

Formulating Your E-Commerce Marketing Strategy

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Hierarchy of Objectives

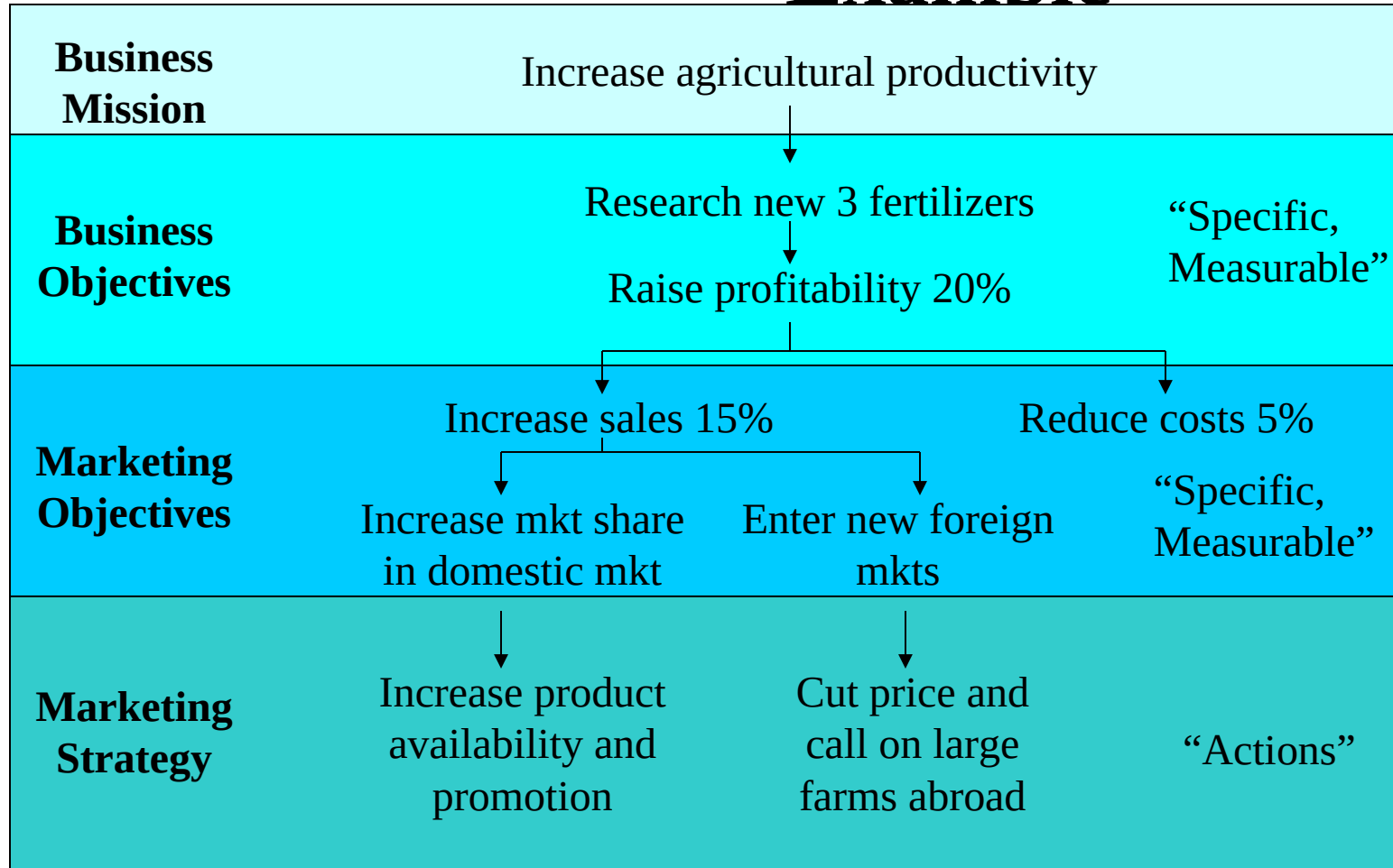


Source: adapted from Kotler & Armstrong, *Principles of Marketing*



Hierarchy of Objectives

Example



Source: adapted from Kotler & Armstrong, *Principles of Marketing*

Mission Statements

- **Who** is your customer? (demographics, psychographics, firmographics)
- **What** benefits are you offering?
- **How** will you deliver the benefits? (The technology you will use)

DCB Examples

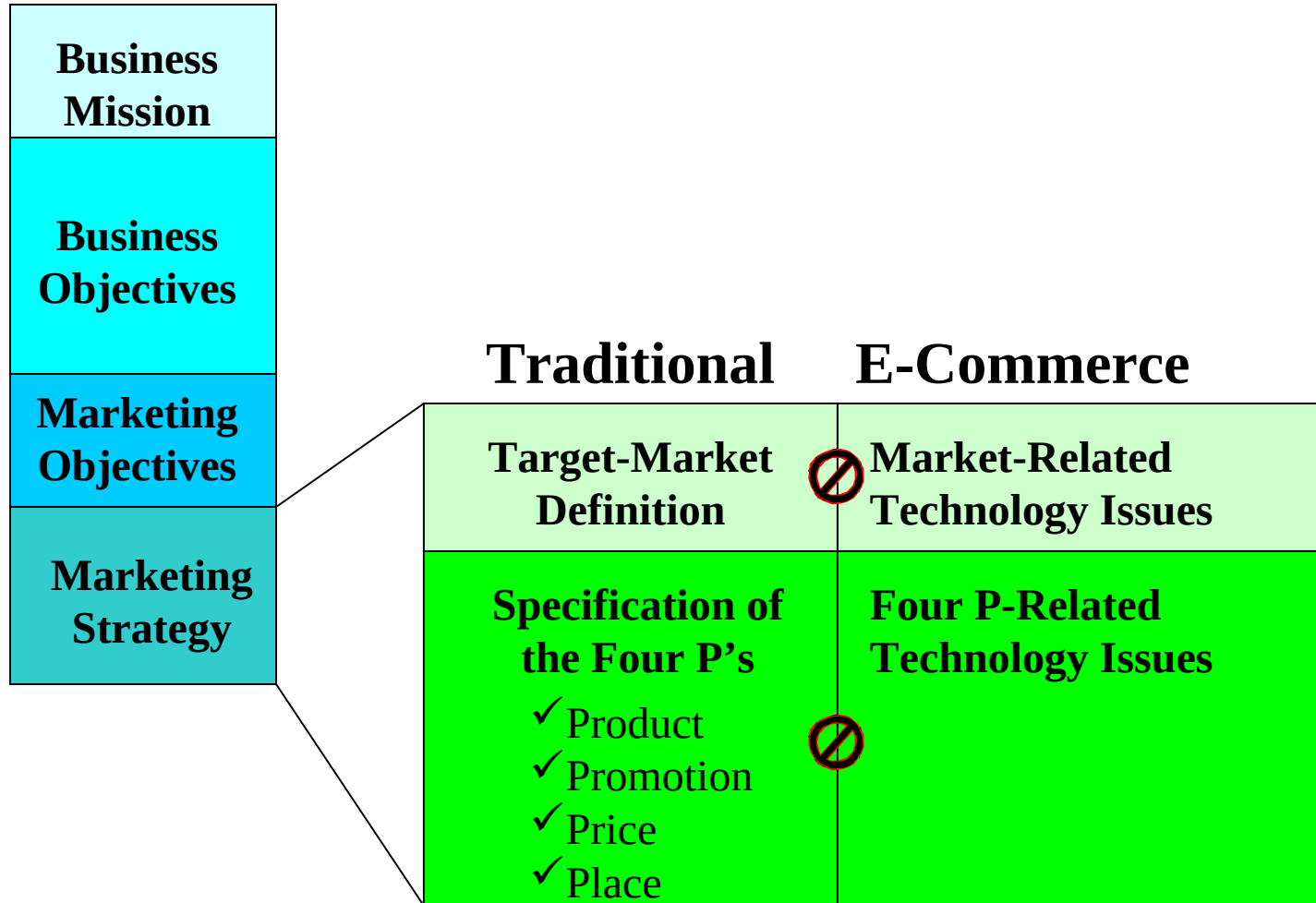
Mission Statement Example

“Our mission is to bring better food choices to consumers through the application of advanced technology” (The NutraSweet Co., Kotler & Armstrong, *Principles of Marketing*, 5th Ed., p. 30)

- ✓ Benefit-oriented, not product-oriented
- ✓ Specific (?)
- ✓ A good mission statement helps avoid “mission creep” but enables a company to grow in appropriate directions

