

# Internet Marketing

## LEARNING OBJECTIVES

- 1 Describe the impact of the Internet on business
- 2 Discuss the effects of the Internet on marketing objectives and strategy
- 3 Describe buyer behaviour on the Internet
- 4 Explain how the Internet affects the traditional marketing mix
- 5 Describe how marketers are leveraging the power of online technology
- 6 Name the critical factors marketers face when measuring online success
- 7 Discuss the privacy issues surrounding Internet-based commerce



## LOOKING FORWARD

The latest trend in marketing is the phenomenon of consumer generated content (CGC) which is found on Internet sites like YouTube ([www.youtube.com](http://www.youtube.com)), Google Video ([www.google.com](http://www.google.com)) and Canada's Bite TV (<http://www.bitetv.ca>). Marketers have discovered that online consumers are literally "playing with brands." For example, Fritz Grobe, a juggler, and his friend, a trial lawyer, decided to goof around by dropping Mentos candies into Diet Coke bottles which it turns out creates a compelling geyser effect. They decided to use this effect to mimic the famous "Bellagio Hotel Fountains" of Las Vegas. They arranged for a friend to videotape the whole scene and when they posted it on the Internet, the video had thousands of hits within hours. Within a single month more than 4 million visitors had seen the video. Of course, many of the viewers repeated the experiment for themselves producing incremental sales of Diet Coke and Mentos.

Grobe and his friend spent \$300 to develop their "joke" and they wound up making \$15,000 from an advertising deal. They combined this with some notoriety involving guest television appearances on NBC's *Today Show* and the *Late Show with David Letterman*. Meanwhile, the Coca Cola Company and Perfetti Van Melle USA, maker of Mentos, have received publicity valued in the millions! Mentos has acquired the video to play on its company web site ([us.mentos.com](http://us.mentos.com)) and has added many other versions of the geyser videos to further capitalize on the phenomenon. One of these videos explains the science behind the geyser along with the demonstration. As a result, sales of Mentos and Diet Coke to teachers who want to provide an entertaining science lab for their students have been "gushing up" as well.

Mark Tutssel, Leo Burnett's worldwide chief creative officer, comments: "Marketers must learn to let go of the control they think they have over their brand . . . Once consumers have interacted with brands, they will not go back to being shouted at by marketers." BiteTV of Mississauga, Ontario is one of the many "new" Internet communications vehicles. This company uses a "multiplatform" channel, which means that the content can be broadcast a number of ways such as through digital TV channels, websites, weblogs, podcasts and mobile communications. BiteTV's target market is young people in their late teens and early twenties who are heavy users of the Internet.

BiteTV's programming comes from a number of sources. It creates one third itself, another third is licensed professional material; the last third is CGC provided by viewers and by students studying film and computer animation at three nearby Community Colleges: Mohawk, Centennial and Humber College. BiteTV has not achieved the 4 million hits in one month of Mentos, but reports website traffic of more than 100,000 visitors a month and mobile service downloads of over 7,000 a month. The content is matched with brand ads and sponsor clips from companies such as Molson and Toyota.

Online content is not yet closely regulated, so the "standards of advertising" are much looser. Further, the "intellectual"

property rights as they relate to CGC can become an issue. NBC has noted that some consumers have uploaded clips from a number of its shows, including *Saturday Night Live* on YouTube. Citing copyright infringement, NBC is suing YouTube, demanding that the website remove all clips containing its intellectual property. YouTube has literally "millions" of posted clips and cannot possibly review all of them, let alone examine them in detail for copyright infringement. Like all new "forms" of media communication, CGC will have a number of growing pains before it settles into a "market" space.

How will marketers deal with CGC? Here are some statistics about its potential. Forrester research reports that only 13 percent of marketers using interactive media employ web-logs or social networks; PQ media forecasts that by 2010, spending on user-generated online media will be US\$760 million. In terms of consumer use, Pew Internet & American Life Project reports that only 19 percent of teens actually create web-logs; however 38% read them. This company also reports that one third of teens have created websites for themselves and share videos, photos, stories and art on the web.<sup>1</sup>

CGC is an evolving concept. How do most companies use the Internet to market their products and communicate with customers? In this chapter, you will learn about the Internet and how marketers can use this interactive medium.

