Chapter 4

Consumer Behavior, Market Research, and Advertisement

Learning Objectives

1. Describe the factors that influence consumer behavior online.
2. Understand the decision-making process of consumer purchasing online.
3. Describe how companies are building one-to-one relationships with customers.
4. Explain how personalization is accomplished online.
5. Discuss the issues of e-loyalty and e-trust in EC.
6. Describe consumer market research in EC.

7. Describe Internet marketing in B2B, including organizational buyer behavior.
8. Describe the objectives of Web advertising and its characteristics.
9. Describe the major advertising methods used on the Web.
10. Describe various online advertising strategies and types of promotions.
11. Describe permission marketing, ad management, localization, and other advertising-related issues.
12. Understand the role of intelligent agents in consumer issues and advertising applications.
A Model of Consumer Behavior Online

- **Independent** (or uncontrollable) variables can be categorized as personal characteristics and environmental characteristics.
- **Intervening** (or moderating) variables are variables within the vendors’ control. They are divided into market stimuli and EC systems.
- The decision-making process is influenced by the independent and intervening variables. This process ends with the buyers’ decisions resulting from the decision-making process.
- The dependent variables describe types of decisions made by buyers.

### The independent variables
- Personal characteristics
- Environmental variables
- Social variables
- Cultural/community variables
- Other environmental variables

### The intervening (moderating) variables

### The dependent variables: the buying decisions
The Consumer Decision-Making Process

- Roles people play in the decision-making process
  - Initiator
  - Influencer
  - Decider
  - Buyer
  - User

A Generic Purchasing-Decision Model
- Need identification
- Information search
- Evaluation of alternatives
- Purchase and delivery
- Post-purchase behavior

The Consumer Decision-Making Process

- A Customer Decision Model in Web Purchasing
  - Can be supported by both Consumer Decision Support System (CDSS) facilities and Internet and Web facilities

Mass Marketing, Market Segmentation, and One-to-One Marketing

- one-to-one marketing
  Marketing that treats each customer in a unique way

- Mass Marketing
  - Marketing efforts traditionally were targeted to everyone
  - Targeted marketing—marketing and advertising efforts targeted to groups (market segmentation) or to individuals (one-to-one)—is a better approach
Mass Marketing, Market Segmentation, and One-to-One Marketing

- **Market segmentation**
  The process of dividing a consumer market into logical groups for conducting marketing research and analyzing personal information.

**EXHIBIT 6.3** From Mass Marketing to Segmentation, to One-to-One

<table>
<thead>
<tr>
<th>Factor</th>
<th>Mass Marketing</th>
<th>Market Segmentation</th>
<th>Relationship Marketing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Influence</strong></td>
<td>Influential</td>
<td>Influential</td>
<td>Influential</td>
</tr>
<tr>
<td><strong>Product</strong></td>
<td>Product</td>
<td>Product</td>
<td>Product</td>
</tr>
<tr>
<td><strong>Recipient</strong></td>
<td>Unknown</td>
<td>Targeted</td>
<td>One-to-one</td>
</tr>
<tr>
<td><strong>Campaign</strong></td>
<td>Mass</td>
<td>Mass</td>
<td>Mass</td>
</tr>
<tr>
<td><strong>Message</strong></td>
<td>Mass</td>
<td>Individual</td>
<td>Individual</td>
</tr>
<tr>
<td><strong>Market Research</strong></td>
<td>Mass in nature</td>
<td>Based on segment characteristics</td>
<td>Based on detailed customer behaviors and profiles</td>
</tr>
</tbody>
</table>

**EXHIBIT 6.4** The New Marketing Model

Customer Relationship Model:
- Customer Receives Marketing Exposure
- Customer Decide on MarketingMedium
- One-to-One Transactional Customer

Customer Pathways:
- Database
- Transactional Behavior Data Collected
- Customer Makes Purchase Decision
- "Four PS" - Product, Place, Price, Promotion
  - Product
  - Price
  - Place
  - Promotion
- Customer Decision

Mass Marketing, Market Segmentation, and One-to-One Marketing

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Personalization, Loyalty, Trust, and Satisfaction in EC

- **personalization**
  The matching of services, products, and advertising content with individual consumers and their preferences
- The major strategies used to compile user profiles include the following:
  - Solicit information directly from the user
  - Observe what people are doing online
  - Build from previous purchase patterns
  - Make inferences

- **user profile**
  The requirements, preferences, behaviors, and demographic traits of a particular customer

- **cookie**
  A data file that is placed on a user’s hard drive by a remote Web server, frequently without disclosure or the user’s consent, that collects information about the user’s activities at a site

- **Customer Loyalty**
  - **e-loyalty**
    Customer loyalty to an e-tailer or loyalty programs delivered online or supported electronically
Personalization, Loyalty, Trust, and Satisfaction in EC

- trust
  The psychological status of willingness to depend on another person or organization
  - How to increase trust in EC
    - Affiliate with an objective third party
    - Establish trustworthiness
Methods for Conducting Market Research Online
- Market research that uses the Internet frequently is faster and more efficient and allows the researcher to access a more geographically diverse audience
- Web market researchers can conduct a very large study much more cheaply than with other methods

What are marketers looking for in EC market research?
- What are the purchase patterns for individuals and groups (market segmentation)?
- What factors encourage online purchasing?
- How can we identify those who are real buyers from those who are just browsing?
- How does an individual navigate—does the consumer check information first or do they go directly to ordering?
- What is the optimal Web page design?