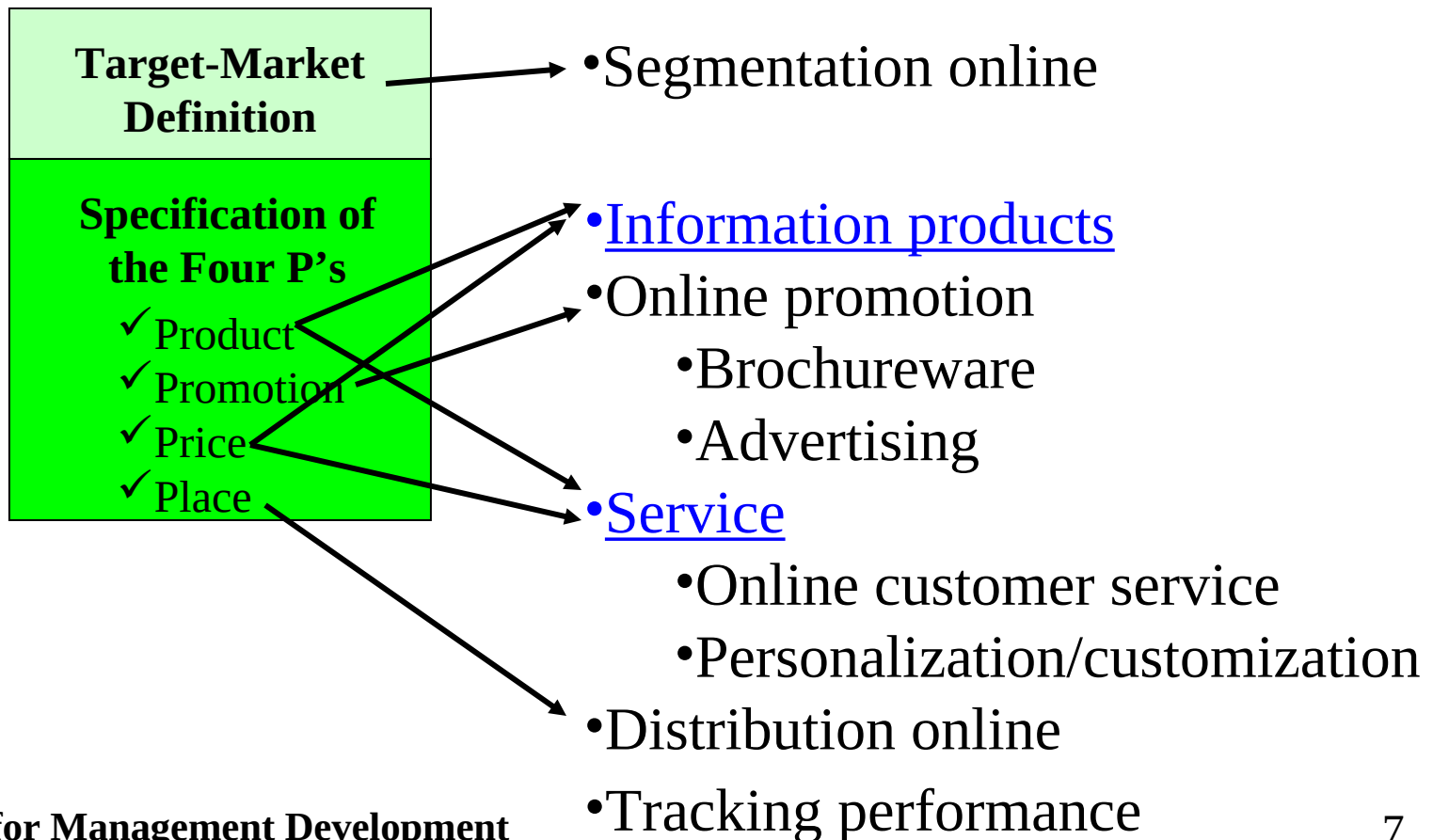


Determinants of E-Commerce Marketing Strategy





E-Commerce Marketing Strategy Opportunities



Market-Related Technology Issues

- Demographics
- Psychographics
- Firmographics
- Technographics
- Situational Segmentation

Traditional Market Segmentation Variables



B2C

B2B

Demographics

- Age
- Gender
- Stage in household lifecycle
- Social status
- Geography

Psychographics

- Demographics
- Values
- Activities
- Interests
- Opinions
- Possessions

Firmographics

- SIC code
- Company size
 - Revenues
 - People
- Geography
- Contact's title

E-Commerce Market Segmentation Variables



B2C

B2B

Demographics

- Age
- Gender
- Stage in household lifecycle
- Social status
- Geography

Psychographics

- Demographics
- Values
 - Likes technology
- Activities
 - Sites visited
- Interests
 - Online interests
- Opinions
- Possessions
 - Computer, Internet connection, browser

Firmographics

- SIC code
- Company size
 - Revenues
 - People
- Geography
- Contact's title
- Technical sophistication (Fax?)

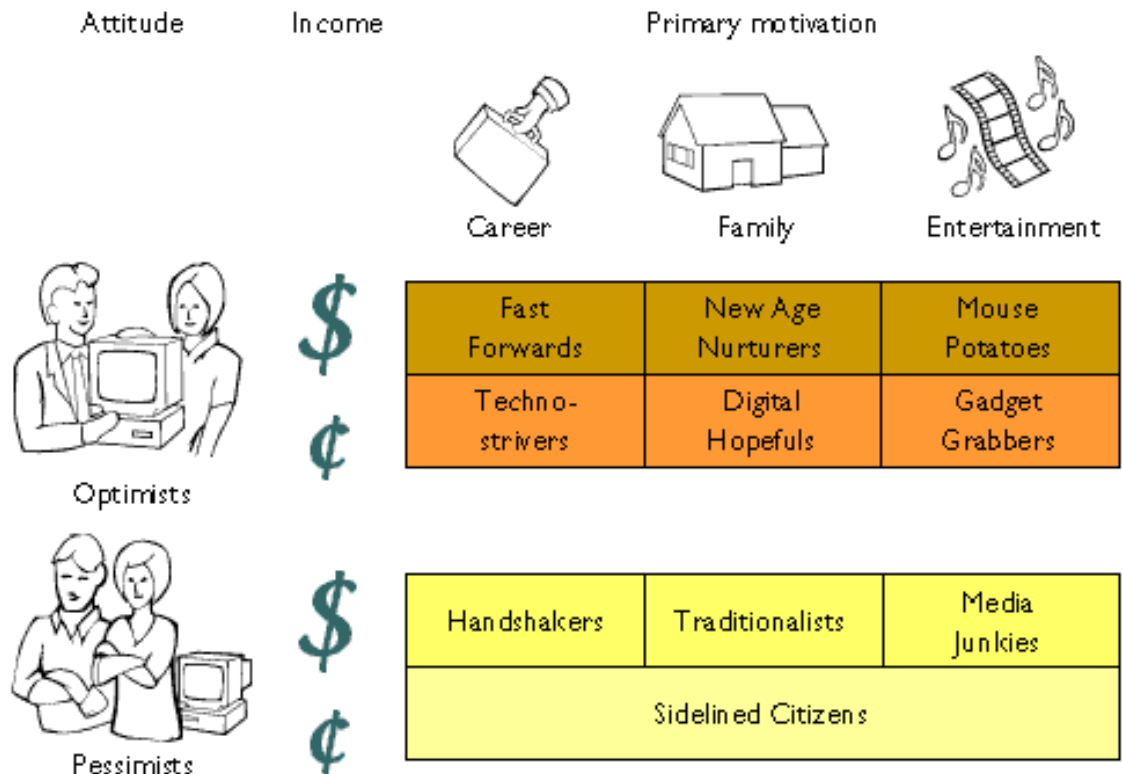
Forrester's Technographics

Figure 1

Technographics Segmentation Model

**Customers
differ in:**

- 1) Attitude**
- 2) Income**
- 3) Motivation**

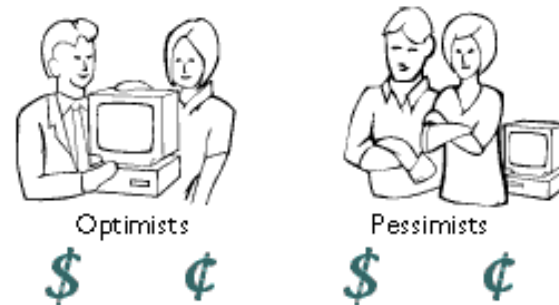


Source: Forrester Research, Inc.

Forrester's Technographics

Figure 2

The Demographics of Attitude



	Optimists \$	Optimists ¢	Pessimists \$	Pessimists ¢
Percentage of North American homes	29%	23%	20%	28%
Median age	43	42	48	55
Median income	\$64,790	\$20,750	\$58,680	\$17,270
Percentage with children under 18	38%	34%	38%	28%
Percentage married	57%	37%	62%	40%
Percentage of homeowners	79%	51%	83%	60%
Percentage attended college	66%	32%	50%	19%

Data compiled in 1999

Source: Forrester Research, Inc.

Forrester's Technographics

Figure 5

Mapping Messages To Motivations

	 Career	 Family	 Entertainment
Mobile phones	Stay connected with work	Safety and security	Stay connected with friends
Digital satellite	Controlling TV entertainment	Variety of programming	250+ channels, sports, movies
Personal computers	Work at home	Children's education	Games and status

Source: Forrester Research, Inc.

Using Technographics

- 1) Forrester surveys 250,000 North American households and uses cluster analysis to determine the 10 technographic clusters.
- 2) Forrester helps you survey your customers, asking 15 key questions.
- 3) Forrester tells you which technographic categories are most common among your customers.
- 4) Forrester tells you what it already knows about your segments so you can enhance marketing campaigns.



Situational Segmentation

Search Motive

Task Completion

Design Implications

Easy information access
and easy purchase

Purchase-Related
Information Search

Easy Information Access

Enduring Involvement

Experiential design, lots
of information

Entertainment

Experiential/novel

Adapted from Hoffman & Novak (1996). Marketing in Hypermedia Computer-Mediated Environments: Conceptual Foundations. *Journal of Marketing* 60(July), 50-68.