### Online

**You Tube**  
**Google Video**  
**Bite TV**

Visit these websites. What kinds of videos do you find? How many different brands of products did you run across? What sorts of brand images are being portrayed? Can marketers really "manage" this kind of medium, and if so, how?

[www.youtube.com](http://www.youtube.com)  
[www.google.com](http://www.google.com)  
[www.bitetv.ca](http://www.bitetv.ca)



# 1

## THE IMPACT OF THE INTERNET ON BUSINESS

Describe the impact of the Internet on business

The Internet, and especially the World Wide Web, has exploded onto the world scene in just a few short years. Companies like Chapters.Indigo.ca, Puretracks.com, eBay.ca, Amazon.com, MapQuest.com, and Canada.com are barely into their second decade of existence. These companies saw opportunities based on innovative ways of running their businesses. Looking back at what they have done, we can see some of the characteristics of successful Internet businesses and describe marketing's role in doing business on the Internet. Because the Internet has become widespread in a relatively short period of time, marketers have been scrambling to learn how to apply this technology to their business practices, especially in the areas of marketing channels, finance, marketing research, marketing communications, and marketing strategy. We have already discussed many of the relationships between the Internet and marketing practices throughout the text. Because the Internet is such a revolutionary technology whose societal impact is only starting to be felt, a separate treatment of the topic is warranted.

### A CONVERGENT MEDIUM

The Internet has been described as a convergent medium. That is, it combines all of the characteristics of all of the pre-existing media. For example, it can provide current written content like newsprint; provide the written content, colour, and high-resolution artwork of magazines; provide personalized e-mail and brochure information like direct mail; provide the audio content of radio; and provide the audio, sight, and motion of TV content. Besides providing all of the characteristics of media, the Internet provides interactive communication in real-time. This communication can be a written response through e-mail, audio through a microphone, or audio and visual through a webcam and microphone. And of course, one can attach video and photographic material to e-mail.

The amount and variety of material available for communication can overwhelm even the most experienced Web user. Information overload is a very real problem on the Web, and despite highly efficient search engine tools it can be hard to find what you want in the maze of the Web, more so given the number of **banner** and pop-up ads out there to distract your attention.

### ELECTRONIC MARKETING CHANNEL

Marketers are well aware that the Web is much more than just a medium with which to grab customers' attention through advertising. It represents an electronic channel for conducting all of a company's marketing activities, including advertising, customer service, marketing research, transactions, distribution, and even new-product development. **E-tailing** using a Web-based business is a franchise open 24/7.

One great advantage the Internet has, being an electronic marketing channel, relates to the excellent opportunities it provides for customer relationship management (CRM; see Chapter 18). Web-based companies can build a personalized rapport with customers, much like a salesperson does with his or her clientele. By capturing information about individual customers' purchases, a Web merchant can build profiles of their likes and dislikes. When the company stocks a new product that matches an individual's profile, the merchant can automatically e-mail the customer to let him or her know about the product's availability. When was the last time your local bookstore set up a "book gift registry" so that your friends and family could buy books for you? Chapters.Indigo.ca has a "wish list" feature that allows you to indicate which books you want to read and allows you to authorize access to your friends and families so that they can order a book for you.

### FINANCIAL IMPLICATIONS OF THE INTERNET

Whenever a new technology revolutionizes traditional marketing practices, it makes sense to discuss how it will affect the bottom line. Companies that embraced Internet technology first have been able to gain an advantage over their competitors that did not. The traditional travel and tourism agencies that flourished between the 1960s and

#### **banner advertisement**

A paid advertisement that runs the entire width of the Web page, usually placed near the top or bottom of the page.

