product falls short of their expectations, customers will be disappointed.
- Value is applied at all price levels.



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## Online Benefits

- The Internet technology brings a new set of desired
  - Effective Web navigation,
  - Quick download speed,
  - Clear site organization,
  - Attractive and useful site design,
  - Secure transactions & privacy,
  - Free information or services,
  - User-friendly Web browsing and e-mail reading.
- BUT as Internet technology evolves, user needs characteristics expand.
- Marketers must make five general product decisions of benefits to meet customer needs: attributes, branding, labeling, and packaging.



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A Taxonomy for Internet Products



## Attributes

- Product attributes include:
  - Overall quality: “you get what you pay for” – quality generally means higher prices,
  - Specific features: Include such elements as cost and speed of service.
- Benefits are the same features from a user perspective – the attribute do to solve problems or meet needs
- For example, Yahoo! provides a list of Web site which helps users find things quickly online (benefits)  
⇒ Product benefits are key components in the value

## Attributes

- The Internet increases customer benefits in revolutionized marketing practice:
  - The move from atoms to bits: media, music, software are presented on the Web.
  - Product customization:
    - Tangible products such as laptop computers can be configured with different hardware and software items or services to provide a customized price.
    - Intangible products, online research firms can offer a variety of combinations.
- Information products can be reconfigured and customized quickly, and cheaply, as compared to manufacturing.

## Attributes

- The Internet offers users the unique opportunity to purchase products automatically without leaving their homes.
- User personalization is another form of customization.  
⇒ Through Web site registration and other techniques, websites can:
  - Greet users by name,
  - Suggest product offerings of interest based on previous purchases,
  - Amazon.com



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## Branding

- A **brand** includes a name (McDonald's), a symbol, or other identifying information.
- When a firm registers that information with the government, it becomes a trademark and is legally protected.
- According to the U.S. government, "a trademark is a word, phrase, symbol or design, or combination of words, phrases, symbols or designs, that identifies and distinguishes the goods or services of one party from those of others."



# Branding

- A brand is:
  - A promise to customers,
  - A brand name + its image = the benefits
  - A way to establish trust for the customer
- Important online, because of concern over security issues,
- Trustworthy brand names add to customer-perceived higher prices,
- The value proposition.



## Branding

- Customers and prospects develop brand images based on:
  - One-way media such as advertising and packaging,
  - Two-way communication such as conversations with sales people on the phone, at trade shows, on Web 2.0, or e-mail.
- When using the Internet, a firm must be sure that its online e-mails convey a positive brand image that is consistent with its other contact points.



## Branding

- Companies creating new products for online branding decisions:
  - Whether to apply existing brand names for new products,
  - Whether to lend their brand name as a co-branding firm,
  - What domain name to use for the Web site.



## Branding

- 7 components for building a great global brand:
  - 1. Research your corporate constituencies.** Understanding your corporate constituencies is critical for global brand building.
  - 2. Understand your business.** Set guidelines and objectives.
  - 3. Advance the vision.** Decide on the desired brand, create a strategy to support it, and develop a positioning document.
  - 4. Release the power of communications.** All communication should work together to

## Branding

- 7 components for building a great global brand
  - 5. **Set up your communications infrastructure.** Create a communication council with the firm's public relations, investor relations, and human resources specialists, both inside and outside the firm.
  - 6. **Include your employees in the message.** This is especially important in a time of PR crisis.
  - 7. **Measure performance.** Track progress and determine communication effectiveness.

## Using Existing Brand Name On the Web

- An existing brand name can be used for any new product
  - Makes sense when the brand is well-known + has strong reputation
  - For example, Amazon added music CDs, videos, software to its product mix. When products with offline sales in mind are added, it is often easier for consumers to choose by choosing to use the same brand name (e.g., *The New York Times*).
- Some firms may not want to use the same brand name for several reasons:
  - If the new product or channel is risky, the firm does not want to risk its brand's good name by associating with a product failure.
  - A powerful Internet success might inadvertently reposition the brand.
  - Sometimes the firm wants to change the name slightly to reflect the new product or channel, as a way of differentiating the online brand from the offline brand.

## Creating New Brand for Internet Market

- If an organization wants to create a new Internet brand, the brand name is very important.
- **Good brand names should:**
  - Suggest something about the product (e.g., www.abc.com)
  - Differentiate the product from competitors (e.g., www.abc.com vs. www.123.com)
  - Be capable of legal protection.
- **On the Internet, a brand name should be:**
  - Short,
  - Memorable,
  - Easy to spell,
  - Capable of translating well into other languages.



# Co-branding

- **Co-branding:**
  - When two different companies put their same product.
  - Common on the Internet and is a good way to create synergy through expertise and brand recognition.
- **For example:**
  - *Sports Illustrated* now co-brands with CNN.
  - Even the Web site address displays the co-brand: [sportsillustrated.cnn.com](http://sportsillustrated.cnn.com).



## Internet Domain Names

- Organizations spend a lot of time and money developing domain names for strong brand equity.
  - ⇒ Using the company trademark or brand name in the domain name so consumers quickly find the site.
  - ⇒ For example, [www.coca-cola.com](http://www.coca-cola.com).
- **Anatomy of a URL:**
  - A **URL (Uniform Resource Locator)** = Web site address (Internet Protocol) = **domain name**.
  - Categorization scheme, similar to telephone area codes, so computer users find other computers on the Internet.
  - Are numbers, but because users can more easily remember domain names, the domain name server translates back and forth.



# Internet Domain Names

- A domain name contains several levels:
  - **http://** = hypertext protocol = The browser should expect hypertext protocol—meaning documents that are linked together
  - **www** = world wide web = Not necessary and most companies use it in their name both with and without it.
  - **dell** = second level domain = The name of the company
  - **com** = top level domain = Firms must first decide in which country they want to do business. Most businesses in the U.S. want *.com*,
- The Internet Corporation for Assigned Names and Numbers (ICANN)
  - A non-profit corporation,
  - A committee of experts to make decisions about protocol, domain name assignment, registration,
  - Approves all new top level names such as the latest: *.biz*, *.info*, *.aero*, and *.museum*.



Domain Designation	Top Level Domain Name	Number of Hosts (in millions)
net	Networks	4.0
com	Commercial	4.0
edu	Educational	2.7
jp	Japan	2.7
ca	Canada	2.2
de	Germany	2.2
uk	United Kingdom	2.2
au	Australia	2.2
it	Italy	2.2
us	United States	2.2



## Registering a New Domain Name

- [VeriSign](#) provides domain registering service for 1-10 years/name.
  - Problems:
    - More than 97% of words in the dictionary are already used as domain names,
    - The online name a firm desires may not be available.
- ⇒ A dictionary name is not necessarily the best choice because it already has a meaning attached to it = difficult to achieve a competitive advantage.



## Registering a New Domain Name

- What happens if the firm name has been registered?
  - Come up with alternative names: DeltaComm, and the first to register [www.delta.com](http://www.delta.com) before Delta ([www.delta-air.com](http://www.delta-air.com)),
  - Buy the name from the currently registered holder
  - Many creative Netizens register lots of popular names for sale at prices of up to millions of dollars:
    - GreatDomains.com allows users to buy and sell domain names.


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\$800,000 <a href="#">Pretty.com</a>	\$835,000 <a href="#">forsalebyyou.com</a>
\$950,000 <a href="#">Trades.com</a>	\$823,456 <a href="#">Drugs.com</a>
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New-Pro

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Electronic Input

Web Content Development

Internet Properties Spur Other Opportunities

New-Product Strategies for E-Marketing

A Taxonomy for Internet Products

## Support Services

- Customer support (during and after purchase)
  - Is a critical component in the value proposition
  - Need knowledgeable customer service representatives
  - Is critical for some technical products for maintenance problems, product guarantee warranties.
- Customer service:
  - Works to increase customer satisfaction with products,
  - Is a product benefit = an important part of relationship management.



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## Labeling

- Product labels:
  - Identify brand names, sponsoring firms, and other information
  - Provide often instructions for use and product benefits
  - On tangible products = create product recognition and influence purchase decision behavior at the point of purchase
  - For online services = provides terms of product, pricing, features, and other information comprise



## Labeling

- Labeling at Web sites, customers can read:
  - How to install and use a software downloaded from the Internet
  - Extensive legal information about copyright use
  - Online labeling can serve many of the same purposes as physical labeling
- ⇒ Many brick-and-mortar businesses display the Better Business Bureau (BBB) seal on their doors to give the customer a sense of confidence
- The TRUSTe privacy shield: If firms agree to certain standards for the protection of privacy of customer information collected at their Web sites, they can display the TRUSTe seal to their Web sites as part of a labeling program



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Online Benefits

- Attributes

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- Customer Co-design

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## E-Marketing Enhanced Product

- The move from atoms to bits adds complexity to on
  - **Developers must:**
    - Combine digital text, graphics, video, and audio, delivery systems.
    - Must integrate front-end customer service oper collection + fulfillment methods to deliver produ
- ⇒ This creates steep learning curves for traditional
- ⇒ E-marketers need to consider several factors th development and product mix strategies with ne



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## Customer Codesign

- The power shift to buyers allows for many unusual and for both business and consumer collaboration.
  - ⇒ Partners are forming synergistic clusters to help design and deliver value.
- Internet technology allows this type of codesign electronically across international borders as well.
- Customer interaction in the early and late stages of product development can actually increase product success.
  - ⇒ This is especially true when product codesign occurs with the “end user” of a product.
  - ⇒ This is a key person who uses the product and often reports product use problems as they occur.



<i>Company Software</i>				
<i>Development</i>				
Define objectives			Integr	
Begin product design	Beta 0 Internal testing	Specs complete		
Customer		<i>Feature design and customers March - J</i>		
<i>Beta Testing</i>	Beta 1	Beta 2	Beta 3	Beta 4
<b>Jan</b>	<b>Feb</b>	<b>Mar</b>	<b>Apr</b>	<b>May</b>





# Overview

Many Products Capitalize on Internet Properties

New-Pro

Creating Customer Value Online

Online Benefits

- Attributes

- Branding

- Support Services

- Labeling

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## Electronic Input

- Good marketers look everywhere for customer feedback.
- With the increase of Web sites inviting customer input, the proliferation of e-mail “word of mouse,” and the power of customers, customers are quick to spread the word about product weaknesses.
- Savvy firms monitor customer input electronically to identify customers’ needs.
- Companies hire electronic *clipping services*—firms that monitor the Web for company and product discussion = the electronic equivalent of clipping services that read print media and clip out articles about a company and its brands.
- The electronic input process:
  - Is similar to the use of marketing research to support product development.
  - The scale is much larger because many customers work for large firms and can give quick feedback.



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- Labeling

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# Web Content Development

- On the Web, “content is king.”

⇒ Customers visit Web sites for information, entertainment

⇒ Content attracts users and keeps them returning.

- 5 tips for “screaming content:”

- **Stay fresh.** Update the site every day and at least once a week to show commitment!
- **Be relevant and unique.** Deliver highly focused content that is different from competitive site content.
- **Make it easy to find.** Users want to find information quickly. Include hyperlinks to other sites for content because users want to explore.
- **Serve a smorgasbord of content.** Integrate current news, analysis, and commentary. Include interactive material relevant to users' searches, and so forth. Vary the format to include multimedia.
- **Deliver content everywhere.** This includes Web sites, mobile devices, and special networks.

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Lifestyle



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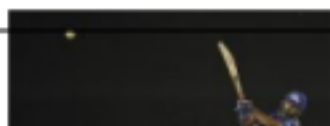
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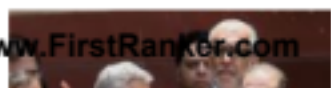
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## Web Content Development

- **A new breed of syndicated content providers has developed:**
  - Is parallel to the Associated Press that feeds news to local magazines.
  - Includes stock quotes, breaking news, sports updates, weather formats from text to video.
- **An interesting trend involves users who want text-based content:**
  - A small but growing group of Web users does not want animation, and other non-text items,
  - They favor simple text information,
  - They block advertising content with special software and know-how,
  - They do not like HTML e-mail.

⇒ Important because mobile handheld devices use mostly text

⇒ Web content providers might consider how to pare down

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these users + charge a subscription fee for the content.





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## Internet Properties Spur Other

- **Market deconstruction created a disaggregation of product and service components to form unusual**
    - These firms provide bundles of benefits difficult to achieve
    - The AutoMall Online.
  - **The Internet is a great information equalizer:**
    - Fierce competition + lots of product imitation + short product life cycle
    - In this environment, product differentiation is the key to success in a highly competitive, price-driven commodity industry.
- ⇒ **Online auctions:** Not long after eBay came online, Amazon.com launched its own online auctions.
- ⇒ **Short product life cycle:** when Frank Sinatra died, BMG's marketing development team created a lifetime tribute and a series of releases in six short hours.
- 
- ⇒ Firms must respond quickly to new technology or risk obsolescence.
- ⇒ Innovation online is still rewarded.





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**New-Product Strategies for E-Marketing**

A Taxonomy for Internet Products



## New-Product Strategies for E-Marketing

- Many new products were introduced by “one product” firms:
  - = The firm was built around the first successful product.
  - Netscape, Yahoo!, and Classmates.
- Other firms added Internet products to an existing product mix:
  - Microsoft.



## Product Mix Strategies

- How can marketers integrate hot product ideas into their product mix?  
**There are 6 categories of new-product strategies** based on market objectives and other factors such as risk appetite, market needs, names, resource availability, and competitive environment.
- 1. **Discontinuous innovations are new-to-the-world products that have never been made before.**
  - On the Internet = the first Web authoring software, digital camera, combination, shopping agent, and search engine.
  - This strategy is quite risky, the potential reward is high.
  - E-marketers planning discontinuous innovations must ensure that their customers will have to learn and adopt new behaviors that have not done before.
  - The new behavior must be easy and the perceived benefits must be high.

## Product Mix Strategies

2. **New product lines** are introduced when brand name and create new products in category.
  - Microsoft created a new line when it introduced its Internet Explorer browser. Because the Netscape browser was already available, this was a discontinuous innovation.
3. Additions to existing product lines occur with a new flavor, size, or other variation to a current product.
  - The New York Times Direct is a slightly different version of the newspaper adapted for online delivery. It is yet another product in the New York Times line, which includes the daily paper, weekly book review, and others.

## Product Mix Strategies

4. Improvements or revisions of existing products are “new and improved” and, thus, replace the old product.
  - Web-based e-mail systems improved on client-based systems such as Eudora or Outlook because users could check e-mail on a Web connected computer.
5. Repositioned products are current products that are targeted to different markets or promoted differently.
  - Yahoo! began as a search directory on the Web and later became a portal (an Internet entry point with many services).
6. Me-too lower-cost products are introduced to compete with existing brands by offering a price advantage.
  - When America Online and other ISPs were charging high rates for Internet access, several other providers introduced low-rate pricing for \$19.95 per month.



## A Word About ROI

- Need for performance metrics:
  - As feedback so firms can assess the success of and tactics.
  - When introducing new products, online or offline.
  - (The expected product revenue over time is for other expenses) = an estimated ROI for new products.
- **Payout** = the R & D and other initial costs will be recovered based on projected sales.
- **Break-even date** = when the product is projected to break even.
- How long is acceptable? Internet projects had to break even within 18 months or they would not get funded. Of course, this varies by industry.

⇒ ROI and break-even are important metrics for firms to use internally and for measuring their success in the market.

# Price-Overview

## **The Internet Changes Pricing Strategies**

### Buyer and Seller Perspectives

Buyer View

Seller View

### Pricing Strategies

Fixed Pricing

Dynamic Pricing

Bartering





## The Internet Changes Pricing Strategies

- **Price** is:
  - The amount of money charged for a product or service,
  - The sum of all the values (such as money, time, energy) exchanged for the benefits of having or using a good or service.
  - Set by negotiation between buyers and sellers.
- Fixed price policies:
  - One price for all buyers,
  - A relatively modern idea = end of the nineteenth century
  - Arose with the development of large-scale retailing and
- Now, one hundred years later: Dynamic pricing  
⇒ The Internet is taking us back to an era of dynamic pricing  
= **Varying prices for individual customers**





## The Internet Changes Pricing Strategies

- In the past, the Internet was used for:
  - Marketing communication benefits,
  - Distribution channel benefits.
- BUT it has a huge potential to change pricing strategies.
- The Internet properties allow for **price transparency**, the idea that both buyers and sellers can view and compare prices for items sold online.

⇒ This feature would tend to commoditize products sold online, making the Internet an efficient marketplace.



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The Internet Changes Pricing Strategies

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Dynamic Pricing

Bartering



## Buyer and Seller Perspectives

- The meaning of *price* depends on the buyer and the seller.
- Each party to the exchange brings different objectives that help describe a *fair price*.
- In the end, both parties must agree on a price.



# Overview

The Internet Changes Pricing Strategies  
Buyer and Seller Perspectives

**Buyer View**

Seller View

Pricing Strategies

Fixed Pricing

Dynamic Pricing

Bartering



## Buyer View

- For the buyers: values = benefits – costs

## The Real Costs

- Today's buyer must be quite sophisticated to understand the real dollar cost of a product.

⇒ The seller's price may or may not include shipping and other hidden elements (costs revealed online at the last minute or through experience).