Market-Related Technology Issues

- Demographics
- Psychographics
- Firmographics
- Technographics
- Situational Segmentation

Strategies can be developed for each segment

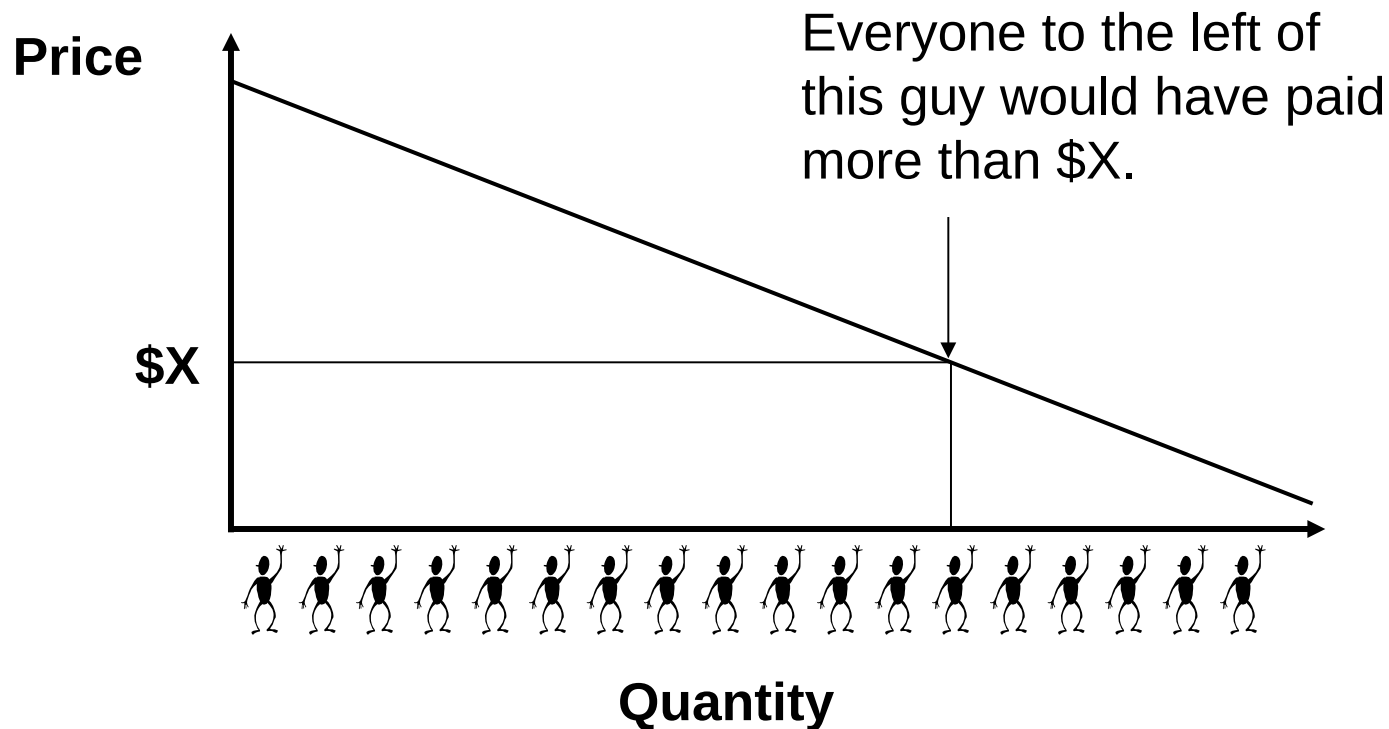
Information Products

- High cost of production
- Low cost of reproduction

Implications: Differentiate information products and try to integrate the demand curve.



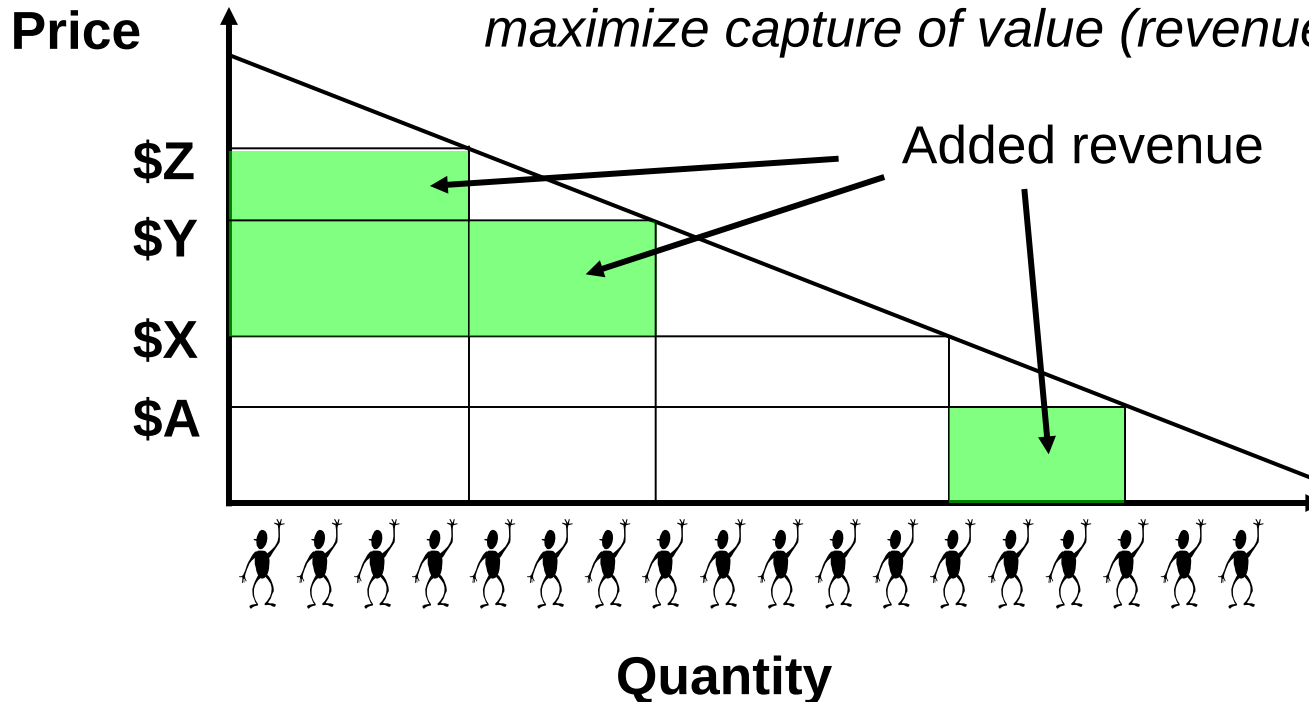
Demand in Differentiated Market (Capturing Value)





Demand in Differentiated Market (Capturing *More Value*)

Marketer's Ideal: Offer different prices to different customers (price discrimination) to maximize capture of value (revenue)



Examples:
Printers, airfare,
cars, banner ads.

Any added revenue is attractive with information products because the marginal cost is so low.

Differentiating Information Products

“Versioning”

- Convenience
- Speed
- Comprehensiveness
- Data Processing
- Manipulation
- User Interface
- Community
- Image Resolution
- Annoyance
- Support

See Shapiro and Varian (1998). Versioning. *Harvard Business Review*, or *Information Rules* (same authors).

Information Products

- High cost of production
- Low cost of reproduction

Implications: Differentiate information products and try to integrate the demand curve.

Top 5 Reasons Why You at Least Need Brochureware

1. Avoid looking technologically clueless.
2. Answer FAQs.
3. Be accessible 24x7.
4. Reach worldwide audience.
5. Provide basic information about your company and products.



Site Design Basics

- 1) Identify who will be visiting your site and why they will want to visit.
- 2) Design a “template” that is consistent with your company image. Choose all graphics, colors, fonts, etc. to reflect your image.
- 3) Include address, e-mail and phone numbers.
- 4) Create a flowchart or site map that reflects the visitor benefits for the web site
- 5) Convert files to html
- 6) Load on your server
- 7) Test, test, test
- 8) Promote your site

See also Janal (2000) *Marketing on the Internet*



Optimizing Brochureware to Bring in Leads

What the prospect does...

Search the web via search engines
or portals to find information and
possible vendors

Identify a few suppliers who
appear to meet what might be
your criteria

**Self-
qualified
leads?**

Send e-mail to each
supplier, asking for
salesperson contact

Marketing Implications:

SEO, list with key
portals. Include useful
content on your site.

Understand key
criteria; attempt to
influence criteria.

Make it easy for
prospects to
contact you; follow
up quickly.

Advertising

- Promotion action items
- Budget allocations across online/offline
- Traditional banner ads
- Advertising options

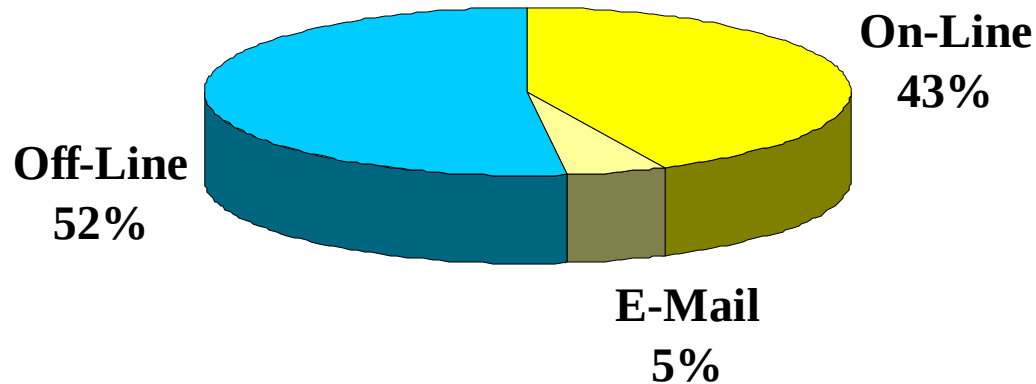
Action Items to Promote Your Site:

- 1) Prepare good content
- 2) Submit to search engines
- 3) Issue and distribute press/news releases
- 4) Solicit reciprocal links
- 5) Buy search engine positioning (ppc engines)
- 6) Try newsletter advertising
- 7) Try direct mail
- 8) Try opt-in e-mail
- 9) Try banner advertising
- 10) Try affiliate programs
- 11) Try traditional media advertising (put your URL on everything!)

Adapted from Boris Kontsevoi, Site Promotion Case Study, ClickZ Forum, March 24, 2000



“How is your site promotion budget allocated?”