#### **e-tailing**

Using the Internet to sell retail products and services.

the 1980s have been battered in the past fifteen years now that Internet-based travel companies like Expedia, Travelocity, and Orbitz enable consumers to book their own travel arrangements at greatly reduced prices. It is estimated that about one-third of the dollars spent by consumers on the Internet are for travel and tourism products!<sup>2</sup> And even the travel and tourism dollars that are not spent directly on the Internet are influenced by it. One recent survey found that 60% of Canadians rate the use of the Internet to develop their travel plans as very important in comparison to 34% in 2002. Clearly, the Internet has become the dominant information source for the travel and tourism industry. However, in terms of actual travel dollars spent, the Internet represents about 30% of travel industry volume. Regardless, many analysts are estimating that over the next few years, nearly 70% of all travel bookings will be done directly on the Internet.<sup>3</sup>

Innumerable small businesses have started and blossomed with Internet technology. Often, creating an Internet storefront or launching Internet operations does not require the same intensive financial investment needed to open a bricks-and-mortar company. Expenses for facilities and equipment can be nonexistent. Reduced expenses and start-up costs can mean a quicker and more substantial return on investment for entrepreneurs. At the same time, these reduced start-up costs translate into low barriers to entry, which has created a crowded field of online competitors in many industries. For established companies, the impact of the Internet on expenses also can be great. Consider the online purchase of airline tickets directly from the WestJet or Air Canada website versus sales through an agency company such as Expedia, Travelocity, or Orbitz. When e-ticketing is used, the airline can save on ticketing agents, travel agent commissions, data entry, ticket printing, and ticket delivery, as well as on office supplies, payrolls, and time required for each step. Because all of these savings result in a reduction in cost of goods sold, they can translate into increased profitability for the airline.

Another common financial implication of Internet technology is reduced inventory and warehousing costs. A good example is the printing industry. On-demand printing is currently available and has expanded tremendously. Trafford Publishing, a privately held company in Victoria, B.C., is an Internet pioneer, having started operations in 1995. It was one of the first companies in the world to offer “true” on-demand publishing. The company identifies its mission as “helping creative people publish their books and other products.” Trafford describes its start-up situation as follows:

People thought we were nuts: Print-on-Demand was an industry term for printing short runs of 300 to 500 books and no one, even the equipment manufacturers, thought anyone could viably operate a service printing runs of ONE copy. We proposed to sell the books on the Internet, accepting payment with credit cards, and programmed an elaborate website that would display the books and even take orders. There were very few e-commerce sites (except pornographers) at the time, and book industry people quickly dismissed the idea that anyone would ever use the Internet to look for books and scoffed at the idea that people would use credit cards for Internet payments. We were stubborn and kept developing our service—and steadily gathered a clientele of dedicated authors, first at a rate of one or two per month. By early 2002, we had over 100 authors joining on each month. Now there are a dozen or so companies offering variations on our original innovative service—yet we believe ours is still the best suited for most authors’ needs. We are providing a unique publishing service, taking full advantage of the latest advances in Internet communications and print technologies.<sup>4</sup>

Clearly, this kind of on-demand production does not work in all industries, but where it does, reducing the holding costs of inventory amounts to another positive stroke for corporate financial health.

## Online

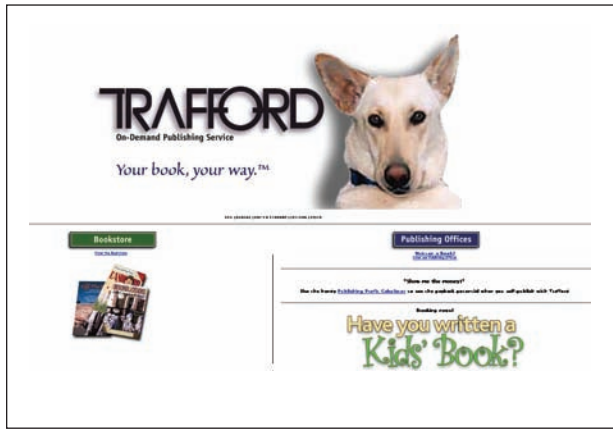


### Expedia.ca

Visit the Expedia.ca website and examine some travel options to your favourite vacation destinations. What kinds of travel assistance does Expedia.ca provide? Go through the process of booking a “trip” (although don’t buy unless you want to). How easy was it? What kinds of price comparisons were you able to make? Would you book a trip using Expedia? Why or why not? If you have booked a trip using Expedia, Travelocity, or some other Internet service, relate your experience. Would you recommend it or not? Discuss.