<table>
<thead>
<tr>
<th>Market Segmentation</th>
<th>Base/Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Geographic</td>
<td>Region: state of city, county, or Standard Metropolitan Area</td>
</tr>
<tr>
<td>Demographic</td>
<td>Statistical Area (SMSA): population density; climate; language</td>
</tr>
<tr>
<td>Psychographic (lifestyle)</td>
<td>Age, occupation, gender, education, family size, religion, race, income, nationality, urban or rural</td>
</tr>
<tr>
<td>Cognitive, affective,</td>
<td>Social class, lifestyle, personality, activities; VALS typology</td>
</tr>
<tr>
<td>Behavioral</td>
<td>(see <a href="http://www.vals.com/vals/vals.htm">http://www.vals.com/vals/vals.htm</a>)</td>
</tr>
<tr>
<td>indebtedness</td>
<td>Attitudes, benefits sought, loyalty status, readiness stage, usage rate, purchase risk, user status, product awareness, source, involvement, internet shopping experience</td>
</tr>
<tr>
<td>Risk score</td>
<td>Whole customers are placed in a special category</td>
</tr>
</tbody>
</table>
Market Research for EC

- Market research for one-to-one approaches
  - Direct solicitation of information (surveys, focus groups)
  - Observing what customers are doing on the Web
  - Collaborative filtering

- Observing Customers
  - Transaction log
    A record of user activities at a company’s Web site
  - Clickstream behavior
    Customer movements on the Internet
  - Web bugs
    Tiny graphics files embedded in e-mail messages and in Web sites that transmit information about users and their movements to a Web server
  - Spyware
    Software that gathers user information over an Internet connection without the user’s knowledge
Market Research for EC

- **clickstream data**
  Data that occur inside the Web environment; they provide a trail of the user’s activities (the user’s clickstream behavior) in the Web site

- **clickstream data**
  Data that occur inside the Web environment; they provide a trail of the user’s activities (the user’s clickstream behavior) in the Web site

Market Research for EC

- **collaborative filtering**
  A market research and personalization method that uses customer data to predict, based on formulas derived from behavioral sciences, what other products or services a customer may enjoy; predictions can be extended to other customers with similar profiles

- Variations of collaborative filtering include:
  - Rule-based filtering
  - Content-based filter
  - Content-based filter

- Legal and ethical issues in collaborative filtering
Limitations of Online Market Research and How to Overcome Them

- To use data properly, one needs to organize, edit, condense, and summarize it, which is expensive and time consuming.
- The solution to this problem is to automate the process by using data warehousing and data mining known as *business intelligence*.

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Biometric Marketing

- **biometrics**
  - An individual’s unique physical or behavioral characteristics that can be used to identify an individual precisely (e.g., fingerprints).

Organizational Buyer Behavior

- A Behavioral Model of Organizational Buyers
  - An organizational influences module is added to the B2B model.

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Internet Marketing in B2B
Internet Marketing in B2B

- Methods for B2B Online Marketing
  - Targeting customers
  - Electronic wholesalers
  - Other B2B marketing services
    - Digital cement
    - National systems
    - Businesstown
  - Affiliate Programs
  - Infomediaries
  - Online Data Mining Services

Web Advertising

- interactive marketing
  Online marketing, facilitated by the Internet, by which marketers and advertisers can interact directly with customers and consumers can interact with advertisers/vendors

Web Advertising

![Diagram of the Advertising Cycle]

1. Define target segment(s)
2. Develop advertising theme
3. Create advertising message
4. Select media
5. Evaluate advertising effectiveness
6. Revise advertising strategy

- Internet Marketing in B2B
- Web Advertising

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Some Internet Advertising Terminology

- **ad views**
  The number of times users call up a page that has a banner on it during a specific period; known as impressions or page views

- **click (click-through or ad click)**
  A count made each time a visitor clicks on an advertising banner to access the advertiser’s Web site

- **CPM (cost per thousand impressions)**
  The fee an advertiser pays for each 1,000 times a page with a banner ad is shown

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**conversion rate**
The percentage of clickers who actually make a purchase

**click-through rate (or ratio)**
The percentage of visitors who are exposed to a banner ad and click on it

**click-through ratio**
The ratio between the number of clicks on a banner ad and the number of times it is seen by viewers; measures the success of a banner in attracting visitors to click on the ad

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**hit**
A request for data from a Web page or file