⇒ **Promotion of a new pricing scheme for a long d**

⇒ Complex deals,

⇒ Some carriers advertise "\$0.07 a minute, period."



## The Real Costs

- How about the time, energy, and psychological costs associated with a buyer's monetary costs?
- Sometimes:
  - The Net is slow,
  - Information is hard to find,
  - Other technological problems,

⇒ Users can spend more time and energy searching for information, becoming frustrated (psychic cost).



## The Real Costs

- Shopping agents will find the lowest prices  
search adds to the time cost.
    - ⇒ A search for the lowest airfare at [Orbitz.com](https://www.orbitz.com) could be minimal compared to the dollar savings,
    - ⇒ BUT the same may not be true for a book price
  - It depends on:
    - The time it takes to search & the savings as a percentage
    - How much familiarity and experience the buyer has with
- ⇒ As bandwidth increases, technology evolves and we develop better online strategies, some of the costs will decline.



## Buyer Control

- The change in power from seller to buyer affects
- **Reverse auction:**
  - Buyers set prices for new products and sellers decide prices.
  - Example = Priceline.com (in 2002 Priceline licensed its system to eBay.)
- **In the B2B market: buyers bid for excess inventory products at firms.**
- **In the B2G market :**
  - Government buyers put out a request for proposal for
  - Businesses bid for the work,
  - The government buyer selects the lowest price = having





## Buyer Control

- **Buyer power online is based largely on the information & product availability on the Internet.**  
⇒ **Online buyers are becoming more sophisticated.**
- **Sellers are more willing to negotiate = giving up more of the exchange.**
- **Sellers realize that information technology can help them manage inventories & automate frequent transactions.**

## Buyer View

Buyers often enjoy many online cost savings:

- **The Net is convenient:**

- It is open 24/7 = users can research, shop, consume e
- E-mail allows asynchronous communication among u  
“telephone tag” with sellers.

- **The Net is fast:**

- Users can order a product and receive it the following

- **Self-service saves time:**

- Customers can track shipments, pay bills, trade secur  
handle many other activities without waiting for sales
- Users can request product information at Web sites a

## Buyer View

- **One-stop shopping saves time:**
  - Increase customer convenience,
  - AutoMall Online = partner with a number of firms to provide comparisons, research about various models and manufacturers information, and service options.
- **Integration saves time:**
  - Web portals ( Yahoo! and AOL) = allow users to quickly
  - Some sites allow users to create individualized Web pages for weather, and other customized information.
- **Automation saves energy:**
  - Customers value simplicity and ease BUT the Net makes technology can help.
  - Customer computers can keep track of passwords for Web purchases at Web sites save time and energy.



## Buyer View

- Some people prefer to order books from [Amazon](#) delivery, knowing that:
  - Amazon prices are often higher than other online booksellers.
  - The book is in stock at a local bookstore,
  - Overnight delivery costs quite a bit more.
- So, why?
  - ⇒ The Amazon brand name is trustworthy,
  - ⇒ These customers have had excellent previous experiences.
  - ⇒ They are familiar with the site and can quickly find what they need.
  - ⇒ Those benefits and time/energy-saving features outweigh the costs.



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**Seller View**

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## Seller View

- Price = the amount of money they receive for
- **Pricing floor = seller costs for producing the**
  - ⇒ Under, no profit is made,
  - ⇒ Above, marketers set a price to draw buyers from
  - ⇒  $\text{Price} - \text{Cost} = \text{Profit}$
- **Factors affecting pricing levels:**
  - Internal factors = the firm's strengths and
    - Its SWOT analysis,
    - Its overall pricing objectives,
    - Its marketing mix strategy,
    - The costs involved in producing and product.
  - External factors = the market structure & perspective.



## Internal Factors: Pricing Objectives

### 1. Profit-oriented objective (most common strategy) :

- Focuses on current profit maximization rather than long-term growth.
- First estimate what demand and costs will be at different prices.
- Then choose the price that will produce the maximum current profit.

### 2. Market-oriented objective:

1. Building a larger customer base = lower costs & higher long-term profit.  
⇒ Low prices generally build market share.  
⇒ AOL broadband Internet connection services is low to increase market share.
2. Product-quality leadership = high price to cover higher per-unit R&D.
3. Negotiation and bidding.

### 3. Competition-based pricing objective:

- Price according to what competitors charge for similar products, or according to the company's own costs or to demand.
- 
- ⇒ When one airline drops price, its competitors usually follow.
- ⇒ The Internet gives firms quicker access to competitive prices.



## Internal Factors: Marketing Mix Strategy

- Successful companies use an integrated and consistent marketing mix.
- Volvo = upscale brand image:
  - Sells high priced automobiles through dealership.
  - Marketing communication = a Web site + offline, TV, radio.
  - More than 80% of its customers shop online.
  - Highly educated men + live in urban areas = confident, price it, + talk to dealers via e-mail ( Dealership).

⇒ Volvo uses the Internet to generate sales leads, know who is likely to buy a high priced item directly from the Internet.

- The Internet is one sales channel + must be used in combination with other mix elements.
- No proven rules or standard practices on how to price products on both online and offline channels.



# Internal Factors: **Information Technology**

## **The Internet Puts Upward Pressure on Prices:**

Reason of the dot-coms failure = expensive customer relationship that did not generate new revenue to cover the sites' costs.

Factors that put upward pressure on Internet pricing:

### **1.Distribution:**

- “The last mile” problem = each product must be shipped to its destination.
- Retailers pass shipping costs on to their customers as part of the order.
- Some vendors inflate the shipping cost to recoup some of their losses.

### **2.Affiliate programs:**

- Affiliate sponsors reward the referring Web sites 7-10% of the revenue reference that leads to a sale.
- This commission inflates the price of the item or lowers the profit margin.

## Internal Factors: **Information Technology**

### **3. Site development and maintenance:**

- Web site development and maintenance is not cheap
- Development of a “conservative” site = \$10,000 - “aggressive” site = \$1 million or more.
- Maintenance = expensive, with hardware, software, and connection costs.

### **4. Customer acquisition costs (CAC).**

- The cost of acquiring new customers online is quite high
- The average CAC for online retailers is \$82.
- How many orders must a firm receive to recoup the cost of the price? BUT customers are not nearly as brand loyal as in the past

# Internal Factors: Information Techno

## **The Internet Puts Downward Pressure on Prices:**

### **1. Order processing—self-service:**

- Customers fill out their own order forms = no order e processing.
- Average retail banking transaction costs \$0.15 - \$0.20

### **2. Just-in-time inventory:**

- Electronic data interchange (EDI) drives down costs by automating business activities & allows for just-in-time (JIT) delivery of parts.
- Some online retailers and offline retailers do not even respond to customer orders.

### **3. Overhead:**

- Online storefronts lower overhead costs = no rent for storefronts.
- Warehouses can be located in areas with low rents, low taxes, and quick access to shipping hubs.



## Internal Factors: Information Techno

### **4. Customer service:**

- \$15 - \$20 in an offline call center versus \$3 - \$5 when on the Internet.

### **5. Printing and mailing:**

- No mail distribution & printing costs for their products.
- Once the catalog is placed online, access carries little cost.
- The same holds true for e-mail promotions.

### **6. Digital product distribution costs:**

- Distribution costs for digital products are extremely low.



## External Factors Affecting Online Pricing: M

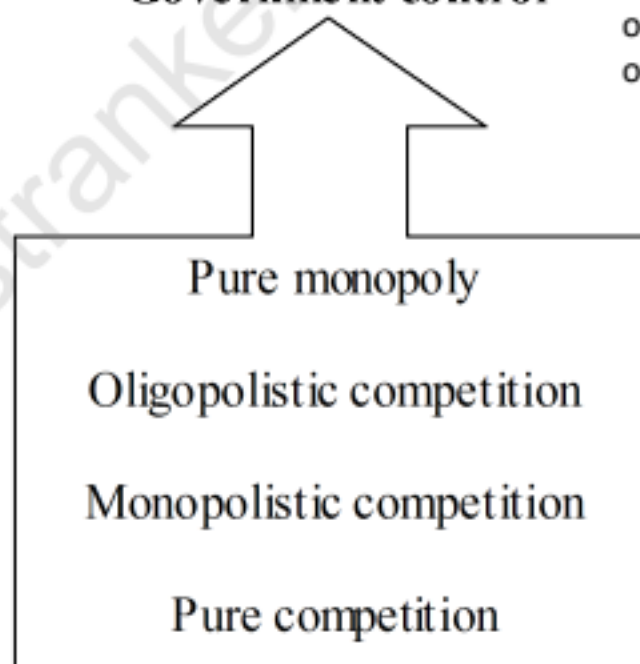
Economists recognize 4 types of markets:

- **Pure competition:**
  - Many buyers and sellers trading in a uniform commodity ( c
  - Product differentiation, and marketing communication play
- **Monopolistic competition:**
  - Many buyers and sellers trade over a range of prices.
  - Sellers can differentiate their offers to buyers.
- **Oligopolistic competition:**
  - A few sellers sensitive to each other's pricing and marketing
  - If a company drops its price, buyers will quickly switch to th
- **Pure monopoly:**
  - This market consists of one seller whose prices are usually r



## Government control

The market structure distorts the behavior of online sellers because if  $p$  is not a completely efficient market, the result is higher online prices—the result of a nearly-efficient market.



Area of control  
e-marketing

Efficient market

Market control





## External Factors Affecting Online Pricing

### Efficient markets:

- Experience perfect price competition.
- Customers have equal access to information about distribution.
- Lower prices, high **price elasticity**, frequent price changes, and narrow **price dispersion**.
- Commodity markets came close to being efficient but intervened with controls.
- The Internet is close to an efficient markets but consumers on the Internet does not bear out all predictions.



## External Factors Affecting Online Pricing

### Is The Net an Efficient Market?

- The Net present all symptoms of efficient markets,
- Access to information through corporate Web sites, sales and distribution channels.
- Products sold exhibit lower prices, high price elasticity and smaller price changes.
- BUT do these factors actually make the Net an efficient market?
  - Lower costs can result in lower prices for consumers,
  - Technology enables buyers to evaluate and demand a wider range of products
  - Research shows that online prices for books and CDs are 16% lower.
  - Does that mean that all prices online are lower? No but there is a downward pressure on Internet prices, contributing to lower prices.



## Efficient Markets

- **Shopping agents** ([www.pricescan.com](http://www.pricescan.com)):
  - Facilitate consumer searches for low prices by displaying comparative format.
- **High price elasticity:**
  - Price elasticity refers to the variability of purchase behavior.
  - Leisure travel is very elastic: When the airlines engage in last-minute sales, they snap up ticket inventories creating huge demand.
  - For books and CDs, the online market is more elastic than the physical market.
- **Reverse auctions:**
  - Allow buyers to name their price and have sellers try to sell at that price.
  - This pits sellers against one another and usually drives prices down.



## Efficient Markets

- **Tax-free zones:**

- Most online retailing takes place across state lines
  - ⇒ Buyers pay no sales taxes on purchases,
  - ⇒ Reduce total out-of-pocket expenditures by 5-8%

- **Venture capital:**

- Venture capital/angel investors finance many Internet startups
- They take a long-term view & are willing to sustain losses (several years) = time to establish brand equity + grab market share
- No profit-maximization pricing objective = can offer products at low prices
- BUT changes are coming ( the dot-com crash + the loss of venture capital money over for many early Net firms).

<b>Shopping Agent Site</b>
<a href="http://Dealttime.com">Dealttime.com</a>
<a href="http://Bizrate.com">Bizrate.com</a> comparison shopping
<a href="http://Mysimon.com">Mysimon.com</a>
Pricegrabber.com*
All other search sites combined
<b>Users of One or More Comparison Shopping Sites</b>
<b>Monthly Users of the Internet</b>
* Represents an aggregation of commonly owned/branded c



mySimon

VCR Search Results

Departments

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[Email this search to a friend](#)

[Save this search](#)

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[Track this search](#)

home > [electronics](#) >

56 me

**Total Pages:** 1

For more than 1 page, scroll to the bottom Results!"

Click on to view the **Price History** of

The **red text** messages allow merchants to special info.

<u>Merchant</u> ◀	<u>Manufacturer, Model &amp; Description</u> ◀
Outpost.com <a href="#">profile</a>	<a href="#">PHILIPS HDR112 PHILIPS TIVO - brought you by Tweeter.</a> <b>Availability:</b> OVERNIGHT
Outpost.com <a href="#">profile</a>	<a href="#">PHILIPS HDR312 PHILIPS-TIVO 30HR - brought to you by Tweeter.</a> <b>Availability:</b> OVERNIGHT

Example of a VCR search at mySimon.com. Since the results are listed in order v are not price competitive risk being left off of the first screen and might as well

## Efficient Markets

- **Competition:**
  - Fierce and very visible.
- **Frequent price changes** (than the offline market)
  - Online suppliers want to attract price-sensitive customers
  - Vendors alter their pricing to place higher or lower prices by shopping agents,
  - In a computerized environment firms can offer smaller increments,
  - Experimentation is easy online, firms see how to adjust & change prices as competition and customer behavior change

## Efficient Markets

- **Lower costs:**
  - Result in either higher profits or lower prices
- **Smaller price change increments:**
  - Smallest offline price change = \$0.35 / o
  - Price-sensitive consumers may respond to small price changes to their advantage,
  - Shopping agents rank their results by price (products with the lowest price advantage earn a higher ranking),
  - It is difficult to change prices offline = re-ranking of results. The need for a price change is even greater.





# Is The Net an Inefficient Market?

- The Web does not act like an efficient market with respect to:
  - ⇒ Prices tend to equalize in commodities markets,
  - ⇒ Online retailer branding and other benefits justify price differences for different customers.
- Greater spread was found between high/low prices online and offline for the same items: 33% for books and 25% for CDs, etc.
  - ⇒ The online channel is still not completely mature = many buyers still use shopping agents.
  - ⇒ Related to the way goods are priced online as well as delivered: shipping costs, shoppers, branding, differentiation, switching costs, and search costs.
- **How goods are priced online:**
  - Offline = fixed prices,
  - Online = goods are available for a fixed price, a dynamically updated price,
  - PLUS, shipping & special services make it difficult to compare prices.



# Is The Net an Inefficient Market?

- **Delivery options:**
  - The same product delivered under differing conditions has different value to the consumer.
  - A product delivered to the door may have considerably more consumers than one that is bought at the store = Online
- **Time-sensitive shoppers:**
  - Time-sensitive shoppers may not wish to invest the time to track down the best price (complexity of the sites).
- **Branding:**
  - The top Web sites get most of the traffic,
  - Consumers show a preference for brand when using search engines; brand does not offer the lowest price,
  - The best-branded Web sites spend millions of dollars on promotion. Amazon spends 24% of revenues on promotion, but it is less than bargain online retailers.



## Is The Net an Inefficient Market?

- **Differentiation:**

- Strong branding = perceived/real product differentiation  
different pricing strategy.

- **Switching costs:**

- Customers face switching costs when they switch to a new online retailer.
- Some customers are not willing to incur switching costs with a familiar online retailer.
- Why? The customer loses access to a familiar online retailer.
- In the B2B market: it is more effective to deal with a limited number of suppliers rather than out for bid.

## Is The Net an Inefficient Market?

- **Second-generation shopping agents:**
  - Guide the consumer through the process of identifying benefits + evaluating the value equation
  - For benefits ranked high, customers may pay more.
  - BizRate allows consumers to evaluate merchant ratings compiled from previous customers
- Is the Internet an efficient market? Not yet, but features to move toward efficiency in the future



# Overview

The Internet Changes Pricing Strategies

Buyer and Seller Perspectives

Buyer View

Seller View

**Pricing Strategies**

Fixed Pricing

Dynamic Pricing

Bartering

## Pricing Strategies

- **Price setting is full of contradictions:**
  - **Short term:** If the price is too low profits will suffer/ if i
  - **In the long run:** an initial low price that builds market s  
lower costs + increase profits.
- **Information technology has complicated pricing**
  - Sellers can easily change prices according to each buyer
  - BUT it is a steep learning curve.
  - Pricing objectives produce very different results = a low  
expense of maximizing profit.
  - Buyer value perceptions vary between rational and em  
same way.
  - Firms using multichannel delivery systems must consid  
and buyers' differing value perceptions about purchasi  
mortar store.
  - Pricing is a tricky business, guided by data, experience,



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The Internet Changes Pricing Strategies

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## Fixed Pricing

**Fixed pricing** (also called *menu pricing*):

Sellers set the price and buyers take it or leave it.

This is the model most brick-and-mortar retailers use.

Two common fixed pricing strategies used are:

### **1. Price leadership:**

A price leader = lowest-priced product among all other retailers.

To implement this strategy, costs must be low.

Largest producer = price leader because of economies of scale.

The second-lowest-priced item also gains sales because it offers advantages over the price leader.

## Fixed Pricing

- Two common fixed pricing strategies used online:
2. **Promotional pricing:**
    - Used to encourage a first purchase, encourage close a sale.
    - Carry an expiration date to create a sense of urgency.
    - Promotional pricing on the Internet can be high. Email messages and research shows high customer response to Internet purchases.