[www.expedia.ca](http://www.expedia.ca)

NEL



SOURCE: COURTESY OF TRAFFORD PUBLISHING

B.C.'s Trafford Publishing is a global pioneer in on-demand book publishing services for both buyers and authors. Using the Internet, Trafford has created a marketplace where any budding writer can afford to get a book "published" and let the marketplace decide whether the book will be a bestseller or not!

The financial implications of Internet technology on the overall economy have seen many extreme predictions. At the moment, the value of consumer e-commerce in Canada is very modest, only about \$8 billion in a retail market worth \$400 billion.<sup>5</sup> The impact on the B2B market is significant in terms of dollars, with nearly \$34 billion in sales, but Statistics Canada reports that this amount represents only about 1% of operating revenues for business firms.<sup>6</sup> Clearly the "revolution" is ongoing. How many more new industries will be created because of Internet technology and marketing? How many new jobs and new businesses? How tightly will companies be able to link increased consumer spending to increased savings generated through Internet pressure on prices? These questions are still waiting for definitive answers.

## 2 INTERNET MARKETING OBJECTIVES AND STRATEGY

Discuss the effects of the Internet on marketing objectives and strategy

To gain a strategic understanding of online commerce, in 2001 one of the world's most respected business strategists, Michael Porter, wrote a paper titled "Strategy and the Internet."<sup>7</sup> In examining how the Internet influences the structure of industries, he applied the tenets of his seminal work, *Competitive Strategy*, and analyzed the five competitive forces that determine profitability in any market. Porter's five competitive forces are:

1. Rivalry among existing competitors
2. Barriers to entry
3. Threat of substitutes
4. Bargaining power of suppliers
5. Bargaining power of buyers (channels and end users)

Online, rivalry among existing competitors intensifies because the consumer's cost to switch from one supplier to another is virtually zero. The competition is only a click away, so profitability is easily driven down. As well, the global aspect of the Internet adds additional competitors who in the physical world would be located too far away to compete.

Barriers to entry are quite low online. A consumer-turned-merchant can upload product descriptions and create an eBay or Yahoo! or Amazon store in a matter of minutes, armed only with a credit card. Similarly, exit barriers are almost nonexistent. A failed merchant only needs to shut down the site.

Substitute products and services are everywhere online. If one vendor doesn't meet a buyer's immediate needs, it only takes another visit to a search engine to locate a vendor offering an acceptable alternative. At the same time, however, the market efficiencies offered by the Internet can increase a vendor's overall market size and enhance profitability.

The bargaining power of suppliers has plummeted now that the Internet has given buyers access to all suppliers. This has also decreased profitability by intensifying price competition. Reduced barriers to entry have swelled the numbers of suppliers, placing even more negative pressure on prices. Fortunately, the increasing numbers of new buyers entering the market because of access via the Internet will give suppliers access to more customers.

The bargaining power of end users is increasing greatly now that the Internet has greatly reduced switching costs. Again, this has placed pressure on prices and resulted in reduced profitability. The bargaining power of the once-powerful traditional chan-

nels has been demolished now that the Internet is offering new communication and trade opportunities.

The “new economy” proclaimed in the 1990s could never have sustained itself without the Internet, which has become essential for conducting business. Today, a company that does not use the Internet finds it increasingly difficult to remain competitive; then, when it finally realizes the need to adapt and begins using the Internet, no sustainable competitive advantage accrues. New online innovations begin spreading almost as soon as they are discovered, and soon everyone is using the new strategy or product or service. A company’s ability to integrate the Internet with its overall strategy in innovative ways sets it apart from its competitors.

### Michael Porter’s Five Forces

Visit the Quick MBA Website for an in-depth look at Porter’s Five Forces. How would you categorize “Internet clutter” in Porter’s Model? Explain.