Note: 40% said “don’t know”

Traditional Banner Ads

- Full banner ads are 468x60 pixels, e.g.,



- Banners ad space is often sold based on CPM (cost per thousand impressions), typically \$2-\$50.
- Average CTR (click-through rate) is around 0.5% .
- Conversion rates are around 1-2%.
- Cost per acquisition may be around \$150-200.
$$= \text{CPM} / 1000 / \text{CTR} / \text{CNVR} = 10 / 1000 / .005 / .01 = \$200$$

Advertising Options

Payment methods

- In kind
- Sales commission
- Pay per click
- Pay per impression
- Sponsorship

Ad formats

- Text links
- Buttons
- Static banners
- Animated banners
- Pop-up windows
- Rich media pop-ups

Ad delivery

- On web site
- In e-mail
- In newsletter

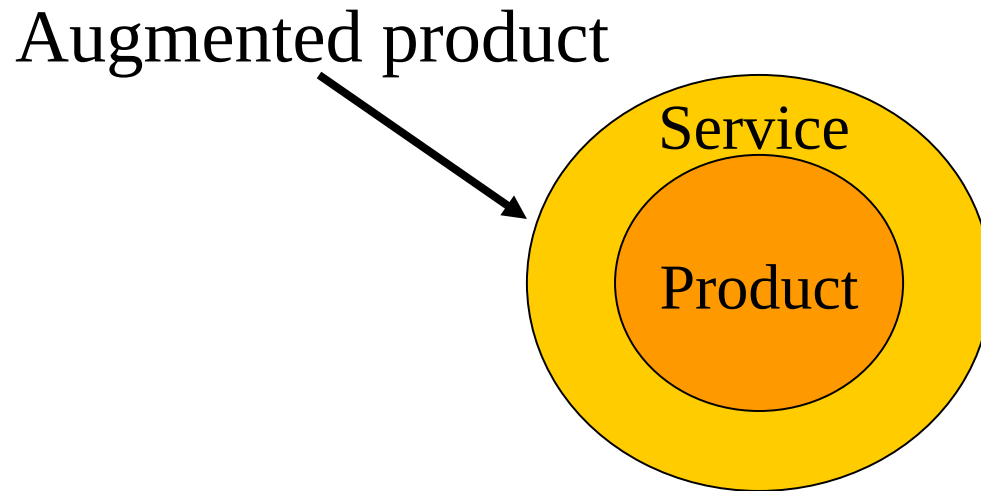
Advertising

- Promotion action items
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- Traditional banner ads
- Advertising options

Service Overview

- Value of service.
- Customer migration strategies.
- Customer satisfaction is related to service expectations.

Service is Part of Your “Augmented Product”



See Levitt (1980) “Marketing Success Through Differentiation – of Anything”
Harvard Business Review.



Pricing and Ignorance

In commodity markets, if all prices were known to all buyers, sellers would not be able to charge different prices.

**B. ANTHRACITE COAL, DELIVERED
(WASHINGTON, D.C.), APRIL, 1953†**

<i>Price per Ton (Dollars)</i>	<i>Number of Bids</i>
15.00–15.50.....	2
15.50–16.00.....	2
16.00–16.50.....	2
16.50–17.00.....	3
17.00–18.00.....	1
18.00–19.00.....	4

* Allen F. Jung, "Price Variations Among Automobile Dealers in Metropolitan Chicago," *Journal of Business*, pp. XXXIII (January 1960), 31–42.

"The difference in prices in a market are in indicator of the ignorance in the market"

Approximate quote from George Stigler (1961). The Economics of Information. *Journal of Political Economy* 69(3).

Pricing More Than Your Product

- ✓ Do the costs of search not outweigh the benefits on the Internet?
- ✓ Or are books not commodities?
- ✓ What do book sellers offer besides books?

Figure 12.9, Hanson (2000) *Principles of Internet Marketing*

Drive Customers to Interact via Cost-Effective Media (“*Customer Migration*”)

Reduced cost/interaction ↑



- Internet self-service
- Automated call center
- E-mail interactions
- Call center
- Individual calls
- Mail
- Face-to-face

But recognize that you must offer customers a medium they are comfortable with (Peppers & Rogers).

Tips for Moving Customers to the Internet

- Ease of use, ease of use, ease of use.
- Pick the right functions.
- Roll out functions over time (don't overwhelm your customers!).
- Promote your functionality.
- Be patient with your customers' level of proficiency with the Internet.

Some of these points came from Helen Tueffel's (VP at Solant) presentation at the July, 2000 IQPC B2B eCustomer Care Conference in Chicago.

More Powerful Motivators for Moving to the Internet

- Phase 1: Incentives for use of Internet.
 - Some services only available online
 - Reduced service fees online (Fidelity fees)
- Phase 2: Disincentives for use of other media.
 - Longer waiting times for using other media
 - Surcharges for using other media

Some of these points came from Helen Tueffel's (VP at Solant) presentation at the July, 2000 IQPC B2B eCustomer Care Conference in Chicago.



**If you want to keep them on the
Internet...**

You better keep them satisfied!



A Satisfaction Primer

The Expectancy Disconfirmation Paradigm:

Dissatisfaction occurs when *performance* falls short of *expectations* (negative disconfirmation).

Satisfaction occurs when *performance* meets or exceeds (positive disconfirmation) *expectations*.

Delight may occur when performance positively surprises the customer by delivering the unexpected.

Customer Expectations

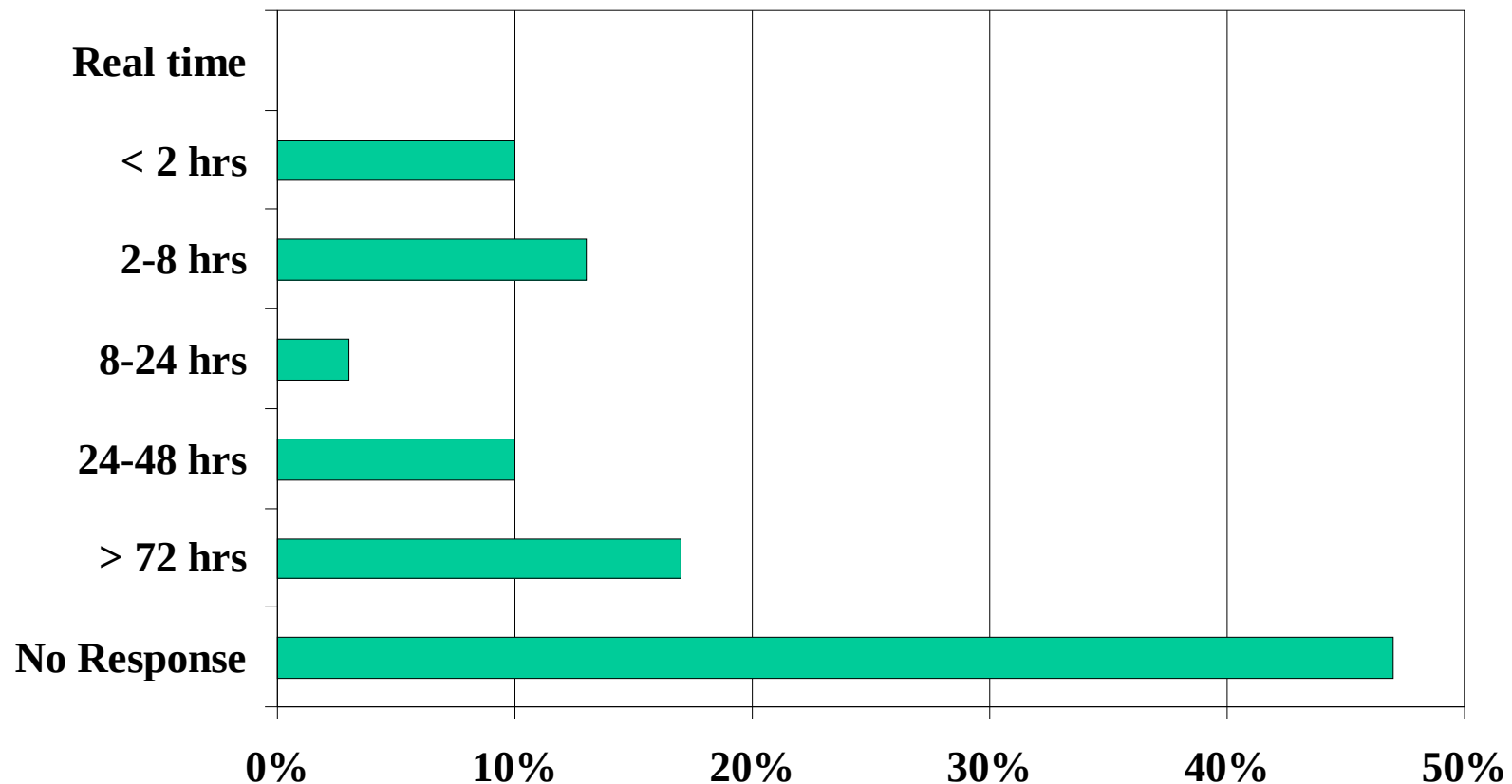
Online Shopping Expectations

- Suggestions based on detailed customer input.
- Same day e-mail turnaround.
- Confirmation e-mail links to package tracking page.
- Customer product reviews, editorials from experts.
- No time limit on returns, vendor pays for return shipping, invoice includes return authorization.
- More than three shipping options; no charge for standard S&H.

Source: Forrester Research Inc., adapted from report in *1to1*, February 2000

Typical Delays in Response to Customer E-mail

Delay in responding to customer e-mail among Media Metrix's top 30 e-commerce sites (September, 1999)



Performance v. Expectations at B2B Sites

- Only 50% of sites enabled transactions.
- Only 13% had essential content at each decision point.
- 0% offered personalization.
- 1 in 5 allowed transactions in more than 3 currencies.
- Some sites had as many as 7 levels of click-throughs.

Source: Forrester study reported in “B2B Web Sites Fail Usage Test.”
EcommerceTimes, January 12, 2000.