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## Dynamic Pricing

- **The strategy of offering different prices to different customers**
  - ⇒ To optimize inventory management,
  - ⇒ To segment customers by product use or other variables
  - ⇒ Airlines have long used dynamic pricing software to price tickets
- **With the right technology, segments as small as individuals can be offered different prices**
  - ⇒ Prices can be changed daily or even hourly,
  - ⇒ Depending on changes in demand, supply, competition



## Dynamic Pricing

**Dynamic pricing can be initiated by the seller or the buyer.**

- **2 types of dynamic pricing:**
  1. **Segmented pricing = the company sells a product at more than one price, based on segment differences other than price alone. Segmented pricing is usually set by the seller.**
  2. **Negotiation = the company negotiates prices with individual customers. Segmented pricing involves a fixed price for different customers + may change over time. Negotiation is initiated by the buyer and sellers agree. Negotiation is initiated by the buyer.**

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## Segmented Pricing

- Uses the Internet properties for mass customization, automated pricing based on order size and timing, demand and supply levels, and other factors.
- The firm uses decision rules to set pricing levels for segmented customer behavior.
- Is easier online at the individual level because sophisticated algorithms can set rules and make price changes.
- Using cookie files, online sellers recognize individuals and set prices to motivate transactions: Presents customized recommendations to each customer.
  - ⇒ Online firms can build loyalty programs, like frequent flyer programs, to individuals who return and purchase often.



## Segmented Pricing

- Effective when the market is segmentable,  
⇒ The different prices reflect real differences in each segment's product's value + show different degrees of demand.
- Appropriate when the costs of segmentation + segmentation costs exceed the extra revenue obtained from the price differentiation.
- The firm's segmented pricing must meet legal and regulatory requirements.
- The firm must take care not to upset customers who pay different prices than their neighbors.  
⇒ E-marketers employing segmentation must use customer-specific discounts to new/loyal customers.



## Geographic Segment Pricing

- A company sets different prices when selling a product in different countries.  
⇒ Seller knows where the user resides because server logs register IP addresses.  
top level domain name typically indicates country of residence.
- Geographic pricing can help a company better relate its prices to local market conditions or regional factors = competitive pressure, local costs, economic conditions, cultural differences, regulatory guidelines, and distribution opportunities.
- The manufacturer faces price escalation and must price to cover the costs of international transportation, tariffs, and importer margins, among other factors in different locations.
- Given the Internet's worldwide reach, marketers also may face competition from consumers to those coming in from markets it does not serve = This helps to build the firm's brand.





## Value Segment Pricing

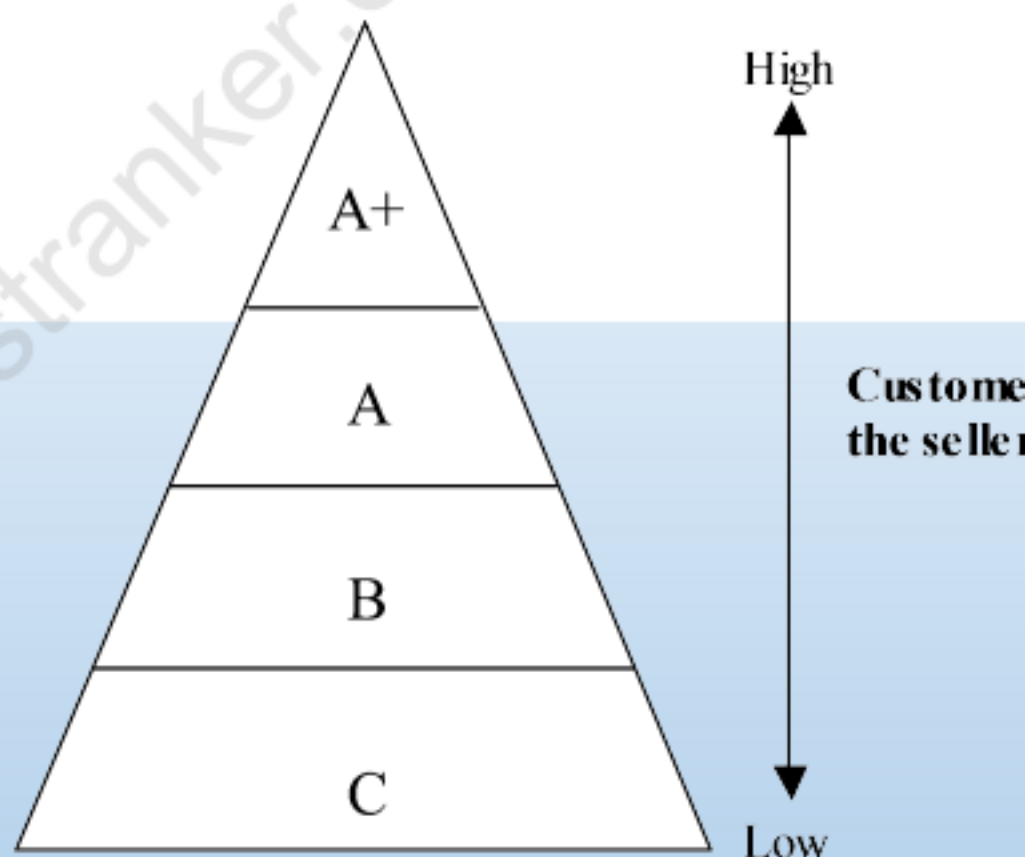
- The seller recognizes that not all customers provide equal value.
- **Pareto Principle** states that 80% of a firm's business usually comes from 20% of its customers.
- A+ customers:
  - A small group that contribute disproportionately to the firm's revenue.
  - The most loyal customers who may become brand advocates and referrals = The frequent flyers.
  - They are also brand-loyal frequent customers who provide repeat business to the seller.
  - ⇒ When A+ or A customers appear at the Web site, they receive special attention.
  - ⇒ They may not be price sensitive = they perceive that the benefits they receive + has earned their loyalty.



## Value Segment Pricing

- B customers are price sensitive + use the product category as a benchmark for other customers.
- C customers: large group + may be price shoppers or bargain hunters, not accounting for much of the seller's revenue.
- The seller's goal is to keep A customers brand loyal and move them to a higher level of value.
  - ⇒ Pricing strategies can help.
  - ⇒ Giving high-value customers the first shot at discounts.
- B and C customers: might enjoy e-mail blasts with fixed prices, informed of the firm's price + The seller can use this to move customers up in value.





**Customers Grouped by Value**

# Negotiated Pricing

- Through negotiation the price is set more than one round of discussion.
- Haggling over price is common in many countries; some people are shied away from such bargaining.
- The spectacular growth of online auctions is changing the way people buy and sell.
- Many consumers enjoy the sport and community of online auctions. They are just looking for a good deal.
- Auctions in the B2B market are a very effective way to sell large inventory at a price set by the market.



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Buyer View

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## Bartering

- Goods or services are exchanged for other products or services instead of cash.
- Users may enjoy tax benefits, but otherwise it is not a particularly profitable pricing strategy.
- Consumers exchanging/auctioning used items can lead to sales of new products.

## Review Questions

1. How does fixed pricing differ from dynamic pricing?
2. What is price transparency and why is it an important concept for marketers to understand?
3. List the main factors that put downward pressure on the pricing channel.
4. List the main factors that put upward pressure on the pricing channel.
5. From the buyer's perspective, how does the Internet affect pricing?
6. What is an efficient market? What makes the Internet an efficient market and what indicates that it is not an efficient market?
7. How do e-marketers use geographic, value segmentation, and dynamic pricing online?

## Discussion Questions

1. Near perfect access to pricing information is a problem for airlines in recent years. How have airlines responded to this problem? Should other industries adopt similar strategies?
2. Which of the online cost-saving factors do you think have the most impact on the final price? Why?
3. Which pricing strategy would you use to introduce a new product with limited access? Why?
4. Internet technology allows a company to price the same product for different customers. What do you think would be the advantages and disadvantages of Amazon offering the same book at different prices to different customers? What about a different price to a student?
5. As a buyer, how do you think price transparency affects your bidding strategy for new products auctioned on eBay?
6. As a seller, how do you think price transparency affects your bidding strategy to get as high a price as possible for used products you auction?

[firstranker.com](http://firstranker.com)

# Distribution

# Overview

## **Distribution Channel Overview**

Types of Intermediaries

Distribution Channel Length and Functions

Functions of a Distribution Channel

Distribution System

Channel Management and Power

Classifying Online Channel Members

Content Sponsorship

Direct Selling

Infomediary

Intermediary Models

Distribution Channel Metrics

B2C Market

B2B Market



## Distribution Channel Overview

- Distribution determines how the customer receives product and determines brand image.
- Marketers set strategies for availability, access, and cost.
- **Distribution channel** = group of interdependent firms that transfer product and information from the supplier to the customer. It is composed of:
  - **Producers**, manufacturers, or originators of the product.
  - **Intermediaries**—the firms that match buyers and sellers and facilitate transactions among them,
  - **Consumers**, customers, or buyers who consume or use the product.



## Distribution Channel Overview

- Each channel member performs some of the functions needed to get the product from the point of origin to the point of consumption.
- Intermediaries:
  - Perform some of these functions more effectively than channel participants.
  - Benefits = mediating transactions between participants in the form of lowered search, monetary, transaction costs.

## Distribution Channel Overview

- The structure of the distribution channel and possible opportunities for marketing online.
- When a consumer purchases online:
- He must perform the search function himself.
- With an automated transaction, he could be performing some distribution functions.
- 4 elements of a company's channel structure:
  1. Types of channel intermediaries.
  2. Length of the channel.
  3. Functions performed by members of the channel.
  4. Physical and informational systems that link members, provide for coordination and management of the channel, and deliver the product or service.

# Overview

Distribution Channel Overview

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Infomediary

Intermediary Models

Distribution Channel Metrics

B2C Market

B2B Market

# Types of Intermediaries

Channel intermediaries include:

1. **Wholesalers:** buy products from the manufacturer + resell to retailers.
  2. **Retailers** (brick-and-mortar & online): buy products from wholesalers and sell to consumers.
  3. **Brokers:** facilitate transactions between buyers and sellers but do not take title to the goods. Either party = market makers.
  4. **Agents:** represent the buyer/seller + facilitate transactions but do not take title to the goods. Manufacturer's agents represent the seller & purchasing agents represent the buyer.
- For digital products (software), the entire distribution channel is Internet-based = the supplier can deliver it over the Internet to the customer.
  - Non-digital products (flowers/wine) may be purchased via truck. The exact location of that shipment can be tracked via a GPS interface.

# Overview

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Content Sponsorship

Direct Selling

Infomediary

Intermediary Models

Distribution Channel Metrics

B2C Market

B2B Market



## Distribution Channel Length and Function

- The length = number of intermediaries between manufacturer and consumer:
  - **Direct distribution channel**
    - No intermediaries,
    - The manufacturer deals directly with the consumer.
    - Dell Computer sells directly to customers.
  - **Indirect channel**
    - Incorporate one or more intermediaries,
    - Suppliers, a manufacturer, wholesalers, retailers.
    - Intermediaries help to perform important functions.

## Distribution Channel Length and Functions

- **Disintermediation** = eliminating traditional intermediaries
  - The Internet was predicted to eliminate intermediaries.
  - It can potentially reduce costs,
  - Taken to its extreme, disintermediation allows for goods and services directly to the consumer in a direct channel.
  - Complete disintermediation = the exception because the Internet cannot handle channel functions more efficiently than specialized).





## Distribution Channel Length and Function

- Initially, the Internet was thought to eliminate intermediaries.
- This line of reasoning failed to recognize some factors:
  1. The U. S. distribution system is the most efficient.
  2. Using intermediaries allows companies to focus on their core competencies.
  3. Traditional intermediaries have been replaced with new intermediaries.



## Distribution Channel Length and Function

- Online intermediaries are often more efficient than their brick-and-mortar counterparts:
  - Online storefront:
    - = no rent, maintenance, and staff for retail space
    - + inexpensive warehouse = acceptable storage for goods sold online,
  - BUT online stores = costs of setting up & maintaining websites,
  - These charges can be significant, but the savings realized by eliminating the physical storefronts



## Distribution Channel Length and Function

- The Internet has added new intermediaries
  - Yahoo! Broadcast aggregates multimedia content  
= Yahoo! and Yahoo! Broadcast  
= a record store, audio bookstore, radio broadcast  
rolled into one.
  - Other intermediary = Shopping agents, buyer's  
**metamediaries.**




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CNET Shopper Helps Users Find Computer-Related Products

Source: [www.FirstRanker.com](http://www.FirstRanker.com)

# Overview

Distribution Channel Overview

Types of Intermediaries

Distribution Channel Length and Functions

**Functions of a Distribution Channel**

Distribution System

Channel Management and Power

Classifying Online Channel Members

Content Sponsorship

Direct Selling

Infomediary

Intermediary Models

Distribution Channel Metrics

B2C Market

B2B Market



# Functions of a Distribution Channel

- Many functions must be performed in moving products from producer to consumer.
- Internet property:
  - ⇒ **market deconstruction** (removing distribution channel players that normally perform them),
  - ⇒ + **reconstruction** (reallocating those functions to other ways).
- Online retailers normally hold inventory and perform distribution functions in response to a customer order.
- Alternative scenario, the retailer might outsource the distribution functions to a logistics provider such as UPS:
  - Order forwarded to a UPS warehouse where the product is stored.
  - UPS picks, packs, and ships the product to the consumer.



# Functions of a Distribution Channel

- Distributors perform many value-added functions.

## **1. Transactional Functions:**

- Making contact with buyers and using marketing communication strategies to make them aware of the product.
- Matching product to buyer needs, negotiating terms, and processing transactions.



# Functions of a Distribution Channel

## 1. Contact with Buyers

- Internet = a new channel for making contact  
= the 4th channel after personal selling, mail, telephone,  
= 3rd channel for retailers after brick-and-mortar and catalogs.
- The Internet channel adds value to the company
  - Contact can be customized to the buyer's needs
  - The Internet provides a wide range of referral engines, shopping agents, newsgroups, chat rooms and affiliate programs,
- The Internet is always open for business, 24/7





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**ADDRESS OR CROSS STREETS**

(e.g., 1000 North First Street or Main & Pine St.)

**CITY / STATE OR ZIP CODE**

(e.g., Torrance, CA or 90501)

**OR DEALER**

(e.g., your Honda dealer)

Submit

Reset

*Powered by Vicinity Corporation*

All information applies to U.S. Honda dealerships only

# Functions of a Distribution Channel

## 2. Marketing Communications

- Marketing communication = advertising product promotion:
  - ⇒ Function often shared among channel players
  - ⇒ Most effective when they represent a common goal among channel players.
  - ⇒ A manufacturer may launch an ad campaign or offer coupons.



## Functions of a Distribution Channel

The Internet adds value to the marketing communication in several ways:

- Functions that previously required manual labor can now be automated. Promotional messages are sent to millions of users via email.
- 
- Communications can be monitored and altered. Dozens of companies track the click-through rates of their banner ads + make subsequent adjustments.
- Software for tracking a user's behavior can be used to target ads to individuals. [www.engage.com](http://www.engage.com) anonymously tracks user behavior to target ads to individual users.
- The Internet enhances promotional coordination among different channels. E-mail ads and other material to each other, and all promotions on a Web site at any time.

# Functions of a Distribution Channel

## 3. Matching Product to Buyer's Needs

- **Shopping agents:**
  - ⇒ Given a general description of the buyer's requirements, they find relevant products.
  - ⇒ Allow consumers to quickly compare prices and features.
  - ⇒ MySimon ([www.mysimon.com](http://www.mysimon.com)), PriceScan ([www.pricescan.com](http://www.pricescan.com))
- **Online retailers** help consumers match product to need.
- **Collaborative filtering agents:**
  - ⇒ Can predict consumer preferences based on past purchases.
  - ⇒ Amazon uses a collaborative filtering agent to recommend products to customers.
  - ⇒ Once the system is in place, it can handle millions of users at a low cost. The effectiveness of the collaborative filtering agent increases as more consumers are added to the database.

**OUTFIT YOUR  
LAND ROVER**

**COLORS**

Chautoun White

**WHEELS**

Typhoon

**RUNNING BOARDS**

Yes

**ROOF RACK**

Basic

**MUD FLAPS**

Yes

**BRUSH BARS**

Wrap Around

**PRINT YOUR  
SELECTED OPTIONS**

RANGE ROVER



# Functions of a Distribution Channel

## 4. Negotiating Price

- **Price negotiation** involves offers and counteroffers between buyers and sellers (usually over the phone, or via e-mail).
  - ⇒ Shopping agents negotiate prices downward on behalf of their clients in order of best price first.
- **Bidding** = form of dynamic/flexible pricing in which the buyer has the opportunity to bid.
  - ⇒ Consumer market auctions held by [eBay](http://eBay.com) and [Amazon](http://Amazon.com).
  - ⇒ Many businesses currently conduct bidding online:
  - ⇒ General Electric solicit online bids from their suppliers.
- Effect of Online bidding = widening the supplier pool = increasing competition = lower prices.
- Many auction houses allow buyers to program an agent to bid against other buyers or their agents.

# Functions of a Distribution Channel

## 5. Process Transactions

- Electronic channels lower the cost to process transactions dramatically.
- The cost of manually processing an average order is \$79—mainly due to labor costs.