[www.quickmba.com/strategy/porter.shtml](http://www.quickmba.com/strategy/porter.shtml)

Online



## INTEGRATING CONVENTIONAL AND INTERNET MARKETING STRATEGIES

Amazon.com, Trafford.com, and Travelocity.ca began on the Internet and are still almost entirely Web-based. But such companies are the exception rather than the rule. For most companies, Internet marketing is used to augment existing marketing programs. This is especially important in light of evidence that many online customers prefer to use the Internet to shop but ultimately make their purchases offline.<sup>8</sup>

Cross-channel synergies can lead to enhanced customer satisfaction *and* increased sales and profits. Major retailers that offer multiple channels (store, Internet, and catalogue) can integrate these channels and cross-promote them to customers. Studies have found that multichannel buyers spend 2 to 3 times as much as retail-only customers and 10 times as much as Internet-only customers. One Canadian study, “Measuring the Impact of the Internet on Shopping Centers” (Hernandez, Gomez-Insausti, and Biasioto 2001) found that Canadian bricks-and-mortar retailers that provide online sales opportunities can generate more offline sales. This survey of “nearly 2,000 consumers at three major shopping malls in the Greater Toronto Area” revealed the relationship between online and offline shopping: “In-store sales generated by Web browsing compared to on-line sales are as high as \$8.84 to \$1 for consumer electronics and \$4.38 to \$1 for clothing. Over 34 percent check the Internet for product information, while 25 percent check it for store and mall information.”<sup>9</sup>

One way to encourage cross-channel awareness and loyalty is through an integrated marketing communications strategy. An organization’s Internet promotion efforts should project a consistent and coherent presence. Every venue where consumers encounter the company—be it broadcast, print, or Internet media—should reinforce past experiences. Consistency in slogans, appearance, and other cues serves to strengthen consumer familiarity with the company. When customers have to resolve differences between messages, it weakens their confidence in the company.

When cross-channel strategies are implemented, the Internet should be used to enhance marketing programs that are already working—not to replace them. If a marketing program is not working, implementing a flashy new Internet promotion will succeed only in making the marketing program fail faster. It is better to find out what is wrong with a marketing program before taking corrective action.

Planning is important in both personal and professional life, yet sometimes people undertake a task without sufficient forethought. As tasks become more complex or difficult, however, the odds for successfully completing them without proper planning diminish. Whatever your vocation—the arts, business, engineering, or science—you will be involved in planning. Most plans have similar elements. At a minimum, an Internet marketing plan should include the following elements:

- An analysis of the Internet marketing environment
- A statement of the company’s online business strategy
- Specific Internet marketing objectives and strategies

## BACK TO BASICS

In 1999, George Day predicted an e-commerce shakeout by looking at similar market developments in the past. According to Day, the dot.com environment in the 1990s was a re-formed market. In other words, the technology of the Internet did not create a new breakthrough market; it simply re-formed the existing market. Marketers who believed that a breakthrough market had been created by the Internet had been misled by three myths that aren't applicable to a re-formed market.

The first myth is that first movers would dominate. That idea doesn't work in a re-formed market if the buyers prefer their old ways of doing things. Online grocery company Webvan succumbed to this myth. The second myth is that behaviour changes quickly. Unfortunately, in a re-formed market customers may care more about getting the right product at the right time than about saving a fractional amount on the price. In its first incarnation, the online entertainment website Pop.com failed as a result of that myth. The third myth is that nontraditional pricing structures are readily accepted. Instead, says Day, "most consumers still perceive a system of prices posted by sellers to be more convenient and fair." Many of the B2B online markets fell victim to that myth.<sup>10</sup>

Clearly, for marketers to succeed in the online environment of the twenty-first century, they will have to return to the basic tenets of business strategy. First, develop a distinctive competence that will guide the purpose of the company. Then focus on a sustainable competitive advantage that will distinguish the company by setting it apart and making it attractive to loyal customers. Nothing less will be able to sustain an attack by Porter's five competitive forces. Exhibit 19.1 shows how marketers can avoid theories and tools that have proved to be mistakes.

### 3 INTERNET BUYER BEHAVIOUR

Describe buyer behaviour on the Internet

How do people and organizations use the Internet, and how are online purchases made? The general theories on consumer and organizational buying behaviour presented in Chapters 4 and 5 are just as relevant for online buying as they are for buying behaviour through any other channel. Internet marketing to consumers is referred to as **business-to-consumer ("B-to-C" or "B2C") electronic commerce**. The Internet has changed the way that many consumers make purchase decisions. Once a person recognizes the need for a product or service, he or she can easily obtain information about it through the Internet. Manufacturers, suppliers, and retailers are anxious to provide information that can influence purchase decisions in their favour. Consumers are not only more informed but have more alternatives to choose from. In some instances the Internet makes the actual purchase easier and more convenient.