Service Overview

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Online Customer Service

Customer service for every budget:

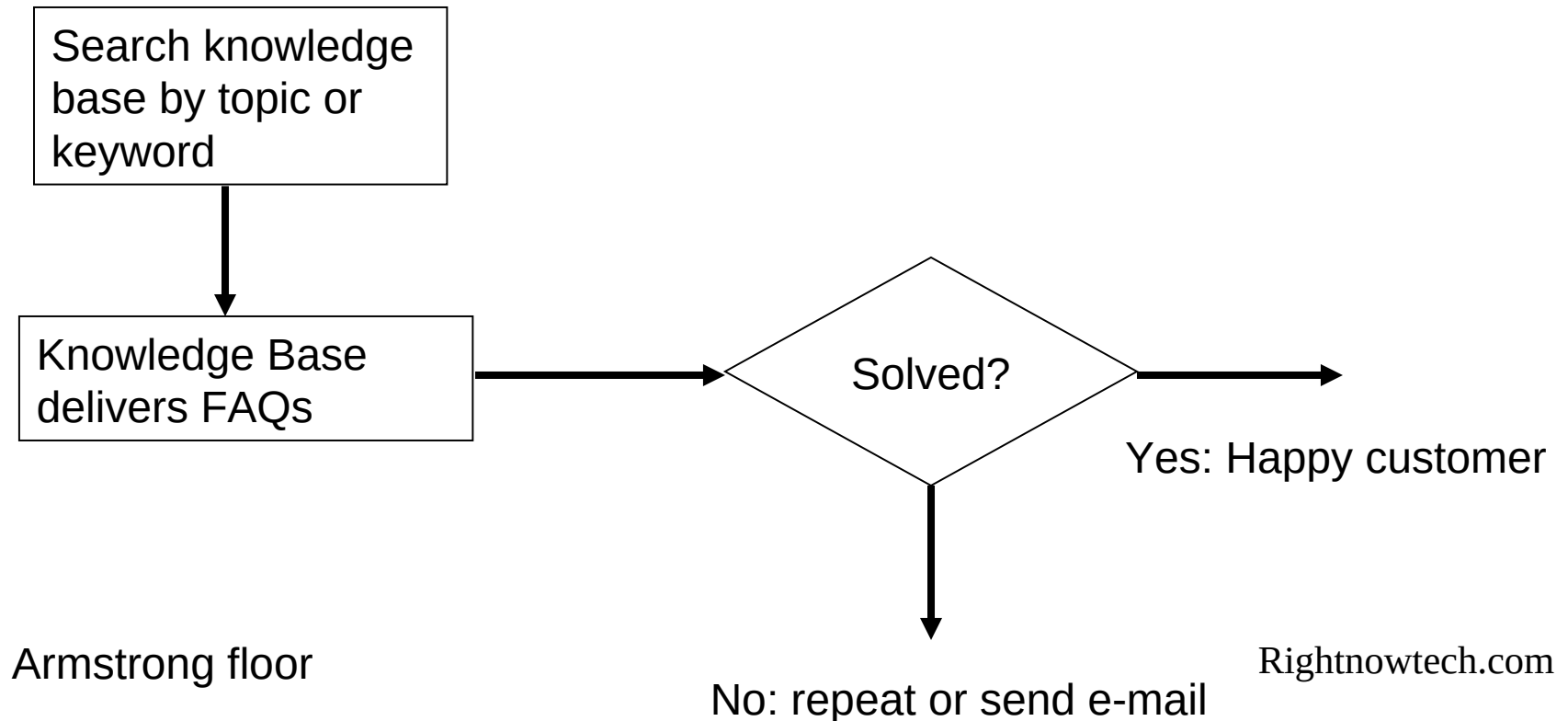
- Static FAQs
- Dynamic FAQ database:
 - RightNowTech (~\$18,000/yr)
- Automatic e-mail response:
 - EchoMail/General Interactive (\$100,000+)
- The human touch: Call center, online chat, personal e-mail response

Using Static FAQs

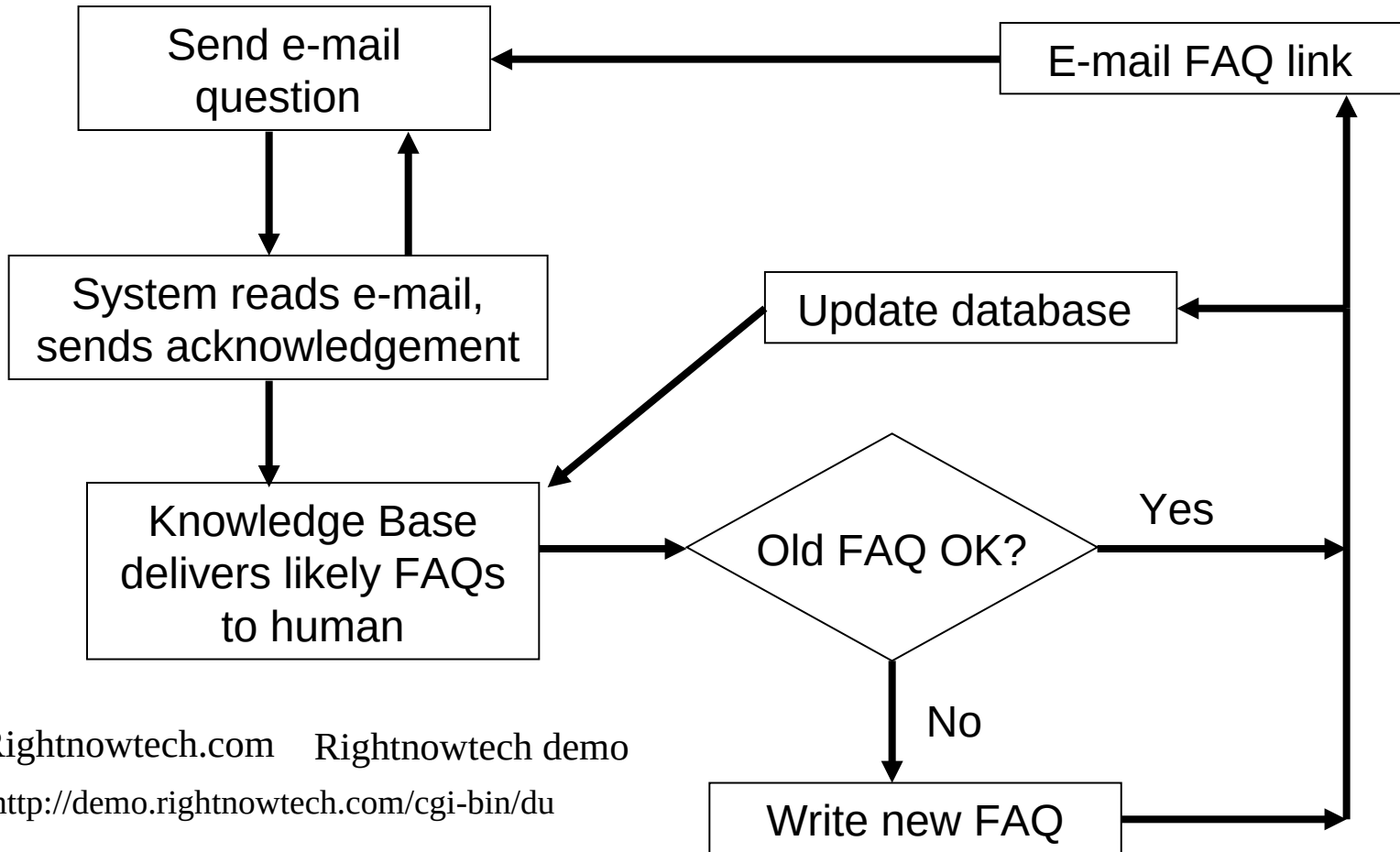
- 1) Poll your customer service people to determine the most Frequently Asked Questions and the answers.
- 2) Create an HTML web page with these FAQs and answers and then link the page to your site.
- 3) Repeat steps 1 & 2 when you get the time.



Using Dynamic FAQ Knowledge Base on Site



Using FAQ Knowledge Base via E-mail



Rightnowtech.com Rightnowtech demo
<http://demo.rightnowtech.com/cgi-bin/du>

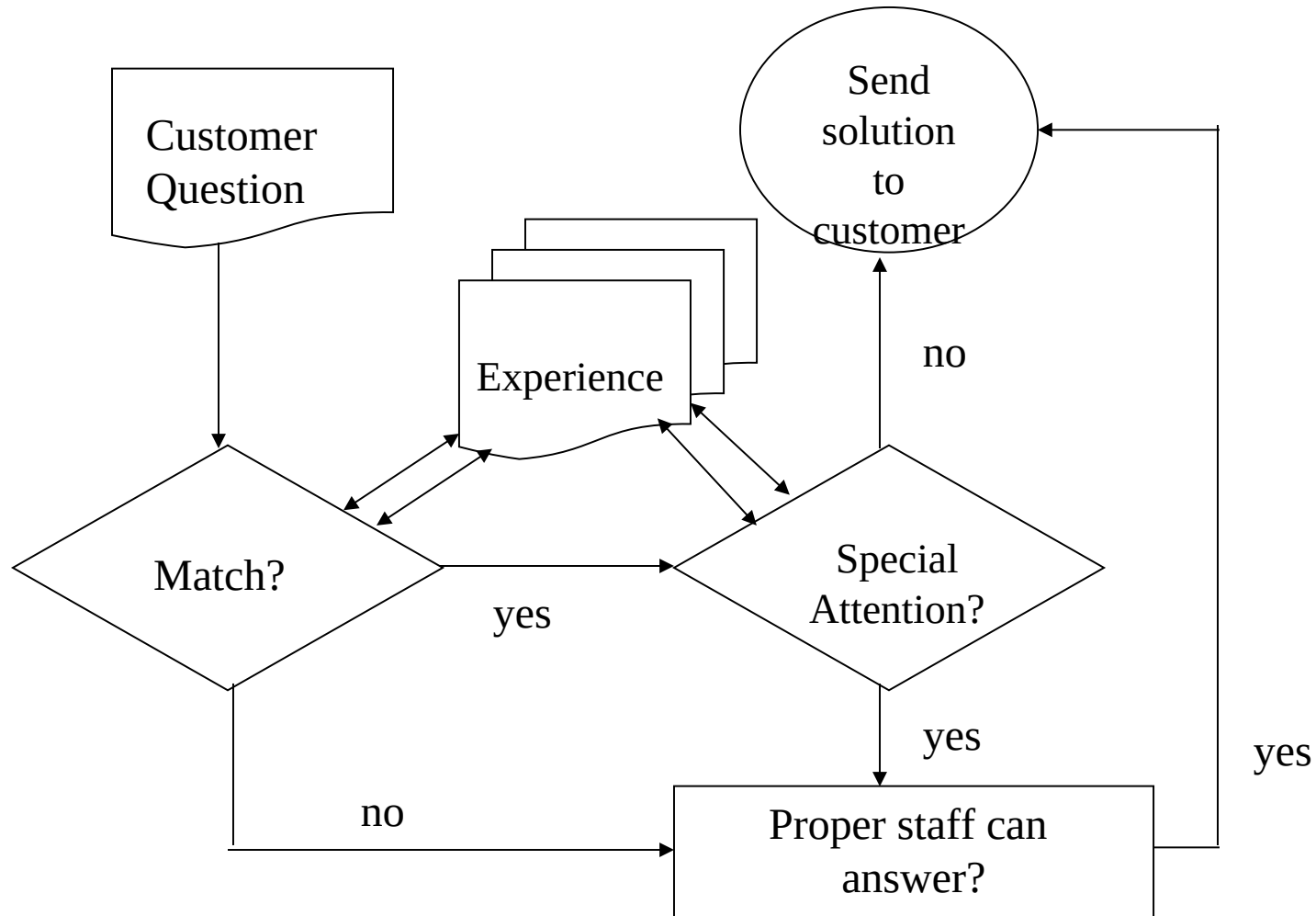
Source: conversations with Right Now Technologies