# Functions of a Distribution Channel

## 2. Logistical Functions

- Include:
  - Physical distribution activities  
= transportation or inventory storage,
  - Product aggregation.
- Logistical functions are often outsourced to logistics specialists.





# Functions of a Distribution Channel

## 1. Physical Distribution

- Most products sold online are still distributed through physical channels.
- Yet any content that can be digitized can be transferred to the consumer over the Internet: Text, graphics, audio, and video.
- Products currently delivered over the Net include e-books, e-newsletters, programs, magazines, books, newspapers, software, and music.
- Distribution costs are significantly lower online.
- The alternative, physical distribution of digital products, involves:
  - Embedding the content in a medium such as newsgroups or web pages.
  - Packaging and shipping.



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# Functions of a Distribution Channel

## 2. Aggregating Product

- Suppliers operate more efficiently when they produce a narrow range of products.
- Consumers prefer to purchase small quantities of many products.
- ⇒ **Channel intermediaries** perform the essential function of aggregating products from multiple suppliers so that the consumer has many choices in one location.
- Online category killers ([www.cdnow.com](http://www.cdnow.com)) = offer a wide range of CDs and disks from multiple suppliers.
- The Internet can bring together products from many suppliers by organizing the display on the user's computer.
- ⇒ Shopping agents: the unit of aggregation is the product category or store.



# Functions of a Distribution Channel

## Third-Party Logistics—Outsourced Logistics

- A major logistics problem in the B2B market is reaching the goals of timely delivery and minimal inventory.
- ⇒ Solution: to place inventory with a **third-party logistics** company like UPS or FedEx.
- ⇒ Third parties can also:
  - Manage the company's supply chain,
  - Provide value-added services such as product customization,
  - Handle the order processes, replenish stock when needed,
  - Assign tracking numbers so customers can find their orders.



## Functions of a Distribution Channel

- Product returns (reverse logistics) = an other major function
  - Can run as high as 15%,
  - Customers complain about the difficulty and expense of returning items.
  - Some Web sites offer to pay return shipping.
  - But the customer still has to weigh the package, pack it, and ship it.
- U.S. Postal Service (USPS) program to ease the return process
  - Merchants install software to authorize customer to create postage-paid return labels.
  - The customer boxes the item, slaps on the label, and drops it in the letter carrier.
  - Customers can weigh their packages and download a printed label using a service from eStamps, even if they don't participate in the USPS program.



# Functions of a Distribution Channel

## The Last Mile Problem

- Problem for online retailers/logistics managers: added expense of shipping large quantities to individual homes and businesses.  
⇒ Less expensive to send cases of product to wholesalers and then divide the quantities into smaller units for sale.
- Other problems: 25% of deliveries require multiple deliveries; 30% of packages are left on doorsteps when no one is home.
- 3 solutions:
  - Smart box: 2.5 foot tall steel box with a numeric keypad code. Consumers receive a special code for each delivery and use it to open the box. Shipment = efficient and secure solution if consumers are willing to use the code.
  - Retail aggregator model: Packages are shipped to participating retail stores/service stations, then consumers pick up the packages.
  - Special *e-stops* = store fronts that exist solely for customer convenience.



# Functions of a Distribution Channel

## 3. **Facilitating Functions** (performed by channel members)

### 1. **Market Research**

- A major function of the distribution channel.
- Benefits = an accurate assessment of the size + character of the target audience.
- The Internet affects the value of market research in the following ways:
  1. Information available for free.
  2. Research conducted from the office ( limits trips and expenses).
  3. Information = timelier.
  4. Information in digital form = e-marketers can easily analyze data using other software.
  5. Because so much consumer behavior data can be collected, marketers can receive detailed reports.
- Research requires investment in human resources to distill the information into costly commercial information ([comScore](http://comScore), [Media Metrix](http://Media Metrix))





# Functions of a Distribution Channel

## 2. Financing

- Financing purchases is an important factor in consumer/business markets.
  - ⇒ Intermediaries want to make it easy for consumers to finance purchases in order to close the sale.
  - ⇒ Online consumer purchases are financed through credit cards or special financing plans.
  - ⇒ Consumers are concerned about divulging financial information online.

How do Online merchants know they are dealing with a legitimate consumer using a legitimate credit card?

⇒ **Secure Electronic Transactions (SET)**





# Functions of a Distribution Channel

SET:

- Legitimizes merchant & consumer + protects the consumer
- Card number goes to a third party with whom the merchant and consumer interact one another + the transaction.
- BUT it is so technical that most consumers do not appreciate it
- BUT, most merchants do not want to pay for costly SET
- Successful outside the United States because of legislative protection
  - Consumers have a max \$50 liability for purchases made with their card
  - Card issuer usually waives the \$50 in order to retain customer loyalty
  - That legal protection does not exist in some countries, so consumers are not protected for all charges on their card up to the time they report the loss
- Brokers and agents often extend lines of credit to buyers + speed the buying process and make the online channel more efficient



# Overview

Distribution Channel Overview

Types of Intermediaries

Distribution Channel Length and Functions

Functions of a Distribution Channel

**Distribution System**

Channel Management and Power

Classifying Online Channel Members

Content Sponsorship

Direct Selling

Infomediary

Intermediary Models

Distribution Channel Metrics

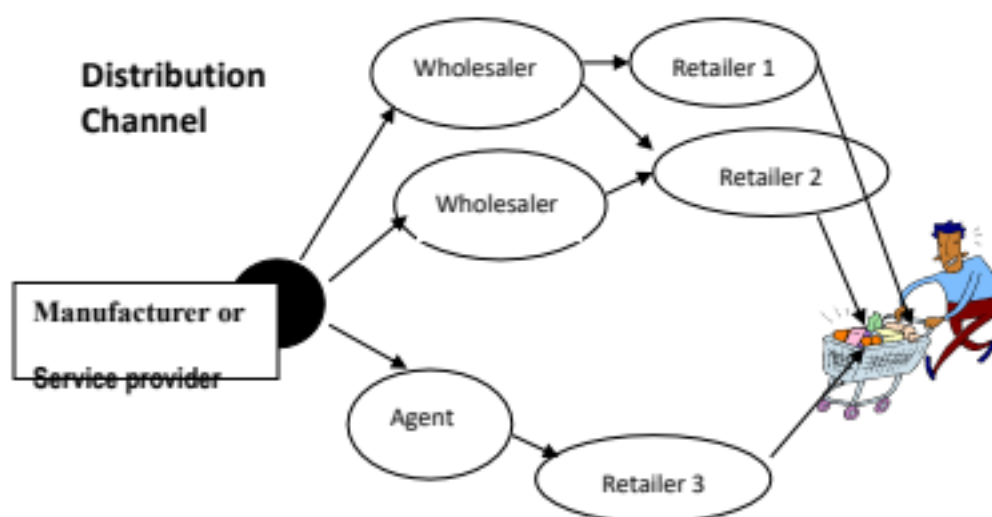
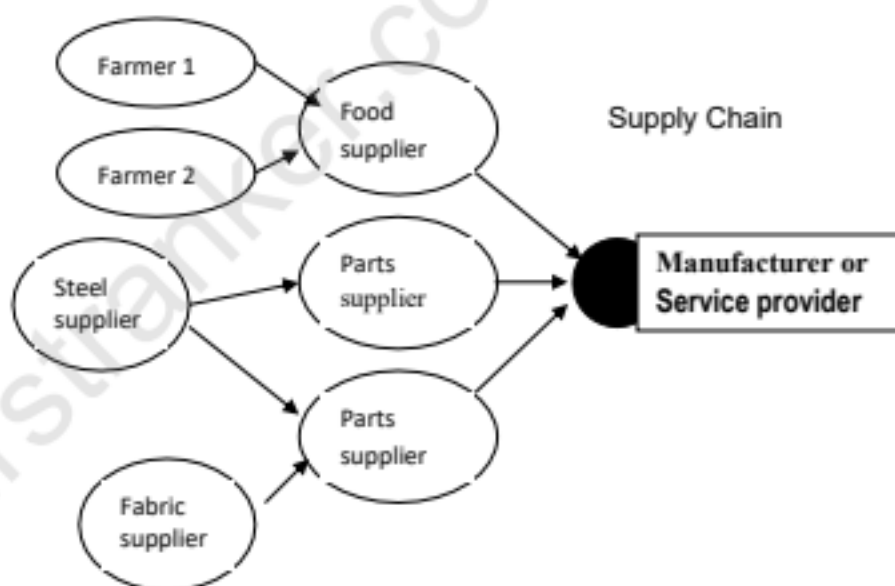
B2C Market

B2B Market



## Distribution System

- The distribution channel = a system of inter organizations working together to build value and proceed through the channel .
- 3 ways to define the scope of the channel as a system
  1. Consider distribution functions that are downstream to the consumer = definition of distribution channel
  2. Consider the supply chain upstream from the manufacturer to the raw materials = definition of the **supply chain**
  3. Consider the supply chain, the manufacturer, and the integrated system = the **value chain** = *integrated logistics*
- The supply chain includes upstream and downstream processes internal to the firm.



Supply Chain + Distribution Channel = New Definition of Supply Chain

The circles represent firms in a network of suppliers, manufacturers, and

# Distribution System

- Value chain = Integrated logistics = Supply chain.
- **Supply chain management (SCM):** coordination of flow of material (e.g., physical product), information (e.g., credit terms), and financial (e.g., credit terms).
  - ⇒ *Flow* = continuous stream of products, information, and the channel members.
  - ⇒ Most important flow = information (creation of physical products depend on information).
- **Continuous replenishment** = “scan one, make one”
- **Build to order:** for complex products (computers) = quickly.

## Distribution System

- Continuous replenishment + build to order help to e
    - Reduces costs because inventory is expensive to
    - Increases profits by avoiding unsold inventory g a discount.
  - Cost savings can result in lower prices = improves th customer.
  - Creating product in response to demand results in d
- ⇒ The customer's value is only increased if the delays
- Today's customer wants it all = lower prices + quick d configuration.

⇒ Solution = tightly coordinate the activities of upstre  
workings of the firm + the downstream distribution

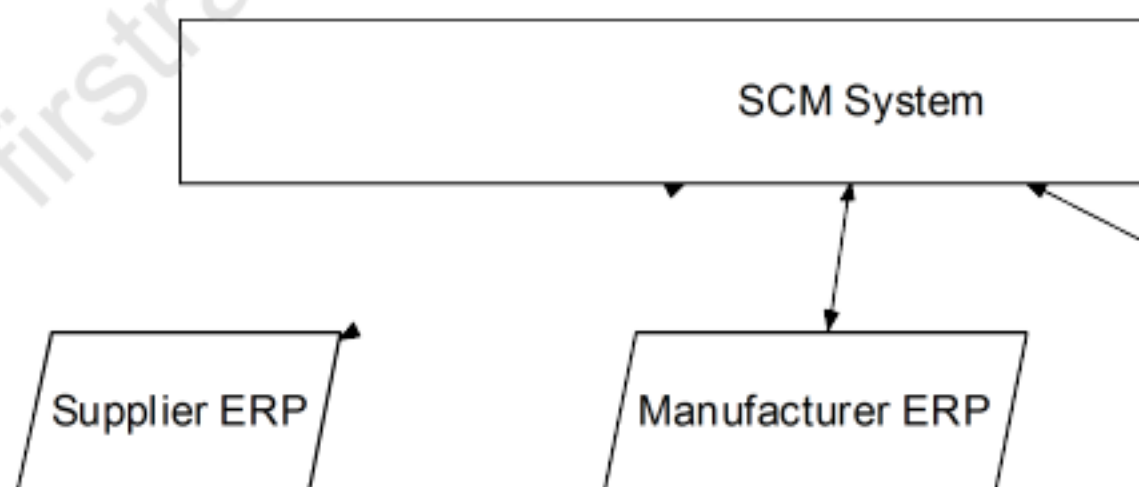


## Distribution System

- Problem in SCM = decide which participant channel composed of many firms:
  - ⇒ Sun Microsystems: designs computers but doesn't b
    - ⇒ Sun manages entire supply chain + suppliers of
    - ⇒ Supply chain management software allows for c
    - ⇒ Customer demand information is visible to the what portion of the demand they can handle.
- Interoperability = important in SCM:
  - ⇒ Participants have **enterprise resource planning (ERP)** in-house inventory and processes.
  - ⇒ When individual ERP systems share information with coordination is facilitated in real time.



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# Overview

Distribution Channel Overview

Types of Intermediaries

Distribution Channel Length and Functions

Functions of a Distribution Channel

Distribution System

**Channel Management and Power**

Classifying Online Channel Members

Content Sponsorship

Direct Selling

Infomediary

Intermediary Models

Distribution Channel Metrics

B2C Market

B2B Market

# Channel Management and Power

- A channel structure requires coordination, communication, and conflict resolution to avoid conflict among its members:
  - A leader (powerful channel member) institute requirements
  - Market competition between entire supply chains in
- Introduction of new information technology can alter the balance of power among existing channel players:
  - In many cases the power of the buyer has been significant at the expense of the supplier.
  - In other cases the power of the supplier has come out
  - A classic source of power = geographic location, BUT the importance of location and offers new sources of supply
- The supplier that takes the early lead online will recruit more consumers and firms eager to shop in this channel.
  - When multiple firms are online, suppliers can gain power through their relationships with buyers.

# Channel Management and Power

- **Electronic data interchange (EDI) :**
  - Is the computerized exchange of information between two parties (eliminates paperwork).  
⇒ Buyer logs onto the supplier's computer system and an order is electronically conveyed to the supplier and an electronic bill.
  - Is effective for establishing structural relationships
- The Internet has put a new face on EDI with the use of interoperable systems:
  - The Internet replaced expensive proprietary networks
  - Business can use the same computer to interface with multiple partners
  - Networks of suppliers and buyers can more easily establish a common data-based interface.



# Channel Management and Power

- EDI is based on 3 key variables:
  - The openness of the system,
  - The transport method,
  - The type of technology used for implementation
- The goal is to create a standards-based open system over the Internet so all suppliers and buyers can integrate their systems.
- The technology with the greatest promise is Extensible Markup Language (XML).



Openness	Transport	
Proprietary	Non-Internet	T
Open system	Non-Internet	S (C
Proprietary	Internet	A In
Open system	Internet	C In
Open system	Internet	E L

# Overview

Distribution Channel Overview

Types of Intermediaries

Distribution Channel Length and Functions

Functions of a Distribution Channel

Distribution System

Channel Management and Power

**Classifying Online Channel Members**

Content Sponsorship

Direct Selling

Infomediary

Intermediary Models

Distribution Channel Metrics

B2C Market

B2B Market



## Classifying Online Channel Members

- Online intermediaries are classified according to the
  - Many e-business models have new names, but how new?
- ⇒ Most e-business models turn out to be variations on concepts.
- The first two models: content sponsorship and direct producers sell directly to customers using e-marketing
  - The third model, infomediary = a combination of content selling.
  - The fourth model involves intermediaries in the distribution include brokers and agents, online retailers who sell

1. Content sponsorship
2. Direct selling
3. Infomediary
4. Intermediaries

Broker:                      Online exchange  
                                     Online auction

Agent:                      *Agent models representing seller*  
                                     Selling agent (affiliate program)  
                                     Manufacturer's agent (catalog aggregators)  
                                     Metamediary  
                                     Virtual mall

*Agent models representing buyer (purchasing agent)*  
                                     Shopping agent  
                                     Reverse auction  
                                     Buyer cooperative

E-Tailer:                    Digital products  
                                     Tangible products



# Overview

Distribution Channel Overview

Types of Intermediaries

Distribution Channel Length and Functions

Functions of a Distribution Channel

Distribution System

Channel Management and Power

Classifying Online Channel Members

**Content Sponsorship**

Direct Selling

Infomediary

Intermediary Models

Distribution Channel Metrics

B2C Market

B2B Market

# Content Sponsorship

## Content sponsorship:

- Firms create Web sites, attract a lot of traffic, and sell advertising space.
- Can use a niche strategy to draw a special interest audience.
- Generates revenues for firms selling advertising to content providers.
- The product = ad space on a Web site.
- This model is used by the major portals (AOL, Yahoo), search engines, magazines/newspapers, etc.
- Much content on the Net is ad supported.
- Used in combination with other models to generate revenue.  
= [Buy.com](http://Buy.com) (online retailer) sells ads on its site to generate revenue, allowing it to lower prices.

# Overview

Distribution Channel Overview

Types of Intermediaries

Distribution Channel Length and Functions

Functions of a Distribution Channel

Distribution System

Channel Management and Power

Classifying Online Channel Members

Content Sponsorship

**Direct Selling**

Infomediary

Intermediary Models

Distribution Channel Metrics

B2C Market

B2B Market



# Direct Selling

## Direct selling:

- The manufacturer sells directly to the consumer or business
- It creates **disintermediation** = no longer need of who
- Common practice in offline selling + the Internet made it possible to bypass intermediaries & go directly to consumers.

⇒ Successful in saving millions of dollars in sales-related costs, product configuration, and order processing,

⇒ Successful in the B2C market with sales of digital products that require no inventory and no pick, pack, and ship logistics.