The use of the Internet to facilitate activities between companies is called **business-to-business ("B-to-B" or "B2B") electronic commerce**. The products or services a company buys from another company may be the same as those bought by individual consumers. Recall from Chapter 5: one basic difference between consumer and company purchases relates to the intended use of the products. Another difference between consumer-targeted and company-oriented businesses involves the relationships established between the parties. For consumers, the Internet makes it easier to do comparative shopping and to switch between retailers. In a business situation, relationship marketing redefines the fundamental roles of buyers and sellers by establishing ongoing partnerships among participating companies. The Internet can be used to improve relationships among companies and to help build strategic alliances. As a result, business markets are becoming more and more competitive.

One technique that was expected to aid in business marketing was the **business-to-business online exchange**—an electronic trading floor that provides companies with integrated links to their customers and suppliers. B2B exchanges were supposed to simplify and increase the efficiency of business purchasing. Nonetheless, although more than 70% of businesses had experimented with online purchasing by 2003, they were channelling less than 10% of their total spending through the Internet. Indeed, 45% of 1,100 online B2B exchanges reviewed by Booz Allen Hamilton in 2001 had gone out of business by the end of 2002.

#### **business-to-consumer (B2C) electronic commerce**

Using the Internet to conduct business between an organization and individual consumers.

#### **business-to-business (B2B) electronic commerce**

Using the Internet to conduct business between two or more organizations.

#### **business-to-business online exchange**

An electronic trading floor that provides companies with integrated links to their customers and suppliers.

The Internet can grow as a marketing tool only if marketers avoid repeating the errors of the past. By looking back on the good and the bad that were accomplished during the early dot.com days and recognizing the lessons indicated, companies currently operating online will be able to avoid the mistakes of their predecessors.

1. ***“Nothing changes overnight.”***

You can't force people to use the Internet. Some may never use it, no matter how beneficial it would be for them. Careful research can keep a company from overproviding goods or services that its target market isn't ready or willing to purchase.

2. ***“New stuff doesn't replace old stuff.”***

Innovations take time to be adopted. People who aren't ready to adopt a new idea will continue doing things the old way, no matter how wonderful the new innovation happens to be.

3. ***“Too early? Too bad.”***

As noted above, no matter how leading-edge your product happens to be, you can't force people to buy it. In fact, this illustrates the concept of the second-mover advantage—being the first to create a market for an innovation means being stuck with the costs associated with educating the target market. The second mover not only avoids those costs, but also gains valuable insights by observing the first mover's mistakes in the marketplace.

4. ***“Many start-ups were fundamentally uncreative and ‘un-Internet.’”***

Copying what has been done before fails to provide a unique selling proposition that will add your offering to a potential customer's consideration set. The Internet is a stage for creativity, and your online marketing efforts should reflect that.

5. ***“All we, like sheep, will go astray (with enough pressure).”***

The dot.com bubble wasn't the first investment speculation frenzy that went bad. As long as commerce and greed have existed, those who blindly and belatedly followed what appeared to be the prevailing investment wisdom have often been ruined by buying high and selling low. Instead of blindly following the pack, educate yourself before investing time or money in a marketing activity.

6. ***“Free is folly.”***

You can't make money unless you maintain adequate profit margins. Often, if you give things away, people perceive that what you've given is worthless. Focusing on the value proposition will take your company farther.

7. ***“We used narrowcast to broadcast.”***

Broadcasting, of course, involves sending the same undifferentiated message to lots of people. The Internet, by contrast, is quite good for one-to-one communication, or narrowcasting. Use the right tool for the job.

8. ***“The \$50 million rule can kill.”***

Venture capitalists make money by betting big on companies that expect to generate a lot of revenue. A standard figure during the dot.com gravy days was something like \$50 million in revenue within three years. And if that's what it took to get the funding, business plans may have been redesigned to meet the desired numbers. But since venture capitalists are being much more frugal these days, the overriding lesson is to determine budgets carefully and stick to them.