Ben & Jerry's

- 5,000 e-mails per month.
- Backlog of 5,000 messages.
- System seeded with just 12 FAQ's.
- FAQ database now covers over 100 topics.
- Traffic down to 250 e-mails per month.
- No e-mail backlog.

Source: Right Now Technologies

Automating E-mail Responses to Customers



Matching with EchoMail

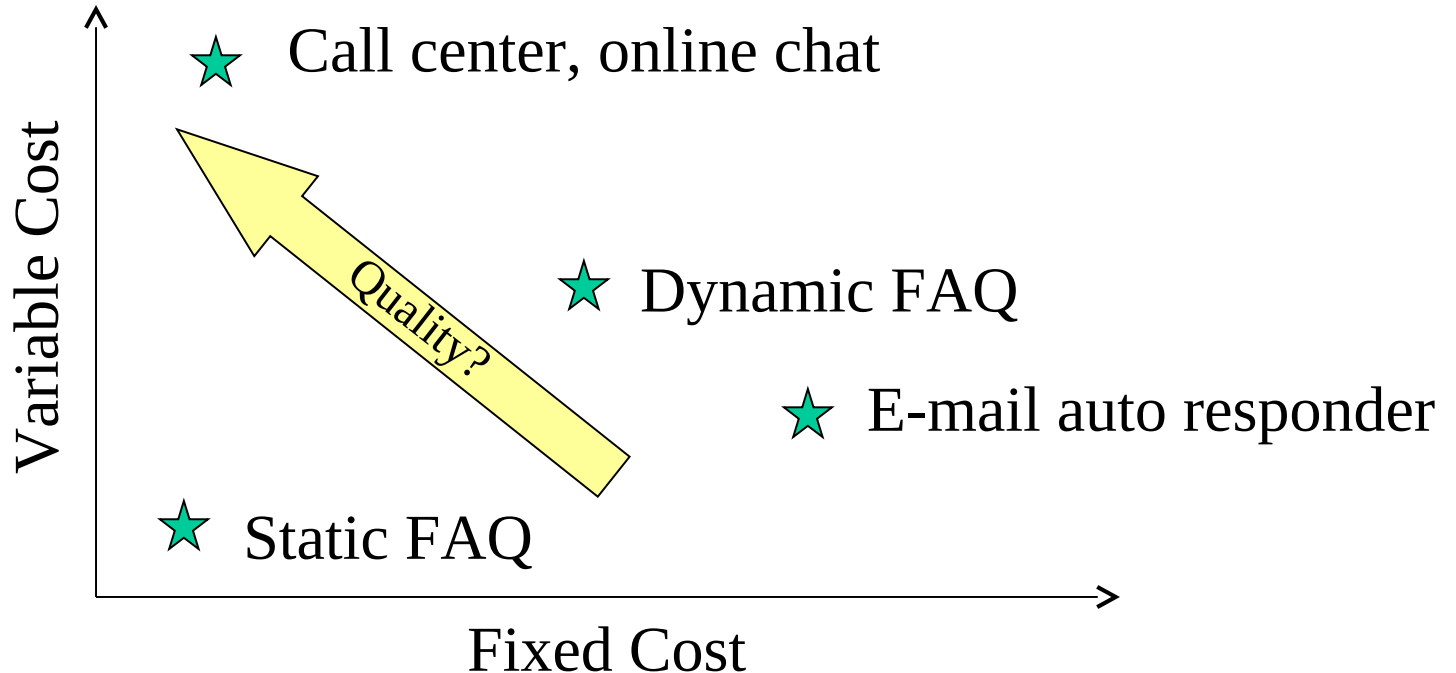
- 1) Incoming e-mail is automatically classified using a dictionary of keywords and word relationships according to 5 attributes:
 - a) Attitude (e.g., negative, neutral, positive)
 - b) Issue (e.g., billing, merchandise, legal)
 - c) Product
 - d) Request (e.g., nearest location)
 - e) Customer (e.g., name, address)
- 2) Messages are answered automatically or sent to a human for personal response.

Source: *Technology Review*, January/February 2000, p. 45

The Human Touch

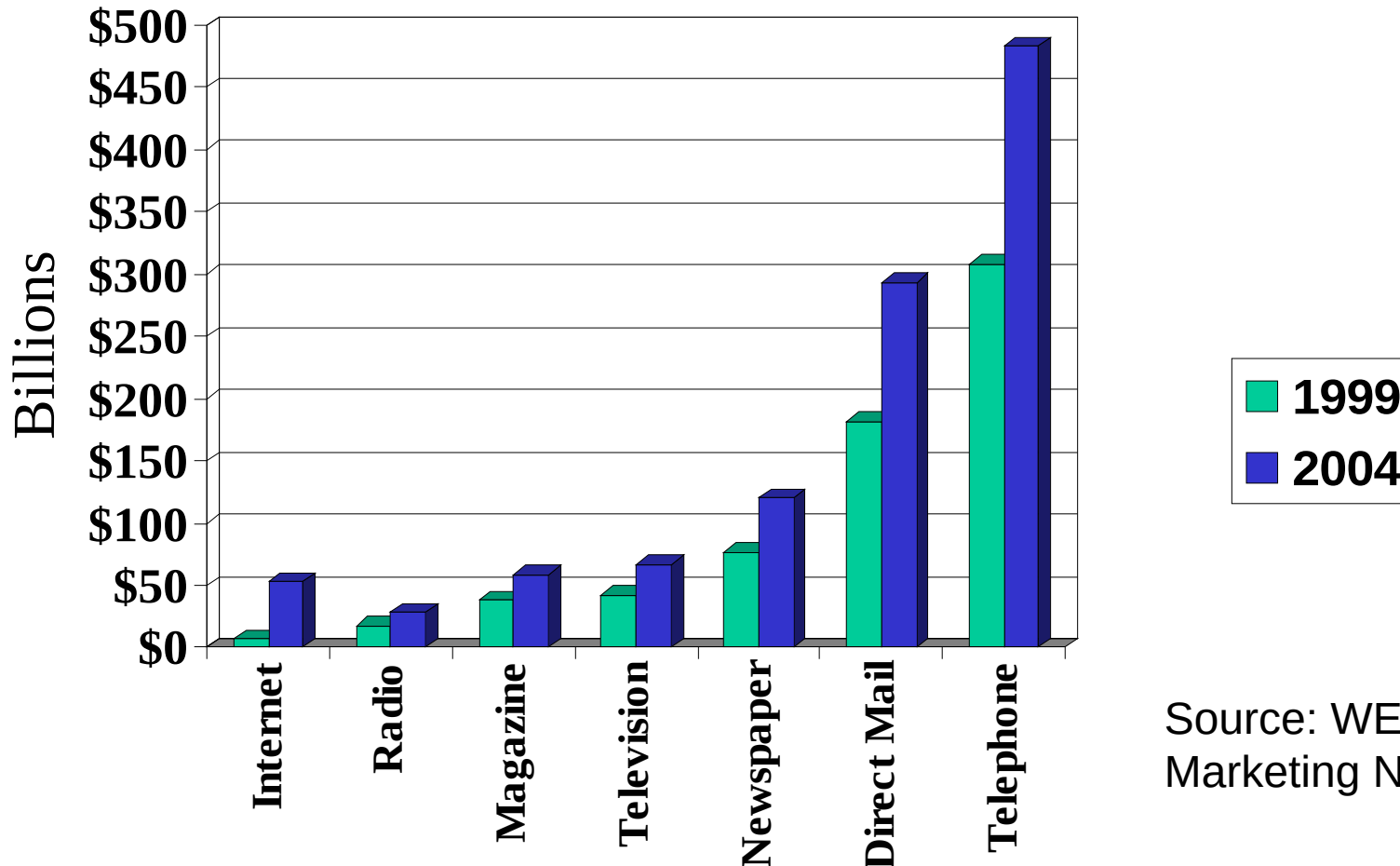
- Use call centers.
- Cross-train call center personnel to do online chat or e-mail.
 - Good luck. Some estimate a 15% success rate.

Choosing Online Support Technologies



Consider how many customers you have, and how unique the customer service needs are.

U.S. Annual B2B Sales Generated by Medium



Source: WEFA Group,
Marketing News 7/3/2000

Online Customer Service

Customer service for every budget:

- Static FAQs
- Dynamic FAQ database:
 - RightNowTech (~\$18,000/yr)
- Automatic e-mail response:
 - EchoMail/General Interactive (\$100,000+)
- The human touch: Call center, online chat, personal e-mail response

Personalization

- Customization and personalization
- Technologies for personalization/customization
 - Site customization
 - Endorsements
 - Collaborative filtering
 - Rules-based systems
 - Computer assisted self-explication (CASE)
- Anonymous personalization?