# Direct Selling

## Direct selling:

- Subscription services = a form of direct selling.  
⇒ The subscription model has not been very successful.  
⇒ BUT the *Wall Street Journal Online* and [Classmates.com](#) use this content in this manner.
- Benefits of disintermediation:
  - Saves customers money by avoiding the middleman.
  - Leads to more rapid delivery of the product,
  - Ability to claim a piece of the middleman's margin.
- Costs of direct selling = higher search costs to locate products + the time costs of transacting with each manufacturer.

# Overview

Distribution Channel Overview

Types of Intermediaries

Distribution Channel Length and Functions

Functions of a Distribution Channel

Distribution System

Channel Management and Power

Classifying Online Channel Members

Content Sponsorship

Direct Selling

**Infomediary**

Intermediary Models

Distribution Channel Metrics

B2C Market

B2B Market



# Infomediary

## **Infomediary:**

- Online organization that aggregates and distributes information.

### **1. A market research firm:**

- ⇒ Compensates (comScore Media Metrix) or not (DoubleClick) for providing information.

### **2. A variation on the content sponsorship model:**

- ⇒ The firm pays the customer to buy space on computer screen.
- ⇒ Payment = money, points toward shopping, free Internet service.
- ⇒ The consumer is really selling space on screen + attention = the cyberspace.
- ⇒ Infomediary generates revenue by reselling the screen space.
- ⇒ To receive payment, the consumer must share demographic information.
- ⇒ Consumer installs software that gives a permanent window into their life.
- ⇒ The consumer benefits by receiving ads targeted to her specific interests.

# Infomediary

## **Infomediary:**

- Original idea = give consumers more control over marketing messages.
- Benefit: the consumer information increases the marketing inventory.
- Benefit to advertisers: they can market to very specific audience which has expressly opted-in to the marketing.
- Permission marketing allows advertisers to contact consumers before possible—advertise while the consumer is on a competitor's site!



# Overview

Distribution Channel Overview

Types of Intermediaries

Distribution Channel Length and Functions

Functions of a Distribution Channel

Distribution System

Channel Management and Power

Classifying Online Channel Members

Content Sponsorship

Direct Selling

Infomediary

**Intermediary Models**

Distribution Channel Metrics

B2C Market

B2B Market

# Intermediary Models

## 1. Brokerage Models

- The brokers:
  - Create a market in which buyers and sellers negotiate
  - Charge the seller and/or buyer a transaction fee,
  - Don't represent either party for providing exchange
  - Provide many value-added services to help attract more transactions.
- Brokerage models operate Web site exchanges in
  - The most popular online brokerage models = exchange
  - Benefits to the buyer: convenience, speed of order processing + cost savings (lower prices, decreased search and frustration in locating the appropriate seller).
  - Benefit to the seller: creation of a pool of interested buyer (lowered customer acquisition and transaction costs)



# Intermediary Models

## Online Exchange:

- E\*Trade, Ameritrade, and a host of other online brokers allow customers to place trades from their computers without phoning a broker.
- Benefits:
  - Pass along cost savings to the buyer = lower transaction costs.
  - Execute trades very quickly, provide reference research, and offer program trading.
- Newer services bypass the Web & connect traders straight to the market.
- Carpoint.msn.com, AutoByTel, and other online brokers allow customers to receive bids from dealers on a specific car in a specific area without first phoning or visiting the dealer.
  - The dealers offer a no-hassle price quote through the Web.
  - The customer avoids negotiating price with dealer.

## Intermediary Models

**Online Exchange:** [Converge](#), leading anonymous auction site in  
the global electronics market:

- Aggregates supply & demand from thousands of suppliers, including original equipment, contract manufacturers, and resellers,
- Similar model to stock exchange:
  - Customers contact a trader on the floor of the exchange to make a request,
  - The trader locates a supplier, completes the purchase, and takes the spread between the buy and sell price,

- Additional revenue = Other fixed fees,

## Intermediary Models

**Online Exchange:** [Converge](#), leading anonymous exchange in the global electronics market:

- Anonymous exchange = Suppliers ship to a warehouse (goods are inspected / forwarded to buyers)
- Quality of the products guarantees + no-questions-asked policy.
- Online services:
  - Personal buy & sell portfolios,
  - Chatlike communication with traders,
  - Multiple methods for issuing requests.

# Intermediary Models

## Online Auction

- Are challenging the fixed price model = norm for the market
- Are available in the B2B, B2C, and C2C markets.
- Broker intermediaries (uBid) = Most merchants auction through third party auctioneers.
- Direct sellers using dynamic pricing = When merchants have their own Web sites.
- Sellers benefit: Obtain market price for goods and services
- Buyers benefit: Obtain a good deal & enjoying the shopping experience



# Intermediary Models

## Online Auction

- The downside: Buyer can waste a lot of time m
  - Some auction houses offer a broad range of pro
    - B2C auction from computers to travel (Ubic
    - Niche markets specialist.
    - C2C auctions in thousands of product categ
- ⇒ EBay innovative services include escrow, el
- appraisal services.



# Intermediary Models

## 2. Agent Models

- *DO* represent either the buyer or the seller and pay their fee.
- In some cases they are legally obligated to protect the interests of the party that hires them.

### Agent Models Representing Sellers

- All agents that represent the seller
- = Selling agents, manufacturer's agents, multi-brand virtual malls.





## Intermediary Models

### **Selling Agent**

- Represent a single firm = help sell its products
- Work for a commission.

### **Affiliate programs:**

- Pay commissions to Web site owners for sales resulting in a sale.
- Some affiliates demand a share of the lifetime value of the customer as opposed to just a piece of the sale.
- [Amazon.com](http://Amazon.com) pioneered one of the first affiliate programs.

# Intermediary Models

## Manufacturer's Agent

- Aggregators = represent many sellers on one Web site.
  - Offline = represent firms selling complementary products
  - Online = create Web sites to help an entire industry sell its products
- ⇒ Travel reservations Web sites = commissions are paid by travel agents who represent = Expedia, Travelocity, Orbitz,
- ⇒ Benefits: better deals & convenience.
- Catalog aggregators = In the B2B market:
    - Each of the sellers has a broad catalog of product offerings
    - Challenge = gather the information from all of these catalogs and present it in a single presentation on the Web site.
    - Tools = catalog aggregator offers software that interfaces with the seller's internal database systems.
- ⇒ Task is easier when the suppliers use industry standard catalogs + catalogs must be updated (product availability)

## Intermediary Models

- Buyer's **enterprise resource planning** (ERP) systems, catalog customization and integration by more advanced agents.
- Customized catalogs features:
  - Prenegotiated product offerings & prices,
  - Spending limits for particular employees & automatic routing to the appropriate officer for approval,
  - Recommending substitutions, notifying buyers of product availability, processing orders, and tracking orders.
- Buyer benefits:
  - Shorter order cycles, reduced inventories, & increased order accuracy
  - Lower order processing costs = paperless transaction processing, request for proposal (RFP) and request for quote (RFQ), and integrated procurement

# Intermediary Models

## **Metamediary**

- An agent that represents a cluster of manufacturers, e-tailors, etc. organized around a life event or major asset purchase.
  - Solves 4 major consumer problems:
    - Reducing search times,
    - Providing quality assurance about vendors,
    - Facilitating transactions for a group of related purchases,
    - Providing relevant and unbiased content information.
  - Benefit for metamediary business partners = having traffic and co-branding with the metamediary.
  - Receives commissions for referrals (completed transactions).
- ⇒ The key to success is consumer trust = careful selection of



# Intermediary Models

## Virtual Mall

- Host multiple online merchants in a model shopping mall.
- Hosted merchants gain exposure from traffic.
- The mall gains through a variety of fees: listing fees, and setup fees.
- Brick-and-mortar malls benefits:
  - A desirable collection of stores in one location,
  - Easy accessible from major highways,
  - Ample free parking,= none of these benefits apply online.



# Intermediary Models

## Virtual Mall

- 6 customer benefits:
  1. Branding—consumers may be more comfortable listed on Yahoo! Store,
  2. Availability of digital wallets: customers register information only once, Availability of frequent reward consumers for shopping within the mall
  3. A gift registry that operates across multiple stores
  4. A search facility to locate products in mall stores
  5. A recommendation service such as suggestions



# Intermediary Models

## Agent Models Representing Buyers

- Represent buyers.
- In traditional marketing: they often forge long- term relationships with more firms,
- On the Internet: they represent any number of buyers in various cases:
  - Shopping agents and reverse auctions help individuals find the prices they want,
  - Buyer cooperatives pool buyers for larger volume purchases.

# Intermediary Models

## Shopping Agent

- Many feared that they would drive prices on the Internet down to thin margins.
- It did not happen because price is not the only factor when making a purchase.
- **Second-generation shopping agents** = newer shopping agents that measure value and not just price (PriceScan and DealScribe)
- [BizRate.com](http://BizRate.com):
  - Quantitative performance evaluation of a merchant,
  - Rates online merchants based on customer feedback
  - Posts a report card of past consumer experiences with the merchant
  - Shows the merchant's stated business policies,
  - Offers a rebate program for customers who buy from the merchant



# Intermediary Models

## Reverse Auction

- Occurs at a Web site serving as purchasing agent for
- Reverse auction:
  - Buyer specifies a price and sellers bid for the buyer's
  - Buyer commits to buying at a specified price and the or tries to get close enough to make the sale.
  - [Priceline](#).
- Benefit to the seller = unloading excess inventory w existing channels (airline seats/hotel rooms).
- Benefit for the buyer = lower prices & satisfaction o price.
- BUT:
  - Fewer choices of brand, suppliers, and product featur
  - The reduced choice feature differentiates the produc

supplier's existing channel partners.



# Intermediary Models

**Buyer Cooperative** = buyer aggregator:

- Pools many buyers together to drive down the price.
- Benefit for individual buyer: price of volume buying.  
⇒ The more buyers, the lower the price in a step function.
- Mercata, MobShop, and other cooperatives were not successful business models online and closed.  
⇒ The remaining online coops represent more traditional models = [the Solar and Renewable Energy Cooperative](#).  
⇒ The Internet is capable of supporting this model.



# Intermediary Models

## 3. Online Retailing

- The most visible e-business models:
  - Merchants set up online storefronts and sell to buyers
  - Delivery over the Internet for digital goods / shipping
  - Any level of commitment from pure play to barely online
  - [CDNOW](#).
- Pre-Internet presence carries brand equity, BUT online success:
  - Pure plays are free from the cultural constraints of brick-and-mortar and can innovate quicker in response to customer needs.
  - Some Internet pure plays are establishing brick-and-mortar to enhance branding through additional exposure and allow customers to experience their products.
  - E\*Trade and Gateway Computer = both extended their brick-and-mortar presence in recent years.

# Intermediary Models

## Digital Products

- One great hope for the Internet is to serve as a medium for the distribution of goods and services.
- BUT there is still a way to go.
- Content that can be digitized can be transmitted
  - [The New York Times](#) digitally distributes an online newspaper,
  - Thousands of radio stations broadcast live programming, a long history of online distribution.
- Distribution costs are significantly lower for digital products than with physical distribution.

# Intermediary Models

## Tangible Products

- Many products sold online are still distributed through intermediaries.
- Major record labels will not allow their music to be sold online.
  - The Internet consumer may make the purchase online, but the physical product must be shipped by some carrier = distribution relatively inefficient,
  - Consumers pay a premium for this service, which makes purchasing online.
- Local regulations sometimes impede the direct distribution of goods.
  - [Wine.com](http://Wine.com), a wine distributor, has been forced by some states to operate through local intermediaries = lengthens its distribution chain.

# Overview

Distribution Channel Overview

Types of Intermediaries

Distribution Channel Length and Functions

Functions of a Distribution Channel

Distribution System

Channel Management and Power

Classifying Online Channel Members

Content Sponsorship

Direct Selling

Infomediary

Intermediary Models

**Distribution Channel Metrics**

B2C Market

B2B Market



## Distribution Channel Metrics

- Does online commerce work?
- To answer this question:
  - ⇒ Firms must consider its effectiveness in reaching target market segments effectively.

# Overview

Distribution Channel Overview

Types of Intermediaries

Distribution Channel Length and Functions

Functions of a Distribution Channel

Distribution System

Channel Management and Power

Classifying Online Channel Members

Content Sponsorship

Direct Selling

Infomediary

Intermediary Models

Distribution Channel Metrics

**B2C Market**

**B2B Market**





## B2C Market

- Online retailing is only a tiny fraction of all retail sales.
  - In 2001, U.S. consumers spent \$32.6 billion online sales.
  - In 2001, 15% of Internet users purchased online based on information they got on the Web.
- Online sales are unlikely to ever reach more than 10% of total retail sales.
  - ⇒ Because consumers are satisfied with brick-and-mortar stores, they become dissatisfied, they will not switch to online.
  - ⇒ Firms should analyze which customers prefer which specific products.

## B2C Market

- What are U.S. consumers buying online?
  - Computer hardware, toys, apparel, and travel (air t
  - Apparel and toy purchases have gained in sales over
- 2 strategies are particularly effective online:
  - A high reach strategy of accumulating large number effective conversion rates (visit the site and buy) for of low margin products and services (CDs/books) =
  - A niche strategy with narrow focus on a particular p such as luxury items or apparel = [Dell.com](http://Dell.com).

## B2C Market

- The best use of online retailing = a complex mix of channels = the customers choose between Internet, or traditional catalogs.
- Additional measures:
  - Which affiliations deliver the most users? This is a measure of program effectiveness.
  - What is happening to users referred from an affiliation?
  - When and how do customers arrive at a Web site?
  - How long do users stay at a Web site?
  - How is buyer behavior different from other users?
  - How frequently are visitors converted to customers?
  - Which channel partners deliver the most profitable and loyal ones?

# Overview

Distribution Channel Overview

Types of Intermediaries

Distribution Channel Length and Functions

Functions of a Distribution Channel

Distribution System

Channel Management and Power

Classifying Online Channel Members

Content Sponsorship

Direct Selling

Infomediary

Intermediary Models

Distribution Channel Metrics

B2C Market

## B2B Market

- The B2B market is big business:
  - ⇒ The Internet is a more efficient way for firms to
  - ⇒ They use the Web to search for suppliers,
  - ⇒ They simply facilitate current relationships through shipment tracking, and more.
- Metrics in the B2B + in B2C markets:
  - ⇒ They relate to the e-marketing goals.
  - ⇒ Critical to understand how e-commerce fits into strategy, what the firm expects to accomplish through it, and whether it is working.
  - ⇒ For B2B, metrics may look at time from order to delivery and other activities that reflect functions performed by participants.

[firstranker.com](http://firstranker.com)

## **SALES PROMOTIO**



# Overview

Overview of E-Marketing Communication Issues

Integrated Marketing Communication (IMC)

Marketing Communication Tools

Hierarchy of Effects Model

Branding Versus Direct-Response

Internet Advertising

Trends In Internet Advertising

Internet Advertising Formats

Marketing Public Relations (MPR)

Web Site

Community Building

Online Events

**Sales Promotion Offers**

Coupons

Sampling

Contests and Sweepstakes

Direct Marketing

E-

O

Vi

Sh

Lo

Sp

Pr

The Internet

Th

M

W

IMC Metrics

Eff

M



## Sales Promotion Offers

- Short-term incentives of gifts or money that facilitate the producer to end user.
- Include coupons, rebates, product sampling, contests, sweepstakes, or low-cost gifts).

⇒Coupons, sampling, and contests/sweepstakes are widely used.

- In 2004, Internet promotions = 70% of the worldwide \$1 billion market (15% in 1999).

⇒Online sales promotion works = 3 to 5 times higher response rate.

⇒Online tactics are directed primarily to consumers / most e-commerce are directed to businesses in the distribution channel.

- Consumer sales promotions are used in combination with other marketing tools.
- Uses: banner ad + good for drawing users to a Web site and compelling them to return.

- Results: build brands, build databases, and support increased sales.





# Overview

Overview of E-Marketing Communication Issues

Integrated Marketing Communication (IMC)

Marketing Communication Tools

Hierarchy of Effects Model

Branding Versus Direct-Response

Internet Advertising

Trends In Internet Advertising

Internet Advertising Formats

Marketing Public Relations (MPR)

Web Site

Community Building

Online Events

Sales Promotion Offers

**Coupons**

Sampling

Contests and Sweepstakes

Direct Marketing

E-

O

Vi

Sh

Lo

Sp

Pr

The Internet

Th

M

W

IMC Metrics

Eff

M



# Coupons

- Coupons are big business online.
- [Coolsavings.com](http://Coolsavings.com) and [Valuepage.com](http://Valuepage.com) are the top two coupons delivered via e-mail.
  - ⇒ E-coupon firms also send e-mail notification as new on the Web = to build brand loyalty.
  - ⇒ 55% of online users prefer to receive e-mail coupon and 18% prefer snail mail).
- H.O.T! coupons:
  - In the top ten among the many firms offering electronic coupons
  - Provides local coupons (search the database by zip code)
  - Postal mailings result in 1-2% coupon redemption, but on the Web site + in a traditional mail package.
  - ⇒ When retailers drive customers to the Web site through traditional advertising, coupon redemption increases



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FirstRanker's choice

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[www.FirstRanker.com](http://www.FirstRanker.com)



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For H.O.T! Coupons in your area!