9. ***“It's hugely difficult to build chicken-and-egg simultaneously.”***

Rewards programs and B2B marketplaces had to generate a critical mass of both buyers and sellers simultaneously. The fact that many are no longer around proves how lofty their goals were.

10. ***“Prediction tools must improve.”***

Include a historical perspective when contemplating online success. Consider how long it took others to build a viable business and the circumstances facing them at the time. Only by considering the realities of the past can we realistically develop strong business plans for tomorrow's online endeavours.

SOURCE: Adapted from Tim Miller, “Top Ten Lessons from the Internet Shakeout,” WebMergers.com, [www.webmergers.com/data/article.php?id=48](http://www.webmergers.com/data/article.php?id=48)

One of the most interesting aspects of the Internet is how it has enhanced ordinary consumers' ability to buy from and sell to other consumers. This **consumer-to-consumer (“C-to-C” or “C2C”) electronic commerce** is best exemplified by eBay. Some consumers enjoy trading with others so much that they have turned their hobby into a business. In the truly free-market atmosphere of the auction arena, the importance of having the best online marketing mix becomes clear; some items are furiously bid to extraordinary values, while others languish without a single offer.

**consumer-to-consumer (C2C) electronic commerce**

Using the Internet to conduct business with another consumer or consumers.

**Online**

**Comparing B2B Exchanges**

Go to the Global Wine & Spirits website. Identify the features that could benefit a wine producer and those that could benefit a wine retailer. Next, go to the TransCore website. Compare its features with those you found at Global Wine & Spirits. Which site does a better job of serving visitors seeking B2B services?

[www.globalwinespirits.com](http://www.globalwinespirits.com)  
[www.transcore.com](http://www.transcore.com)

Buyer–seller interactions using e-commerce are somewhat different from the interactions marketers and consumers were used to under prior marketing approaches. One model of how buyers and sellers interact when undertaking e-commerce is presented in Exhibit 19.2. In this model the buyer goes through a five-step purchasing process and the seller goes through a five-step selling process. At every level of the process there is an interactive exchange between buyer and seller, which generally involves an exchange of information over the Internet. The physical exchange of goods and money may or may not occur on the Internet, but the entire transaction is developed electronically, as is the post-purchase relationship.

## ONLINE SHOPPING BEHAVIOUR

The shopping behaviour of online buyers can be approached from two perspectives: (1) technological, that is, in terms of how marketers provide access to online distribution channels; and (2) perceptual, that is, in terms of what buyers believe and perceive about online shopping.<sup>11</sup> The technological perspective considers shopping behaviour in relation to user interfaces, website design, website content, and ease of system use; whereas online shopping behaviour from the perspective of buyers has been researched with respect to many bases for segmentation, including demographics, psychographics, risks and benefits, shopping motivation, and shopping orientation.<sup>12</sup>

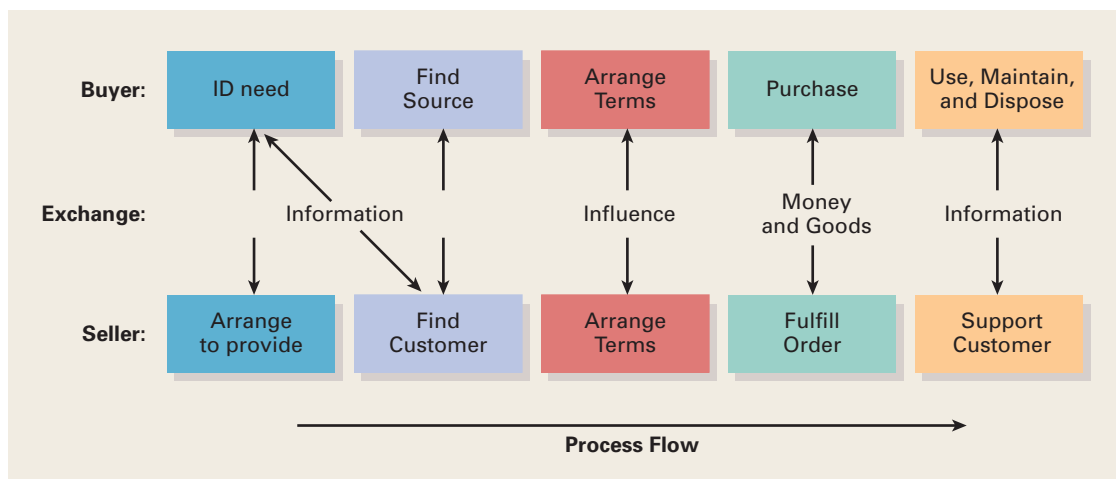
A recent study examined published research on consumer buying behaviour on the Internet and identified nine factors affecting shopping behaviour (see Exhibit 19.3).