Customized or Personalized?

Customization and personalization both lead to person-specific content, but

- Customization is user-controlled.
- Personalization is marketer controlled, or database driven (“sense and respond”).

Source: www.personalization.com

Personalization Adds Value

For customers, personalization offers

- Only the relevant products/services
- Only the relevant information (including customized information products) individual.com
- The most convenient interface

For the businesses, personalization offers

- More customer information
- Opportunities for price discrimination
- More time on site
- Better odds at cross-selling
- Higher retention rates

One Experience with Personalization

On average, only 15% of buyers ever return to a site. For one company, personalization technology (collaborative filtering):

- Increased repeat by 27%
- Lengthened shopping time from 4 to 7 minutes.
- Increased number of products viewed from 6 to 10.

Source: Andy Borland, CEO ClickZ Network, August 1999.

Customized Websites

- Customer specifies desired content.
 - <http://www.excite.com/>
 - <http://www.yahoo.com/>
 - High fixed, low variable cost – good for businesses with thousands of customers with low LTV
- For B2B customers, marketers may build customer extranet websites, including special pricing, dedicated support, and other valuable options
 - Low fixed, high variable cost – good for businesses with fewer customers with high LTV

Endorsement Examples

- Endorsements may be customer-generated:
 - eBags customer ratings
 - Amazon reviewers
- Endorsements may be company generated:
 - Consumer Reports
 - Ideacafe.com tech reviews
- Endorsements work well when all consumers have similar needs and wants.

Collaborative Filtering

Also known as recommender systems, collaborative filtering involves identifying two customers with similar product preferences and offering recommendations to one based on the known ratings of the other.

Examples:

✓ Jester site (joke recommendations):

<http://shadow.ieor.berkeley.edu/humor/>

✓ Netflix (movie recommendations):

http://www.netflix.com/ratings_intro.asp?sid=4

Use Collaborative Filtering When...

- 1) Perception of products is highly subjective and unrelated to other customer attributes
- 2) Decision rules differ across customers
- 3) A formal decision model can't be found

Problems with Collaborative Filtering

Problems with Collaborative Filtering include:

- 1) Prevalence of missing data and complex decision models means large samples required
- 2) Insufficient data at start-up
- 3) Customers may have to buy or rate many products before model can be used
- 4) Predictive performance not great



Rules-Based Systems

Rules-based systems offer customers custom products and experiences based on the application of formal “if-then” like patterns.

Examples include showing certain banner ads on certain pages, reminding customers of upcoming birthdays, or recommending products based on known customer needs or demographics.

Rules-Based System Example

- Amazon book recommends appear to use past purchase data and collaborative filtering, but do so unobtrusively and so could be considered a rules-based system.

Rules-Based Systems (cont.)

Rules-based systems are used when:

- 1) Meaningful rules are available (from experts, deduction, or reliable inference)
- 2) Customer preference follow simple, predictable patterns

Problems with Rules-Based systems

The most predictive rules may require sensitive customer information and/or asking detailed questions (as with CASE systems).

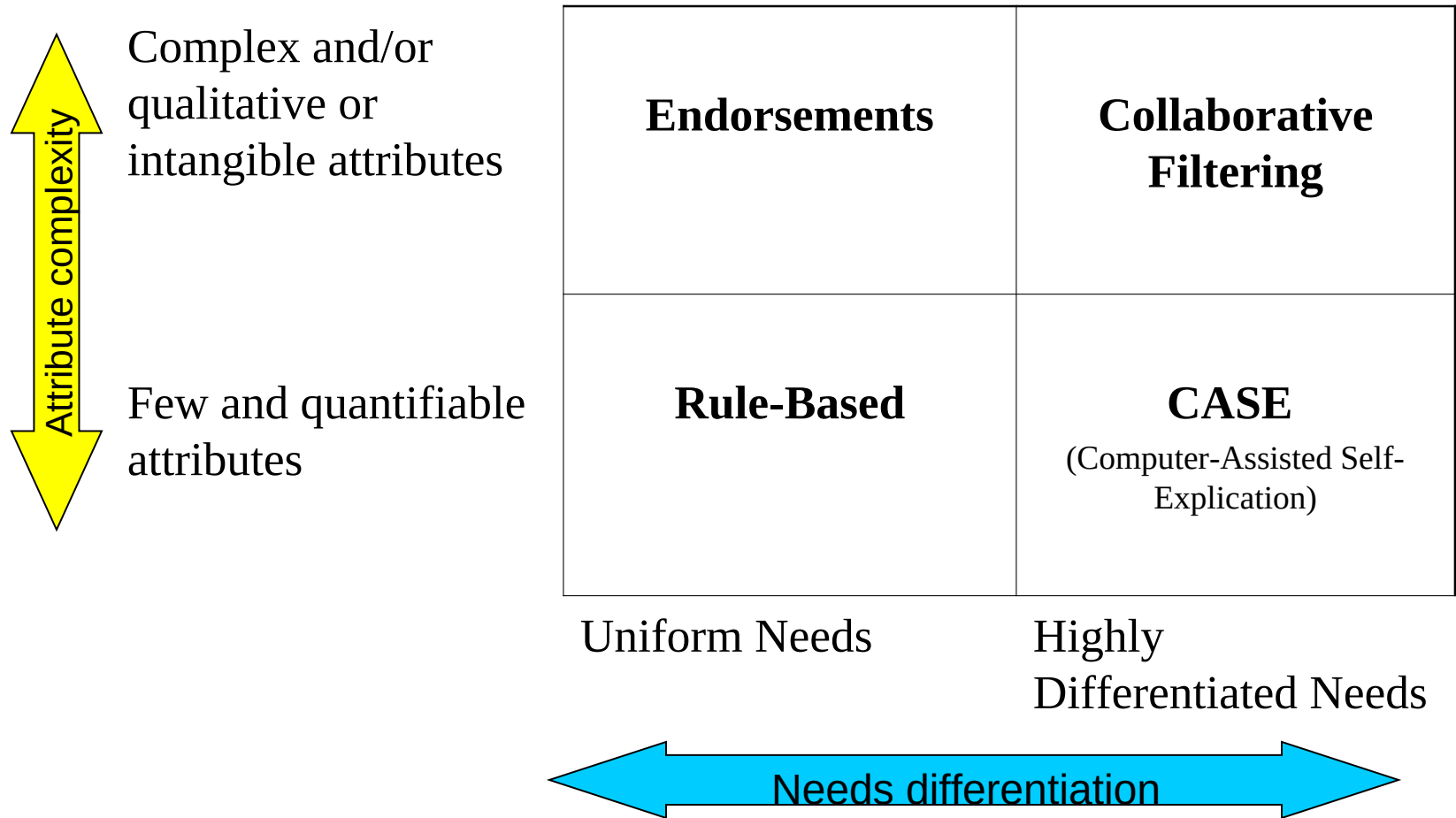
Computer Assisted Self-Explication (CASE)

- 1) Experts determine appropriate decision rules for selecting products or services
- 2) Customers are asked to answer a list of questions related to the decision rule
- 3) Recommendations are offered based on the customers' answers

Example: personallogic.com decision guides for cars, homes, pets, etc.



Choosing Customization and Personalization Tools



Adapted from Figure 7.12, Hanson (2000) *Internet Marketing*

“Anonymous Personalization”

- *Personalize your site interactivity without asking for private information.*
- Don't ask name, phone, email, etc. early in the relationship.
- Possible opening questions:
 - ✓ Which industry is your company in?
 - ✓ How do you plan to use a product like ours?
 - ✓ What is your zip code?

When respondents see benefit in offering a little information, they'll be more likely to offer more information.

Personalization

- Customization and personalization
- Technologies for personalization/customization
 - Site customization
 - Endorsements
 - Collaborative filtering
 - Rules-based systems
 - Computer assisted self-explication (CASE)
- Anonymous personalization?

Distribution Online

- Issues to consider in selling online.
- Types of information consumers use.
- Benefits of intermediaries.
- Keeping existing channel happy.

Does Selling Direct Online Make Sense for You?

- Can I realize significant margins by selling direct?
- Will I have a sustainable competitive advantage?
- Can I offer most of the value currently offered by my existing distribution partners?
 - Can I physically deliver the product cost-effectively?
- ★ Can I offer the quantity and quality of information my customers typically need?
- ★ If I will still need my sales force/retail outlets, do I have a plan for keeping them happy?



Types of Information

What types of information do consumers need to make a decision?

- Primary Product Data (Product Trial)
 - Sensory: Taste, Touch, Smell, Sight, Sound
 - Performance: Fit/Compatibility, Function
- Secondary Product data
 - Comparative v. Noncomparative
 - Price (w/discounts)
 - Objective v. Subjective

Take a Sniff on the Web

- DigiScent's iSmell for sale by 12/2000 for \$80-\$120.
- 128 organic scents combine to form thousands of more complex smells.
- 700 computer-game developers have asked for software kit.
- Can turn in down or off.
- See also FirstSENX and AromaJet.

Newsweek, August 28,
2000, p. 61-62.