Search by Zip Code

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ENTER YOUR CITY

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### Welcome to H.O.T! Coupons!

We are a leader in online coupons, saving products and services you use everyday in your Home Office or when you Travel. Just enter your location and click "GO!"

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**Advertise on H.O.T! Coupons**

**H.O.T! Coupons®** *Savings Club* [Join](#) the Savings Club personal coupon page new coupons and special area.

 Become a H.O.T! Coupons Network Partner and earn revenue for your website.

H.O.T! Coupons Distributes Coupons in Most Local Areas

Source: [www.hotcoupons.com](http://www.hotcoupons.com)

[www.FirstRanker.com](http://www.FirstRanker.com)



# Overview

Overview of E-Marketing Communication Issues

Integrated Marketing Communication (IMC)

Marketing Communication Tools

Hierarchy of Effects Model

Branding Versus Direct-Response

Internet Advertising

Trends In Internet Advertising

Internet Advertising Formats

Marketing Public Relations (MPR)

Web Site

Community Building

Online Events

Sales Promotion Offers

Coupons

**Sampling**

Contests and Sweepstakes

Direct Marketing

E-

O

Vi

Sh

Lo

Sp

Pr

The Internet

Th

M

W

IMC Metrics

Eff

M



# Sampling

- Some sites allow users to sample digital product prior to purchase.
- ⇒ Software companies provide free download of fully functional versions of their products:
  - ⇒ Software expires in 30-60 days,
  - ⇒ Users can choose to purchase the software or remove it.
- ⇒ Online music stores allow customers to sample 30-second clips of songs before ordering the CD.
- ⇒ Market research firms often offer survey results to businesses to purchase reports.

# Overview

Overview of E-Marketing Communication Issues

Integrated Marketing Communication (IMC)

Marketing Communication Tools

Hierarchy of Effects Model

Branding Versus Direct-Response

Internet Advertising

Trends In Internet Advertising

Internet Advertising Formats

Marketing Public Relations (MPR)

Web Site

Community Building

Online Events

Sales Promotion Offers

Coupons

Sampling

Direct Marketing

E-

O

Vi

Sh

Lo

Sp

Pr

The Internet

Th

M

W

IMC Metrics

Eff

M

**Contests and Sweepstakes**

[www.FirstRanker.com](http://www.FirstRanker.com)



# Contests and Sweepstakes

- Contests require skill (trivia)/ sweepstakes involve pure chance
- Goal: draw traffic + keep users returning.
  - ⇒ Create excitement about brands & entice customers
  - ⇒ Persuade users to move from page to page on a site
  - ⇒ Users return to the site to check out the latest chances
- [Orbitz.com](http://Orbitz.com) entered the market after competitors were established
  - ⇒ The site drew 1.9 million customers in its first month
  - ⇒ sweepstakes featured in radio advertising.
  - ⇒ Every visitor who registered on the site was eligible for a \$1000 ticket given away every hour, 24/7, for six weeks.





**FirstRanker.com**

FirstRanker's choice

[www.FirstRanker.com](http://www.FirstRanker.com)

[www.FirstRanker.com](http://www.FirstRanker.com)



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- Audio
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- Books
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- Computers
- Coupons
- Food



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[www.freestuff2000.com](http://www.freestuff2000.com)

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Freestuff2000.com Consolidates Sales Promotions from Many Web Sites

Source: [www.freestuff2000.com](http://www.freestuff2000.com)  
[www.FirstRanker.com](http://www.FirstRanker.com)



# Overview

Overview of E-Marketing Communication Issues

Integrated Marketing Communication (IMC)

Marketing Communication Tools

Hierarchy of Effects Model

Branding Versus Direct-Response

Internet Advertising

Trends In Internet Advertising

Internet Advertising Formats

Marketing Public Relations (MPR)

Web Site

Community Building

Online Events

Sales Promotion Offers

Coupons

Sampling

Contests and Sweepstakes

**Direct Mark**

E-

O

Vi

Sh

Lo

Sp

Pr

The Internet

Th

M

W

IMC Metrics

Eff

M



# Direct Marketing

- **Direct marketing** is “any direct communication to a recipient that is designed to generate a response in the form of an order, a request for further information (*lead generation*), a visit to a store or other place of business for purchase of specific goods or service(s) (*traffic generation*).”
- It includes:
  - Telemarketing, outgoing e-mail, and postal mail (& catalog)
  - Targeted banner ads, other forms of advertising and sales promotion, direct response,
  - E-mail and its wireless offspring, **short message service**



# Overview

Overview of E-Marketing Communication Issues

Integrated Marketing Communication (IMC)

Marketing Communication Tools

Hierarchy of Effects Model

Branding Versus Direct-Response

Internet Advertising

Trends In Internet Advertising

Internet Advertising Formats

Marketing Public Relations (MPR)

Web Site

Community Building

Online Events

Sales Promotion Offers

Coupons

Sampling

Contests and Sweepstakes

Direct Marketing

E-

O

Vi

Sh

Lo

Sp

Pr

The Internet

Th

M

W

IMC Metrics

Eff

M

## E-Mail

- 8 billion e-mails a year flying over the Internet world
  - User spends >1/3 of all time online managing e-mail.
  - Marketing related e-mail = 22% of a typical Internet user's e-mail (includes unwanted spam).
- Advantages of E-mail over postal direct mail:
  - No postage or printing charges: average cost e-mail \$.50 to \$2.00.
  - Offers an immediate and convenient avenue for direct communication (e.g., e-commerce sites using).
  - Can be automatically individualized to meet the need



	<b>E-mail</b>
Delivery cost per thousand	\$30
Creative costs to develop	\$1,000
Click through rate	10%
Customer conversion rate	5%
Execution time	3 weeks
Response time	48 hours



Date: Mon, 14 Feb 2002 09:13:14 -0500

To: Judy Strauss <jstrauss@unr.edu>

From: MCI WorldCom <statement@email.mciworld.com>

Subject: Monthly Mileage Statement

Dear Judy Strauss,

Your monthly statement helps you keep track of the AAdvantage<sup>®</sup> miles earned through the MCI/AAdvantage program.

**MONTHLY MILEAGE STATEMENT**

MCI WorldCom Account Number: XXX

American Airlines Frequent Flyer Number: XXX

**MCI AADVANTAGE MILES EARNED**

ON YOUR LAST BILL: 160

PROGRAM TO DATE: 44785

See your miles online anytime. Go to Online Account Manager at [www.mci.com/service](http://www.mci.com/service).

Aadvantage miles represented in this statement reflect your prior AAdvantage miles have been sent for posting to your American Airlines Frequent Flyer Number. Please allow 6-8 weeks for AAdvantage miles earned to appear on your statement.

## E-Mail

- Disadvantages:
  - **Spam** (unsolicited e-mail),
  - Difficulty in finding appropriate e-mail lists.
- Consumers are much more upset about spam than postal mail.
- E-mail lists are hard to obtain and maintain. 3 ways to obtain them:
  1. Generated through Web site registrations, subscription records, purchase records,
  2. Rented from a list broker,
  3. Harvested from newsgroup postings or online e-mail messages.
- 50% of the U.S. population has one or more e-mail addresses, but it is difficult to match them with individual customers in a database.

# Overview

Overview of E-Marketing Communication Issues

Integrated Marketing Communication (IMC)

Marketing Communication Tools

Hierarchy of Effects Model

Branding Versus Direct-Response

Internet Advertising

Trends In Internet Advertising

Internet Advertising Formats

Marketing Public Relations (MPR)

Web Site

Community Building

Online Events

Sales Promotion Offers

Coupons

Sampling

Contests and Sweepstakes

Direct Marketing

E-

O

Vi

Sh

Lo

Sp

Pr

The Internet

Th

M

W

IMC Metrics

Ef

M





## Opt-In, Opt-Out

- Opt-in e-mail address = users have agreed to receive communications of interest to them.
  - Brokers rent lists to charge a fee for each mailing. The cost
    - \$150 CPM (Cost Per Thousand) for B2C market lists,
    - 250 CPM for the B2B market / typical B2C postal mail
  - Web users have lots of opportunity to opt-in to mailing lists by checking a box and entering an e-mail address.
  - Lists with opt-in members get much higher response than lists with opt-out members, with response rates of up to 90%.
- ⇒ Opt-in lists are successful because users receive communications they are responding to.
- ⇒ Marketers are shifting marketing dollars directly to consumers by purchasing advertising space.



# Opt-In, Opt-Out

- Opt-out = users have to uncheck the box on a Web on the e-mail list.
- Questionable practice because users do not always check thoroughly enough and may be upset at receiving e-mails.
- Opt-in techniques = part of a traditional marketing strategy. **marketing:** it is about turning strangers into customers.
- How to do this?
  - ⇒ Ask people what they are interested in, ask permission for the information, and then do it in an entertaining, educational manner.
- Opt-in techniques are expected to evolve and grow over time.

# Overview

Overview of E-Marketing Communication Issues

Integrated Marketing Communication (IMC)

Marketing Communication Tools

Hierarchy of Effects Model

Branding Versus Direct-Response

Internet Advertising

Trends In Internet Advertising

Internet Advertising Formats

Marketing Public Relations (MPR)

Web Site

Community Building

Online Events

Sales Promotion Offers

Coupons

Sampling

Contests and Sweepstakes

Direct Marketing

E-

O

V

S

L

S

P

The Internet

T

M

W

IMC Metrics

E

M



# Viral Marketing

- Viral marketing
  - = When individuals forward e-mail to friends, co-workers, or add them to their e-mail lists
  - = *Word of mouse*.
- Viral marketing works and it's free.
- Hotmail started with only a \$50,000 promotion (needed to launch a brand in offline):
  - The firm sent e-mail telling folks about its Web-based e-mail service
  - After 6 months = 1 million registered users,
  - After 18 months = 12 million subscribers + Microsoft valued the firm at 1 billion in Microsoft stock.

# Overview

Overview of E-Marketing Communication Issues

Integrated Marketing Communication (IMC)

Marketing Communication Tools

Hierarchy of Effects Model

Branding Versus Direct-Response

Internet Advertising

Trends In Internet Advertising

Internet Advertising Formats

Marketing Public Relations (MPR)

Web Site

Community Building

Online Events

Sales Promotion Offers

Coupons

Sampling

Contests and Sweepstakes

Direct Marketing

E-

O

Vi

SH

Lo

Sp

Pr

The Internet

Th

M

W

IMC Metrics

Eff

M



# Short Text Messaging (SMS)

- Short text messages = 160 characters of text sent by the Internet (with a cell phone or PDA).
- **Instant messaging** = short messages sent among users at the same time.
- SMS:
  - Uses a store-and-send technology = holds messages for later delivery
  - Is attractive to cell phone users to communicate quickly
  - Are charged cell phone minutes = minimal cost compared to e-mail
  - Is easy = users do not have to open e-mail to send or receive a message on the phone keyboard.
- 200 billion short text messages a month were flying worldwide by the end of 2002.

# Short Text Messaging (SMS)

How can marketers capitalize on SMS use?

- Marketers can build relationships by sending perm customers when and where they want to receive it.
- A successful messages = short, personalized, interactive, Notification of an upcoming flight delay, or an overnight sh
- Heineken, used an SMS sales promotion to capitalize on th nights:
  - Point of purchase signs in pubs inviting customers to phones and type in the word “play” as a text message
  - The customer received a series of 3 multiple choice q
  - Correctly answering all the questions scored a foo verifiable number to the bartender) and 20% of all pla
  - Feedback = a great promotion...consumers found it hook



# Overview

Overview of E-Marketing Communication Issues

Integrated Marketing Communication (IMC)

Marketing Communication Tools

Hierarchy of Effects Model

Branding Versus Direct-Response

Internet Advertising

Trends In Internet Advertising

Internet Advertising Formats

Marketing Public Relations (MPR)

Web Site

Community Building

Online Events

Sales Promotion Offers

Coupons

Sampling

Contests and Sweepstakes

Direct Marketing

E-

O

Vi

Sh

Lo

Sp

Pr

The Internet

Th

M

W

IMC Metrics

Eff

M





# Location-Based Marketing

- **Location-based marketing** = promotional offers that are targeted to mobile devices and customized based on the user's physical location.
- The technology:
  - ⇒ A global positioning system (GPS) in a handheld device.
  - ⇒ User address information stored in a database.
- Lycos spent \$1.2 million in 2001 turning some Boston billboards into animated billboards by sending relevant ads based on the user's location.
  - ⇒ The GPS device sent physical coordinates to the ad server.
  - ⇒ Financial ads were shown when the cab was in the financial district.

# Overview

Overview of E-Marketing Communication Issues

Integrated Marketing Communication (IMC)

Marketing Communication Tools

Hierarchy of Effects Model

Branding Versus Direct-Response

Internet Advertising

Trends In Internet Advertising

Internet Advertising Formats

Marketing Public Relations (MPR)

Web Site

Community Building

Online Events

Sales Promotion Offers

Coupons

Sampling

Contests and Sweepstakes

Direct Marketing

E-

O

Vi

Sh

Lo

Sp

Pr

The Internet

Th

M

W

IMC Metrics

Eff

M

# Spam

- Netizens do not like unsolicited e-mail because it shifts the burden from sender to recipient. Users developed the term "spam" as a reference to this type of e-mail. Marketers must realize that direct marketing can work in reverse as well. Recipients of unsolicited e-mail can vent their opposition to thousands of users in newsgroups and to friends on e-mail lists, thereby quickly generating negative publicity for the organization.
- Spammers routinely harvest e-mail addresses from newsgroups and then spam all the newsgroup members. Spam lists can also be found in public directories such as those provided by many universities for student e-mail addresses. Spammers often hide their identities so that the recipients cannot reply. Other unsolicited e-mail is sent through spamming through a legitimate organization's e-mail system. A message appears to come from an employee of that organization.

# Spam

- Incidentally, spam is a problem in the B2B market as well. Staff from the media complain about getting spam from firms. Some measures have been put in place to limit newsgroups filter spam, and most e-mail programs offer filters as well. There have also been a number of suits filed by firms from spammers for the strain on their systems from the unsolicited messages. Remember that all unsolicited e-mail is considered spam, when the e-mail is appropriate and useful to the recipient or not.
- It is increasingly common for opt-in lists to remind users that they have been spammed. Usually a disclaimer appears right at the beginning of the message receiving this message because you requested to be notified. The disclaimer advises users how they can easily request to be removed from the list since many users do not realize that they opted-in—especially if the message is past or in an unrelated context.

# Overview

Overview of E-Marketing Communication Issues

Integrated Marketing Communication (IMC)

Marketing Communication Tools

Hierarchy of Effects Model

Branding Versus Direct-Response

Internet Advertising

Trends In Internet Advertising

Internet Advertising Formats

Marketing Public Relations (MPR)

Web Site

Community Building

Online Events

Sales Promotion Offers

Coupons

Sampling

Contests and Sweepstakes

Direct Marketing

E-

O

Vi

Sh

Lo

Sp

Pr

The Internet

Th

M

W

IMC Metrics

Eff

M

# Privacy

- Databases drive e-mail marketing. This requires collecting data both online and offline, and using it to send commercial messages. Web pages, banners ads, and more. Astute marketers know that consumers will readily give personal information to firms that provide value and who do not share it with others unless given permission. For example, Amazon.com has implicit permission to collect and use information in the database and serve it collectively to make recommendations. Users don't mind this because their personal information and their privacy is guarded on an individual basis. Amazon has permission to send customers e-mail notification of books and products each individual. When Amazon announced that it would share its databases with partners, there was a huge media backlash. Again, that firms who desire to build customer relationships must respect the privacy of customer data.

# Overview

Overview of E-Marketing Communication Issues

Integrated Marketing Communication (IMC)

Marketing Communication Tools

Hierarchy of Effects Model

Branding Versus Direct-Response

Internet Advertising

Trends In Internet Advertising

Internet Advertising Formats

Marketing Public Relations (MPR)

Web Site

Community Building

Online Events

Sales Promotion Offers

Coupons

Sampling

Contests and Sweepstakes

Direct Marketing

E-

O

Vi

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Sp

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**The Internet**

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M

W

IMC Metrics

Eff

M



# The Internet as a Medium

- How do marketers view the Internet as just one marketing communication messages?
- All channels of communication = TV, radio, newspaper (e.g., kiosks, bus cards, and billboards), direct mail, a
- Marketers need to understand the major media's characteristics to make appropriate choices space.





# Overview

Overview of E-Marketing Communication Issues

Integrated Marketing Communication (IMC)

Marketing Communication Tools

Hierarchy of Effects Model

Branding Versus Direct-Response

Internet Advertising

Trends In Internet Advertising

Internet Advertising Formats

Marketing Public Relations (MPR)

Web Site

Community Building

Online Events

Sales Promotion Offers

Coupons

Sampling

Contests and Sweepstakes

Direct Marketing

E-M

Opt-

Viral

Shor

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IMC Metrics

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# The Medium Is Not the Appliance

- Marketers should understand that the medium is not the appliance. Messages are sent by content sponsors in electronic (telephone wires, or cable, and then received by the audience (called receivers) such as televisions, computers, radios, cell phones. Bear in mind that the receiving appliance is separate from the medium because this mind-set allows for flexibility. For example, computers can receive radio and television transmissions, and television can receive radio transmissions. Such as radio and FAX machines, have limited receiving capabilities. The computer is more flexible. Today the computer is the only appliance that can receive digital multimedia electronic transmissions. This idea is born because of the business opportunities. Separating the medium from the appliance opens the door to new types of receiving appliances that are also capable of editing, and sending transmissions. So, next time you think about a medium, remember that by the year 2008 it will be simply digitized and can be sent in many ways to a number of receiving devices.