**visit**
A series of requests during one navigation of a Web site; a pause of a certain length of time ends a visit

**unique visits**
A count of the number of visitors entering a site, regardless of how many pages are viewed per visit

**stickiness**
Characteristic that influences the average length of time a visitor stays in a site
Web Advertising

Why Internet Advertising?
- Precise targeting
- Interactivity
- Rich media (grabs attention)
- Cost reduction
- Customer acquisition
- Personalization
- Timeliness
- Location-basis
- Linking
- Digital branding

Web Advertising

- advertising networks
  Specialized firms that offer customized Web advertising, such as brokering ads and targeting ads to select groups of consumers

Online Advertising Methods

- banner
  On a Web page, a graphic advertising display linked to the advertiser’s Web page
- keyword banners
  Banner ads that appear when a predetermined word is queried from a search engine
- random banners
  Banner ads that appear at random, not as the result of the user’s action
Online Advertising Methods

- **banner swapping**
  An agreement between two companies to each display the other’s banner ad on its Web site

- **banner exchanges**
  Markets in which companies can trade or exchange placement of banner ads on each other’s Web sites

Online Advertising Methods

- **pop-up ad**
  An ad that appears in a separate window before, after, or during Internet surfing or when reading e-mail

- **pop-under ad**
  An ad that appears underneath the current browser window, so when the user closes the active window the ad is still on the screen

- **interstitial**
  An initial Web page or a portion of it that is used to capture the user’s attention for a short time while other content is loading

Online Advertising Methods

- **E-Mail Advertising**
  - E-mail advertising management
  - E-mail advertising methods and successes

- **Newspaper-Like and Classified Ads**

- **Search Engine Advertisement**
  - Improving a company’s search-engine ranking (optimization)
  - Paid search-engine inclusion
Online Advertising Methods

- associated ad display (text links)
  An advertising strategy that displays a banner ad related to a key term entered in a search engine
- Google—The online advertising king
- Advertising in Chat Rooms, Blogs, and Social Networks

Other Forms of Advertising

- advertorial
  An advertisement “disguised” to look like editorial content or general information
- Advertising in newsletters
- Posting press releases online
- advergaming
  The practice of using computer games to advertise a product, an organization, or a viewpoint

Advertising Strategies and Promotions Online

- affiliate marketing
  A marketing arrangement by which an organization refers consumers to the selling company’s Web site
- With the ads-as-a-commodity approach, people are paid for time spent viewing an ad
- viral marketing
  Word-of-mouth marketing by which customers promote a product or service by telling others about it
Advertising Strategies and Promotions Online

- Webcasting
  A free Internet news service that broadcasts personalized news and information, including seminars, in categories selected by the user

- **Online Events, Promotions, and Attractions**
  - Live Web Events
  - Admediation
    - admediaries
      Third-party vendors that conduct promotions, especially large-scale ones
  - Selling space by pixels

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**Special Advertising Topics**

- PERMISSION ADVERTISING
  - spamming
    Using e-mail to send unwanted ads (sometimes floods of ads)
  - permission advertising (permission marketing)
    Advertising (marketing) strategy in which customers agree to accept advertising and marketing materials (known as “opt-in”)
Special Advertising Topics

- Advertisement as a Revenue Model
- Measuring Online Advertising’s Effectiveness
- Ad management
  Methodology and software that enable organizations to perform a variety of activities involved in Web advertising (e.g., tracking viewers, rotating ads)

- localization
  The process of converting media products developed in one environment (e.g., country) to a form culturally and linguistically acceptable in countries outside the original target market
- Internet radio
  A Web site that provides music, talk, and other entertainment, both live and stored, from a variety of radio stations

- Wireless Advertising
- Ad Content
Software Agents in Marketing and Advertising Applications

- A Framework for Classifying EC Agents
  - Agents that support need identification (what to buy)
  - Agents that support product brokering (from whom to buy)
  - Agents that support merchant brokering and comparisons
  - Agents that support buyer–seller negotiation
  - Agents that support purchase and delivery
  - Agents that support after-sale service and evaluation

Software Agents in Marketing and Advertising Applications

- Character-Based Animated Interactive Agents
  - avatars
    Animated computer characters that exhibit humanlike movements and behaviors
  - social computing
    An approach aimed at making the human–computer interface more natural
  - chatterbots
    Animation characters that can talk (chat)

Managerial Issues

1. Do we understand our customers?
2. Should we use intelligent agents?
3. Who will conduct the market research?
4. Are customers satisfied with our Web site?
5. Can we use B2C marketing methods and research in B2B?
6. How do we decide where to advertise?
Managerial Issues

7. What is our commitment to Web advertising, and how will we coordinate Web and traditional advertising?
8. Should we integrate our Internet and non-Internet marketing campaigns?
9. What ethical issues should we consider?
10. Are any metrics available to guide advertisers?
11. Which Internet marketing/advertising channel to use?