Feel a Web Page

- Logitech's iFeel will sell for \$40
- Buttons, menus, and graphics with the right coding will cause force-feedback in the mouse
- User can select from a variety of feels

Newsweek, August 28, 2000, p. 61-62.

eBags Example

ebags.com

- Primary
 - Sight: many pictures
 - Touch: proxies with close-ups?
 - Function: product shown in-use.
- Secondary
 - Comparative: comparison tables
 - Subjective: customer ratings

Quality of Information Intermediaries May Provide

- Intermediaries enhance customer search by offering types of information that manufacturer's typically don't provide:
 - Objective comparisons with other brands
 - Subjective information

*If these are very important to your customers,
consider selling indirect online (through and
intermediary)*

Other Benefits of Intermediaries

- 1) Reduced customer search cost (fewer contacts needed)
- 2) Provision of Product Information
(esp. subjective)
- 3) Collection of customer information
- 4) Anticipation of customer needs
- 5) Communication with customers (promotion)
- 6) Assorting appropriate product mix



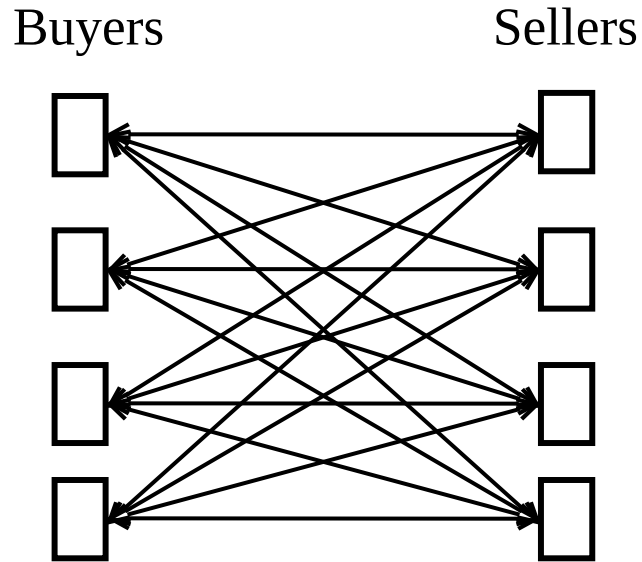
Benefits of Intermediaries (cont.)

- 7) Sorting (suggesting quality differences)
- 8) Negotiation
- 9) Order processing
- 10) Storage and movement of products
- 11) Financing
- 12) Delivery
- 13) Branding (assurance)

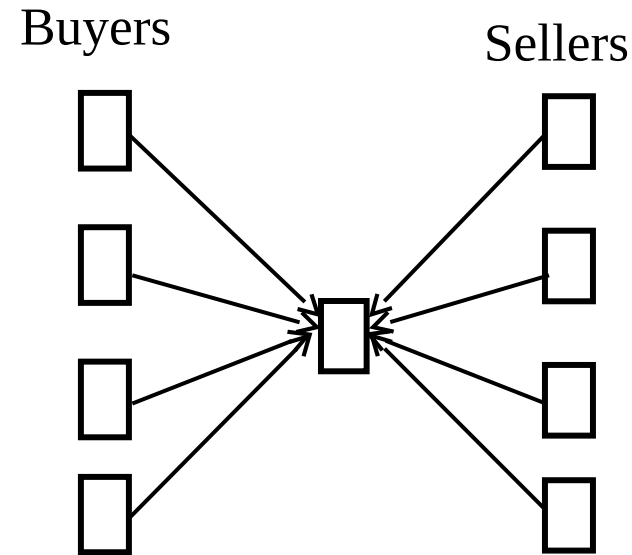


Facilitating Purchase/Delivery

No Intermediaries



Intermediaries



Intermediaries are most beneficial in complex, fragmented markets.

Direct Can't Do It All

	Direct online	Inter- mediary	Logistics partner
Reduced customer search cost			
Subjective Product Information			
Customer information			
Anticipation of customer needs			
Communication with customers		x-sell?	
Assorting product mix			
Sorting			
Negotiation			
Order processing			
Storage/movement of products			
Financing			
Delivery			
Branding (assurance)			

Keeping Existing Channel Happy

- Sell online at a higher price.
- Sell online only to regions not served by existing sales force/retail outlets.
 - International?
- Train sales force to do acquisition, but use extranet for customer service/development/retention and let sales force keep the account.
- Train sales force how to offer value beyond what's offered on the Internet (to selected segments?).
 - Travel agents?

Distribution Online

- Issues to consider in selling online.
- Types of information consumers use.
- Benefits of intermediaries.
- Keeping existing channel happy.

Metrics and Tracking

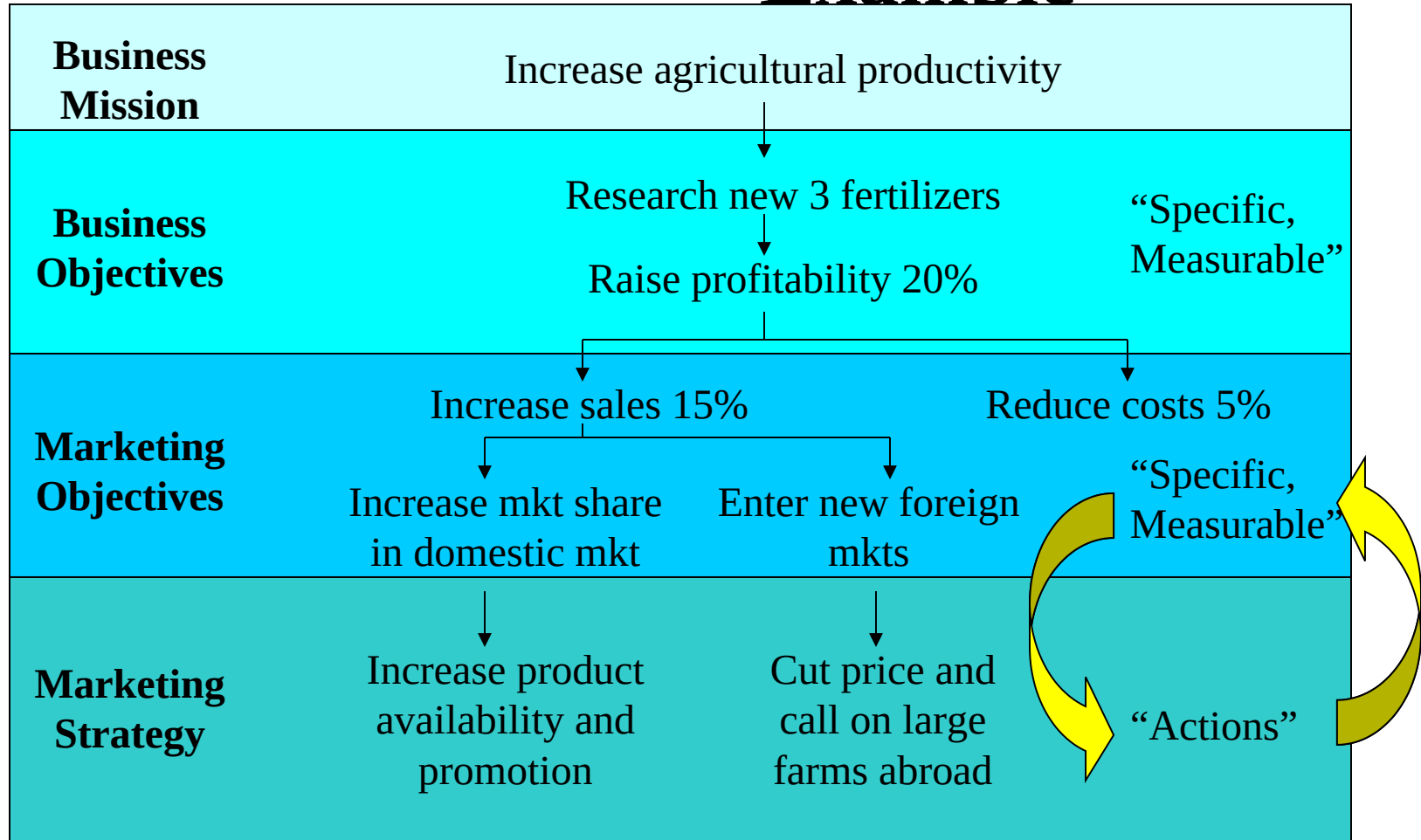
- ROI and metrics to consider for various types of sites
- Analyzing log files





Hierarchy of Objectives

Example



Source: adapted from Kotler & Armstrong, *Principles of Marketing*

Establishing Your Performance Measures

- 1) Identify all the objectives of your site (e.g., generate leads, customer service, sell products, sell advertising, build the brand, etc.)
- 2) Prioritize your objectives
- 3) Identify meaningful metrics of each objective
- 4) Establish meaningful goals for metrics
- 5) Track metrics and compare with goals



Sample Metrics to Consider

- Online metrics
 - Visitor
 - Visits (w/in 30 minutes)
 - Page views
 - Ad views
 - Hits
 - Views of thank you page
- Related Offline metrics
 - Calls to call center
 - Sales
 - Customer satisfaction



Metrics for Ad Vehicles

- If your objective is to sell ad space, track
 - Cost per visit (subscribers and non-subscribers)
 - Page views per visit
 - Visits per week
 - Repeat visit rate
 - Also note demographics by page
 - Roll to Avg CPM and ad views per week

Metrics for Direct Sales Sites

- If your objective is to sell products or services, track
 - Cost per acquisition
 - Visits per week
 - Conversion rates
 - Avg revenue per sale
 - Customer retention rates

Metrics for Customer Service Sites

- If your objective is to offer cost-effective customer service, track
 - Reduction in use of call center
 - Reduction in use of human e-mail response
 - Visits to customer service pages (e.g., FAQ's)
 - Customer satisfaction with service

These objectives are also relevant to internal customer service



Analyzing Log Files

- Log files record all activity on your server
- Log files are difficult to read without help

```
joe.cerfin.com --  
[05/Dec/1999:14:03:23 -0400]  
"GET /page5.html HTTP/1.0"  
200 3291  
"http://www.yy.com/y.html"  
"Mozilla/4.0 [en] (Win95; I)"
```



Software for Analyzing Log Files

Consider <http://www.webtrends.com>

- ✓ Note types of reports
- ✓ Note definitions of key terms

See also:

http://dmoz.org/Computers/Software/Internet/Site_Management/Log_Analysis/

Establishing Your Performance Measures

- 1) Identify all the objectives of your site (e.g., generate leads, customer service, sell products, sell advertising, build the brand, etc.)
- 2) Prioritize your objectives
- 3) Identify meaningful metrics of each objective
- 4) Establish meaningful goals for metrics
- 5) Track metrics and compare with goals