# Overview

Overview of E-Marketing Communication Issues

Integrated Marketing Communication (IMC)

Marketing Communication Tools

Hierarchy of Effects Model

Branding Versus Direct-Response

Internet Advertising

Trends In Internet Advertising

Internet Advertising Formats

Marketing Public Relations (MPR)

Web Site

Community Building

Online Events

Sales Promotion Offers

Coupons

Sampling

Contests and Sweepstakes

Direct Marketing

E-

O

Vi

Sh

Lo

Sp

Pr

The Internet

Th

M

W

IMC Metrics

Eff

M

# Media Characteristics

- Electronic media include network television, radio, cable machine, cellular phone, and pager. We present these media and pointcast on the basis of their capability to reach audiences, or even individuals with different messages competing for marketing communication dollars include print

# Broadcast Media

- Broadcast media (TV and radio) have a number of strengths reflected in Exhibit 13 - 7. TV penetration reaches over 98% (two-thirds owning three or more sets. TV remains the only medium to reach large numbers of consumers at one time, but it is expensive (for 30 seconds of prime time in the U.S.). Radio's penetration is high (every household and car has a radio. Radio advertising time is less expensive (for 60 seconds) and has excellent local market coverage.
- **Narrowcast Medium**
- Cable TV (CATV) is a narrowcast medium. It is called *narrowcast* because it contains very focused electronic content appealing to specific audiences. For example, cable channels such as CNN or ESPN are networked and reach large audiences worldwide, but they still have very specific target audiences. Advertising tends to be less expensive than broadcast advertising, with some exceptions.

<b>Criterion</b>	<b>TV</b>	<b>Radio</b>	<b>Magazine</b>	<b>Newspaper</b>
<b>Involvement</b>	passive	passive	active	active
<b>Media Richness</b>	multi-media	audio	text and graphic	text and graphic
<b>Geographic Coverage</b>	global	local	global	local
<b>CPM</b>	low	lowest	high	medium
<b>Reach</b>	high	medium	low	medium
<b>Targeting</b>	good	good	excellent	good
<b>Track effectiveness</b>	fair	fair	fair	fair
<b>Message flexibility</b>	poor	good	poor	good



# Pointcast Media

- The folks at [www.pointcast.com](http://www.pointcast.com), who brought individualized electronic media to every computer desktop, coined the term *pointcast* for electronic media with the capability of transmitting a message to a specific person, such as the Internet and the cell phone. Pointcast can deliver either personalized or standardized messages in bulk to a specific group of those who have the equipment to receive them, and they can also transmit a single message back to the sender using a return address. Receiving devices include pagers, cell phones, PDAs, fax machines, and more. FAX machines are the only devices where unsolicited marketing communications are illegal without the user's consent of receiving messages.



# Media Characteristics

- From a media buyer's perspective, the strengths of the Internet include Web content by using databases, ability to track advertising effectiveness, delivery timing, ability to reach global markets with one advertising buy, interactivity. The Internet is the first electronic medium to allow active media), and it is the first and best medium for interactivity. In fact, many create their own content. The Internet's weaknesses include the inability to deliver video to most due to low broadband penetration, and income. The weaknesses of the Net are in the process of being remedied. Audience weakness, though companies such as Jupiter Media Metrix and Nielsen are making improvements in this area.



# Media Characteristics

- **Print Media**

- Print media include newspapers (local and national) and compared to print media because its content is text and many traditional print media publishers maintain online versions. radio, print media allow for active viewing: Readers can interests them, sometimes spending quite a bit of time read magazine advertising space is much more expensive than radio

- **Direct Mail**

- Finally, like the Internet, direct mail allows for more selective medium, can be personalized, gives good message and time for measuring effectiveness because of response tracking direct mail has a poor image (junk mail) and high costs for production e-mail has low costs but limited market coverage compared changing as companies build extensive e-mail databases.



# Overview

Overview of E-Marketing Communication Issues

Integrated Marketing Communication (IMC)

Marketing Communication Tools

Hierarchy of Effects Model

Branding Versus Direct-Response

Internet Advertising

Trends In Internet Advertising

Internet Advertising Formats

Marketing Public Relations (MPR)

Web Site

Community Building

Online Events

Sales Promotion Offers

Coupons

Sampling

Contests and Sweepstakes

Direct Marketing

E-M

Opt-

Viral

Shor

Loca

Spar

Priva

The Internet as

The

Med

**Whic**

IMC Metrics

Effec

Met

# Which Media and Vehicles to Buy

- Marketers spent more of their 2001 media budget on radio or outdoor, but much less than on television. This generalization is interesting, but not very useful for determining the best combination of media to achieve marketing goals for a particular campaign and brand. Media planners should focus on efficient media buys. *Effectiveness* means reaching a large portion of the target market, and *efficiency* means doing so at the lowest cost.

## Efficient Internet Buys

- To measure efficiency before buying advertising space, a metric called CPM (cost per thousand). This is calculated by dividing it by the audience size, and then multiplying by 1,000). Internet audience size is counted using impressions (times an ad was served to unique site visitors. For example, a banner ad at MediaPost.com, an advertising agency, received 2.4 million impressions and cost \$168,000. (Incidentally, this firm charges an additional \$10 CPM for a top position.) CPM is used because it allows for efficient comparison of various media and *vehicles* within the media (e.g., a print site). If the audience for certain media vehicles is large (an *effective* buy), CPM calculations will determine the most efficient. Magazines are usually the most expensive media to buy, while the Internet is often the least expensive.



# Efficient Internet Buys

- Typical Web CPM prices are \$7 to \$15 CPM (Hallerman 2002) because it reaches a select target in the B2B market. According to PricewaterhouseCoopers 2002, the CPM ranges between \$75 and \$200 for e-mail advertising and \$100 to \$200 for e-mail newsletter sponsorship.
- It is interesting to note that only 50% of Web site advertising is based on the performance model (PricewaterhouseCoopers 2002). Unlike most traditional advertising, Web site advertisers pay based on performance, and the remainder of the advertising is based on two models. Performance-based payment, often called cost per action (CPA), includes schemes such as payment for each click on the ad, payment for each lead, or payment for each sales lead. This type of pricing is beneficial for Web sites that must depend partially on the power of their advertising to generate revenues.
- CPM, CPA, and other online advertising pricing models are used to measure the efficiency of their advertising while it is running.

# Effective Internet Buys

- Once a firm decides to buy online advertising (medium) which vehicle (individual site) to use. As noted earlier the Web site(s) and e-mail lists with audiences that target markets. Beyond that important principle innovative technology strategies to reach narrowly target markets.
- Advertisers trying to reach the largest number of users portals such as Yahoo! and AOL. Exhibit 13 - 8 displays worldwide in January 2002. While this is only a Microsoft (MSN sites including Hotmail), and Yahoo! five in most countries. Note that an advertiser buying cannot amass a million sets of eyeballs. This is further not very effective at reaching the masses, but is target markets.





# Effective Internet Buys

- Ad servers track user click-streams via cookies and behavior. One such firm, DoubleClick, served 55 billion ads with client Web pages during May 2002. This represents the same ads, because Nielsen-Netratings reports on ad impressions in April 2002. DoubleClick technology can detect a user who goes to a second client site (click stream), and serve ads based on the user's interests. DoubleClick data from May 2002 revealed that 43.8% of its ads were targeted by key words in a particular manner, while 5.5% were served to specific geographic areas of day ("DoubleClick Ad Serving..." 2002). Many Vendors target by day, time, user geography or domain (e.g.,



# Effective Internet Buys

- Another targeting approach, **keyword advertising**, refers to search engine advertising on search sites. For example, advertisers can buy the word *automobile*, and when a user searches for that word, the advertiser's banner or message will appear on the results page. These ads are more expensive because they deliver a more highly targeted audience. Advertisers can step further by ordering the search query return page keywords to be displayed. The most relevant ad tops the list of four or eight on the page. Google's AdWords is a placement on its key word search (called AdWords). The amount of money an advertiser pays Google varies widely; depending on the popularity of the key word, it can range from \$10,000 to \$500,000 per month.





Web Property	Uni
	Wo
Microsoft Corporation	269
Yahoo Inc.	219
AOL Time Warner	169
Terra Lycos	143
Google Inc.	93.2
Amazon.com Inc.	79.0
CNET Networks Inc.	75.1
Primedia Inc.	72.1
U.S. Government	56.1
EBay	55.9

# Overview

Overview of E-Marketing Communication Issues

Integrated Marketing Communication (IMC)

Marketing Communication Tools

Hierarchy of Effects Model

Branding Versus Direct-Response

Internet Advertising

Trends In Internet Advertising

Internet Advertising Formats

Marketing Public Relations (MPR)

Web Site

Community Building

Online Events

Sales Promotion Offers

Coupons

Sampling

Contests and Sweepstakes

Direct Marketing

E-

O

Vi

Sh

Lo

Sp

Pr

The Internet

Th

M

W

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M

## IMC Metrics

- Savvy marketers set specific objectives for their IMC
- Then they track progress toward those goals by mon



Metric	Definition/formula
<b>CPM</b>	Cost Per Thousand Impressions $\text{CPM} = [\text{Total Cost} \div (\text{Impressions})] \times 1000$
<b>Click-through rate (CTR)</b>	Number of clicks as percent of total impressions $\text{CTR} = \text{Clicks} \div \text{Impressions}$
<b>Cost Per Click (CPC)</b>	Cost for each visitor from ad click $\text{CPC} = \text{Total Ad Cost} \div \text{Clicks}$
<b>Conversion Rate</b>	Percent of people who purchased from total number of visitors $\text{Conversion Rate} = \text{Orders} \div \text{Visitors}$
<b>Customer Acquisition Cost (CAC)</b>	Total marketing costs to acquire a customer

#### IMC Metrics and Industry Averages

Sources: <sup>1</sup>Hallerman (2002); <sup>2</sup>data from [www.eMarketer.com](http://www.eMarketer.com); <sup>3</sup>Saunders (2001) "Serving..." (2002); <sup>6</sup>data from shop.org; <sup>7</sup>data from [www.computerworld.com](http://www.computerworld.com); <sup>8</sup>[www.FirstRanker.com](http://www.FirstRanker.com); <sup>9</sup>[netratings.com](http://netratings.com); <sup>9</sup>PricewaterhouseCoopers, LLP (2002).



# Overview

Overview of E-Marketing Communication Issues

Integrated Marketing Communication (IMC)

Marketing Communication Tools

Hierarchy of Effects Model

Branding Versus Direct-Response

Internet Advertising

Trends In Internet Advertising

Internet Advertising Formats

Marketing Public Relations (MPR)

Web Site

Community Building

Online Events

Sales Promotion Offers

Coupons

Sampling

Contests and Sweepstakes

Direct Marketing

E-

O

V

S

L

S

P

The Internet

T

M

W

IMC Metrics

E

M



# Effectiveness Evidence

- Banner ads are generally ineffective: 0.5% of all users
- Exceptions:
  - Rich media ads receive an average 2.4% click-through
  - The Mexican Fiesta Americana Hotels = 10.2% click-through
- ⇒ By narrow targeting = Americans living in 7 Eastern states  
airline ticket to Cancun + were online 2 to 7 P.M. Monday
- If users do click, they are likely to buy:
  - 61% people who clicked, purchased within 30 minutes
  - 38% purchased within eight to 30 days later.
- E-mail = 3 to 10% click-through to the sponsor's Web site  
conversion rate.
- ⇒ Catalog companies & retailers realize > 9% click-through



# Effectiveness Evidence

- When banner ads are viewed as a branding medium:
  - They increase brand awareness & message association.
  - Build brand favorability & purchase intent.
- When online ads are bigger + placed as interspersed multimedia = they delivered an even greater impact.  
⇒ Large rectangles are 3 to 6 times more effective than smaller ones in increasing brand awareness.
- Online + offline advertising work well together.  
⇒ The Internet is as effective for increasing brand awareness and purchase intent as TV and print—but much more cost-effective.

# Overview

Overview of E-Marketing Communication Issues

Integrated Marketing Communication (IMC)

Marketing Communication Tools

Hierarchy of Effects Model

Branding Versus Direct-Response

Internet Advertising

Trends In Internet Advertising

Internet Advertising Formats

Marketing Public Relations (MPR)

Web Site

Community Building

Online Events

Sales Promotion Offers

Coupons

Sampling

Contests and Sweepstakes

Direct Marketing

E-

O

V

S

L

S

P

The Internet

T

M

W

IMC Metrics

E

M





# Metrics Example

**How does a firm evaluates the effectiveness of its Internet advertising?**

- iGo, an online retailer selling batteries and small electronics, has been advertising on the Internet for several years and online.
- Its Internet buy = from a simple text link to buttons, banners, and sponsorships at major portals.
- The spreadsheet estimates click-through percentage, number of visitors that might visit the iGo website, number of orders expected, and cost of the ad.
- Effectiveness measures: average order value and monthly sales.
- Results: 1/2 million \$ in profits + 3.5 million visitors to the website.

Type	Yearly Impressions	Est.	Est.	
		Click %	Conv.	Visi
E-commerce text link	400,000,000	0.20%	0.60%	800
<b><u>Shopping Channel</u></b>				
Computing - anchor	8,500,000	3.00%	2.00%	250
Computing - sponsor	1,700,000	3.00%	2.00%	50
Home page	10,000,000	1.10%	1.50%	110



<b>Variables</b>	
AOV	
Incremental Order (annual)	
Gross Margin	
Click Rate	
Conversion	

iGo Effectiveness Measures

Source: Adapted from information provided by Brian Casey, iGo

## Review Questions

1. What is integrated marketing communication important?
2. What is the hierarchy of effects model and how does it relate to high- and low-involvement product decisions?
3. What is the difference between brand advertising and product advertising?
4. What are the three main vehicles for advertising?
5. What are the advantages and disadvantages of different advertising formats of banners, buttons, skyscrapers, interstitials, and superstititals?
6. What are some ways companies are using the Internet for advertising, public relations, sales promotion, and direct marketing?
7. How does permission marketing differ from viral marketing?
8. List examples of broadcast, narrowcast, and point-to-point marketing.
9. What are the strengths and weaknesses of the Internet as a marketing medium?
10. Identify several ways to measure the Web audience and the strengths of each.

## Discussion Questions

1. The more successful list brokers are in selling their lists the more value of those lists." Do you agree or disagree—and why?
2. How effective is banner advertising compared with other forms of online advertising?
3. Is there a danger in letting sponsorship blend with content?
4. If you were running an online ad campaign for Nike, how would you allocate your ad budget? Why?
5. Why would manufacturers invite consumers to search for products on the Web? Might this encourage customers who were previously simply use the Net to lower their costs?
6. Some U.S. sites draw one-third of their visitors from overseas. What is the value of advertising at these sites? Why or why not?
7. "You should aim to be consultative not persuasive in your marketing for marketing communication." What does this mean? What is behind this statement?

# Overview

## Overview of E-Marketing Communication Issues

Integrated Marketing Communication (IMC)

Marketing Communication Tools

Hierarchy of Effects Model

Branding Versus Direct-Response

Internet Advertising

Trends In Internet Advertising

Internet Advertising Formats

Marketing Public Relations (MPR)

Web Site

Community Building

Online Events

Sales Promotion Offers

Coupons

Sampling

Contests and Sweepstakes

Direct Marketing

E-

O

Vi

Sh

Lo

Sp

Pr

The Internet

Th

M

W

IMC Metrics

Eff

M

## Overview of E-Marketing Communicat

- Internet marketing is a powerful way to start and str customers.
- But users are in control = marketers must design and that capture and hold audience attention.
  - ⇒ Users delete unwanted e-mail + click away when Web desired information or products.
  - ⇒ Consumers can disseminate their attitudes and brand Web postings.
- Technology for convenience +value-added product e capturing attention and winning long-term customer
- Technology lowers the costs: companies spend about Web-based support (\$33 with phone, \$9.99 with e-r



## Integrated Marketing Commun

- A cross-functional process for planning, executing, and managing all marketing communications designed to profitably acquire, retain, and grow the customer base.

⇒ Cross-functional

= Every contact that a customer has with a firm or its images,

= An employee, a Web site, a magazine ad, a catalog, and the product itself.

- Online + offline contact experiences need to communicate and support positive brand relationships with customers.

⇒ The product experience,

+ Pricing level,

+ Distribution channels enhance the firm's marketing of online and offline media to present a strong brand image.





## Integrated Marketing Commun

- Profitable customer relationships are key to
  - ⇒ Not all customers are equally valuable.
  - ⇒ Technology monitor and pay more attention to
- IMC strategy:
  - Understanding of the target stakeholders, the br internal / external factors.
  - Marketers select specific tools to achieve their c
  - After implementation, they measure execution e adjustments, and evaluate the results.



# Marketing Communication Tools

- Consists of both planned and unplanned messages between companies and customers + those among customers:
  - Planned messages = to inform or persuade their target
  - Unplanned messages = word of mouth among consumers
  - Impossible for companies to directly manage unplanned messages; consumers have more control over communication
  - Firms concentrate on creating positive product experience; unplanned messages will be positive.
- Internet MarCom from the perspective of the traditional MarCom:
  - Advertising,
  - Sales promotions,
  - Marketing public relations (MPR),
  - Direct marketing,
  - Personal selling, face-to-face = inappropriate for use on the Internet

## Marketing Communication Tools

- Using technologies, e-marketers can enhance the reach and efficiency of traditional MarCom with:
  - Text / multimedia messages carried via V
  - Databases to store information,
  - New Web development, browsing, and e to facilitate Internet communication,
  - Digital receiving devices from PCs to cell phones for multimedia messages.

## Hierarchy of Effects Model

- **AIDA model** (awareness, interest, desire, and action), **hierarchy of effects** model guides marketers' selection of MarCom tools for use on the Internet.
- Both models suggest that consumers:
  - Become aware of and learn about a new product, gain awareness and knowledge,
  - Develop a positive or negative attitude about it and form a preference,
  - Move to purchasing it (do).

⇒ E-marketers must select the appropriate IM



High Involvement		Preference	Low Involvement
Awareness Knowledge	Cognitive (think)		Awareness Knowledge
Liking Preference	Attitude (feel)		Purchase Preference
Conviction Purchase	Behavior (do)		Liking Purchase



# Hierarchy of Effects Model

- To encourage online transactions (behavior):
  - Needs more persuasive communication messages than a transaction on the Web site, over the telephone, and
- Postpurchase behavior to build customer satisfaction after
  - E-mail is especially well suited for this goal.
- The hierarchy of effects model helps marketers understand the relation to the purchase cycle, The firm can select :
  - Appropriate communication objectives,
  - Strategies that will move consumers closer to purchase
- Some tools are more appropriate for building awareness and attitude (advertising, public relations) and others are more suited for behavior (direct marketing, sales promotions, personal selling)



# Branding Versus Direct-Response

- Marketing communication can be used to build brand equity or to elicit a direct response in the form of a transaction or some other behavior.
- **Brand advertising** online:
  - Put the brand name and product benefits in front of users.
  - Works at the awareness and attitude levels of the hierarchy of effects.
- **Direct-response advertising:**
  - Motivate action,
  - Primarily works at the behavioral level.
- Marketers tend to focus on only one type of strategy in each campaign.
- ~~Marketers hope that all communication will contribute to sales. In reality, consumers must first be made aware of a product before they can be motivated to purchase it.~~

# Internet Advertising

- **Advertising** = nonpersonal communication of information through mass media, usually persuasive in nature about products or services, by an identified sponsor.
- All paid space on a Web site or in an e-mail is considered advertising.
- Internet advertising parallels traditional media advertising. Content is created and then sold space to outside advertisers.
- This is confusing, especially when a **house banner** appears on a Web site.
- The key is exchange: If a firm pays money for space in which it creates, the content is considered advertising.



# Trends In Internet Advertising

- Internet advertising in the United States:
  - Began with the first banner ads on Hotwired.com in 1994
  - Reached \$1 billion in 1998, grew to \$8.2 billion in 2000 (economic recession and dot-com bankruptcies).
- Total advertising expenditures in the United States in 1999 were \$10.5 billion compared with more than \$400 billion worldwide in print.
- In 2001 Internet firms with space to sell only captured 1.5% of total advertising.
- This proportion has remained constant: companies spend only 1.5% of their advertising budgets in 1999 on the Internet.
- Averages can be misleading—the Internet is an important part of advertising for particular industries and firms, but not for all.

## Trends In Internet Advertising

- Which industries are advertising online? Most ad spend is in the following product categories in 2001:
  - consumer related (30%)
  - computing (18%)
  - financial services (12%)
  - media (12%)
  - business services (9%)
- This represents an increase in consumer-related, media, and business expenditures over time.
- Note that retailers comprise 50% of consumer related



# Internet Advertising Formats

- 3 major vehicles for Internet advertising = E-mail, wireless, and Web sites:
  - E-mail and wireless = text-based.
  - Web advertising usually includes multimedia content.
- HTML and multimedia e-mail messages sent from a friend to a friend are direct marketing, not advertising.
- Most advertising expenditures in 2001 were:
  - For banner ads,
  - For sponsorships,
  - For classifieds,
  - For slotting fees,
  - For keyword search,
  - For e-mail



## E-mail Advertising

- **E-mail advertising:**
  - The least expensive type of online advertising,
  - Just a few sentences of text embedded in another firm's e-mail.
- Advertisers purchase space in the e-mail sponsored by a firm.
- E-mail ads are purchased to accompany e-mail discussions sent to members using the former Listbot service.
- Firms sponsor e-mail newsletters such as those sent by the American Marketing Association.
- Many users still prefer text-based e-mail due to its familiarity.

# Wireless Advertising

- Forward-thinking marketers are closely watching device market. PDAs, cell phones and laptop computer penetration.
- 4 promising marketing communication techniques for mobile devices:
  - Free mobile content delivery (marketing public relations)
  - Content sponsored advertising,
  - 2 direct marketing techniques:
    - Location marketing,
    - Short message services (SMS).
- Content sponsored advertising for mobile devices = text banners and other ads that sponsor Web content.
- Mobile ads employ the *pull* model of advertising: use mobile Web sites and ads come along for the ride.

# Wireless Advertising

- Mobile ads are a new area with great promise and many u
- Current debate: whether mobile users would rather pay for advertising sponsored content.
  - ⇒ Users are receptive to mobile ads, 86% said there should be
  - ⇒ 64% of respondents said they would not embrace mobile ad whether or not to receive messages.
- Several major issues may affect the future of mobile adver
  - Wireless bandwidth is currently small, advertising content in the requested information.
  - The smaller screen size of cell phones and PDAs greatly limit
  - It requires different techniques to track advertising effective
  - Most mobile users must pay their service provider by the mi—  
and many do not want to pay for the time it takes to recei



# Web Site Advertising Formats

## Web Site Advertising Formats

- Anything goes with Web advertising: text, graphics, Energizer Bunny hopping through a page.

## Interactive Formats

- **Banners, buttons, skyscrapers**, and other interactive designated space for rent on Web pages:
  - Buttons are square or round and banners are rectangles
  - There are standard dimensions for *interactive formats*
  - The newest look for interactive formats: skyscrapers (large rectangles (360 X 300 pixels)).



**FirstRanker.com**

FirstRanker's choice

[www.FirstRanker.com](http://www.FirstRanker.com)

[www.FirstRanker.com](http://www.FirstRanker.com)

firstRanker.com

Click Here Now

480 X 60 Pixels

No, Here!

120 X 60 Pixels





# Web Site Advertising Formats

- Some observers thought that the industry would even increase ad sizes.
- BUT newer sizes and formats break through the online advertising attention better than do standard banners.
- Suggested ad sizes to attempt to create industry standards
  - Five differently sized rectangles and pop-ups,
  - Seven banners and buttons,
  - Two skyscrapers.



# Web Site Advertising Formats

- All ads in this category are interactive:
  - Click-through to the advertiser's Web site,
  - Some banners sense the position of the mouse on the screen and load faster as the user approaches,
  - Built-in games,
  - Drop-down menus, check boxes, and search boxes to engage the user.
- One downside of animated and highly interactive banners is that they require more bandwidth:
  - Ads under 9K in size usually appear before most content on the page.
  - The ad is spotlighted on the user's screen if only for a moment.
  - Users may not wait for large banner ads to download, but they will click the hyperlink to leave the page before the ad loads.

# Web Site Advertising Formats

- With increased bandwidth and high-speed Net delivery, interactive banners may become more important in the future.
- How effective is banner advertising?
  - E-marketers should measure results against the control to determine effectiveness.
  - Research shows that Web banners help build brand awareness but have a low click-through (on average less than 0.5%).

## Sponsorships

- **Sponsorships** integrate editorial content and advertising
- Most traditional media clearly separate content from advertising
- Exception = women's magazines:
  - Fashion advertisers get mentions of their clothing in articles
  - It gives advertisers additional exposure and creates the perception that the publication endorses their products.

⇒ This blending of content by two firms is becoming increasingly common on the Web: 26% of all Web advertising expenditures.

- Sponsorships are important on the Web:
  - Banners are easily overlooked by users,
  - More firms build synergistic partnerships to provide users with more relevant content.

# Sponsorships

- Sponsorships are well suited for the Web because:
  - The commercial side of the Web consists of a series of targets.
  - Sponsorships are an increasing source of advertising with interactive possibilities.
- Candystand Web site, sponsored by Life Savers candies
  - Each link at the site leads to a game sponsored by one of the products.
  - Consumers know that this content is brought to them by Candystand with Candystand.
  - Some people worry about the ethics of sponsorships and how to identify the content author(s).

## Slotting Fees

- “A fee charged to advertisers by media companies to secure a position on their site, category exclusivity or some other special arrangement.”
- Special positioning comprises 8% of all advertising for search engines.
- ⇒ Search engines charge for the top few positions in search results.
- ⇒ In the attention economy a better ad or hyperlink position is being seen.
- They parallel traditional print advertising practices.
- It is analogous to the slotting fee charged by retailers for prime shelf position.

## Interstitials, Superstitials and Other Rich Media

- Interstitials:
  - Java-based ads that appear while the publisher's
  - Represent only 3% of all Web advertising expense
  - Held great promise when they first introduced, but have increased for the last few years.
  - Why? hard to execute properly + give the impression of waiting time.
  - <http://www.tripsmarter.com/onlinemedia/new/>
- Superstitials:
  - Videolike ads timed to appear when a user moves from one Web site to another.
  - Look like mini videos, using Flash technology and are entertaining and fast.
  - The advantage: don't slow page download time.
  - <http://www.unicast.com/gallery/index.asp>



## Interstitials, Superstitions and Other Rich Media

- **The Shoshkele:**

- 5-8 second Flash animation that runs through a user's attention.
- The Energizer Bunny was among the first, creating a character that hopped through and interrupted the page text.
- These ads are enjoyable to some and invasive to others, often to be stopped.
- <http://www.unitedvirtualities.com/>

- Web technology allows for many interesting advertising formats,

⇒ BUT, Marketing communication success is about reaching the right audience with the right message at the right time



# Overview

Overview of E-Marketing Communication Issues

Integrated Marketing Communication (IMC)

Marketing Communication Tools

Hierarchy of Effects Model

Branding Versus Direct-Response

Internet Advertising

Trends In Internet Advertising

Internet Advertising Formats

**Marketing Public Relations (MPR)**

Web Site

Community Building

Online Events

Sales Promotion Offers

Coupons

Sampling

Contests and Sweepstakes

Direct Marketing

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Pr

The Internet

Th

M

W

IMC Metrics

Eff

M

## Marketing Public Relations (MPR)

- Activities that influence public opinion and organization.
- Use: create goodwill among different public
  - = Company shareholders & employees, the local community, consumers, business buyers, stakeholder groups.
  - Includes brand-related activities and non-paid, to positively influence target markets.
  - Portion of PR directed to the firm's customers and build awareness and positive attitudes about its
  - MPR activities using Internet technology include itself, online community building, and online events



## Web Site

- Web sites are MPR tools = electronic brochure with current products
- “ Marketers allocate more resources to online site development than to increase their profitability. Improving the customers’ experience on the Web (e.g., by providing more space on another firm’s site).
- **Brochureware** = sites that exist only to inform customers about products
  - Firms usually include press releases about brands on their Web sites or the Web to media firms for publishing.
- Advantages of using the Web for publishing product information:
  - The Web is a low-cost alternative to paper brochures or press releases
  - Web page content is always current = Product information is updated
  - The Web can reach new prospects who are searching for particular products



# What do Web Users Want?

What most users want:

- **Value.**
  - Users want quick information, entertainment goals such as buying merchandise at Web sites.
- **Information acquisition.**
  - some people acquire and organize information prefer aural or tactile cues. It is safest to provide different formats to accommodate all styles.
  - ⇒ Microsoft site allows users to search four ways: type/ keywords/alphabetical list of products/pictures.
- **Information overload.**
  - Everyone suffers from this, but it becomes a challenge to face the plethora of online treasures = good information required. .



# What do Web Users Want?

- **Short attention span.**
  - Users wait 7-10 seconds for a page to load quickly, trying to find what they want, and many don't find it = page layout, navigation need to assist
- **Lost in cyberspace.**
  - It is easy to get lost within or among Web indexes, and good organization of pages and content
- **Content anywhere, anytime.**
  - The wireless Web sends content to users with mobile phones and other mobile devices. Firms create special content for these devices.



# Search Engine Optimization (SEO)

- **SEO** is unique to the online environment: 47% of Web users say the way they find products or online stores is through search engines.
- The top 10 results to a search query get 78% more traffic than the rest. Firms use SEO to be sure their site is high on the list.
- How?
  - Register with the top and niche search engines for the process. Search engine robots are constantly looking for new Web pages to index.
  - Use key words that describe their sites in hidden HTML meta tags.
  - Craft the text and titles on their pages to reflect these key words and different spellings of key words that users might type.
- Remember that many search engines charge a slotting fee or they pay for the links or clicks-throughs.
- To stay high on the listing of search results, SEO strategies



Method	Percent
Changing meta-tags	61
Changing page titles	44
Reciprocal linking	32
Purchasing multiple domain names	28
Multiple home pages (doorways)	21
Hiding keywords in background	18
Paid links/ pay per click	13
None of the above	13

**Methods Used to Improve Search Engine Rankings**

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Source: Adapted from [www.iconocast.com](http://www.iconocast.com)



# Community Building

- Sites build community through online chat rooms, discussions
- Amazon allows users to:
  - Write their own book reviews,
  - Read and rate the reviews of others.
- Online interest communities
  - = One of the Net's big promises that is being fulfilled for marketers
  - = For business communities & consumer groups.





# Online Events

- Online events are designed to generate user interest and
- Most memorable commercial online event = in 1999 when  
based fashion show.
  - ⇒ Announced it in advertisements in the New York Times  
and other traditional media.
  - ⇒ 1.2 million visitors, an 82% increase in Web traffic and  
not handle all the traffic. As bandwidth problems d  
multimedia events.
- Companies and organizations can hold seminars, workshops
  - Companies use forthcoming events as legitimate reasons  
as well as their existing clients.
  - It saves considerable time and cost compared to hold  
seminar.



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O

Vi

Sh

Lo

Sp

Pr

The Internet

Th

M

W

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Eff

M



## Sales Promotion Offers

- Short-term incentives of gifts or money to stimulate movement of products from producer to end user.
- Include coupons, rebates, product sampling, sweepstakes, and premiums (free or low-cost products).
  - ⇒ Coupons, sampling, and contests/sweepstakes are popular on the Internet.
- In 2004, Internet promotions = 70% of the total promotional dollar promotional market (15% in 1999).
  - ⇒ Online sales promotion works = 3 to 5 times better than direct mail.
  - ⇒ Online tactics are directed primarily to consumers; offline promotion tactics are directed to businesses in the B2B market.



# Coupons

- Coupons are big business online.
- [Coolsavings.com](http://Coolsavings.com) and [Valuepage.com](http://Valuepage.com) are the top two coupon sites delivering e-mail coupons.
  - ⇒ E-coupon firms also send e-mail notification as new coupons are added to the Web = to build brand loyalty.
  - ⇒ 55% of online users prefer to receive e-mail coupons (only 18% prefer snail mail).
- H.O.T! coupons:
  - In the top ten among the many firms offering electronic coupons.
  - Provides local coupons (search the database by zip code).
  - Postal mailings result in 1-2% coupon redemption, but on the Web site + in a traditional mail package.
    - ⇒ When retailers drive customers to the Web site through advertising, coupon redemption increases substantially.



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 Become a H.O.T! Coupons Network Partner and earn revenue for your website!

H.O.T! Coupons Distributes Coupons in Most Local Areas

Source: [www.hotcoupons.com](http://www.hotcoupons.com)

[www.FirstRanker.com](http://www.FirstRanker.com)



# Sampling

- Some sites allow users to sample digital product prior to purchase.
- ⇒ Software companies provide free download of fully functional versions of their products:
  - ⇒ Software expires in 30-60 days,
  - ⇒ Users can choose to purchase the software or remove it.
- ⇒ Online music stores allow customers to sample 30-second clips of songs before ordering the CD.
- ⇒ Market research firms often offer survey results to businesses to purchase reports.



# Contests and Sweepstakes

- Contests require skill (trivia)/ sweepstakes involve pure chance
- Goal: draw traffic + keep users returning.
  - ⇒ Create excitement about brands & entice customers to return
  - ⇒ Persuade users to move from page to page on a site = increase time on site
  - ⇒ Users return to the site to check out the latest chance to win
- [Orbitz.com](http://Orbitz.com) entered the market after competitors were established
  - ⇒ The site drew 1.9 million customers in its first month
  - ⇒ sweepstakes featured in radio advertising.
  - ⇒ Every visitor who registered on the site was eligible for a prize
  - ⇒ prizes were given away every hour, 24/7, for six weeks.

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