More than two-thirds of Canadian users access the Internet from home on weekly basis. When combined with people who have access at work and at school, about 84% of Canadians access the Internet regularly, and 74% of them access it at home with broadband. Internet access used to be higher among better educated, higher income households; this “digital divide” has narrowed, however. The use among Canadian men and women is about equal, but the growth potential for use among women is higher.<sup>13</sup>

How do Canadians actually use the Internet? Rob Gerlsbeck, writing in *Marketing Magazine*, discusses what he calls “the Internet Life.” He quotes Jeffrey Cole, who studies the global Internet. Cole comments that when people first used TV, they exhibited “content behaviour.” That is, they turned on the show they wanted and then turned the TV off when the show was over. But this behaviour soon changed: people became “media viewers” and altered their behaviour from selective viewing to killing the evening by switching channels to find something they liked. Cole comments that Internet use has proceeded in a similar fashion but much more quickly. When people first began using the Internet, they checked their e-mail, looked for specific information, and then logged off. Today, people surf the net and socialize online.<sup>14</sup>

### EXHIBIT 19.2

The Commerce Model for Electronic Redesign



SOURCE: Dr. Mark E. Nissen, Naval Postgraduate School, “The Commerce Model for Electronic redesign,” *Journal of Internet Purchasing*, <http://web.nps.navy.mil/~menissen/papers/jjpcomm.htm> (July 1997).

FACTOR TYPE	INDIVIDUAL FACTORS	RESEARCH FINDINGS
<b>Demographics</b>	Gender	Male consumers make more online purchases and spend more money than females. Females have a higher level of apprehension and are more skeptical towards e-commerce than males.
	Age	Findings are mixed on the relationship of age to online shopping.
	Income	Income is positively related to online shopping tendency
	Education	Education has been found to have a positive effect in many studies and no effect in others
	Culture	Consumers whose cultures are individualistic are more likely to use the Internet than those whose cultures are collectivist. Masculine societies have more predominant male shoppers and they are more involved in online shopping.
<b>Internet Experience</b>	Web Apprehensiveness	Web apprehensiveness is moderately related to purchasing and is negatively related to the amount of time spent online.
	Frequency of Internet Usage	There are mixed results for the effect of Internet usage on online shopping. Internet usage is negatively related to perceived product risk.
	Comfort with the Internet	Comfort level is positively related to online shopping tendency.
<b>Online Experience</b>	Emotion	Positive emotions have a positive influence on online shopping intention in some countries.
	Flow	There are mixed results on the influences of flow on positive experience and greater exploratory behavior.
<b>Psychological Perception</b>	Risk Perception	Perceived risk is negatively related to online shopping intention.
	Benefit Perception	Perceived usefulness is positively related to the intention to purchase online.
	Web purchasing apprehensiveness	Web purchasing apprehensiveness is negatively related to the amount of money spent online.
<b>Online Shopping Experience</b>	Frequency of online purchases	Frequency of purchases is positively related to online shopping tendency and negatively related to the likelihood to abort an online transaction.
	Satisfaction levels with past online transactions	Previous satisfaction has a positive relationship with online shopping tendency.
<b>Normative Beliefs</b>		The influence of friends, family, and media recommendations on the tendency for online shopping has mixed results.
<b>Shopping Orientation</b>		Online consumers tend to be convenience-oriented, and recreational and economic shoppers are becoming more common. Consumers' proclivity to purchase products online does not vary across different online shopping orientations
<b>Shopping motivation</b>		Motivational factors play a key role in determining time spent on product searching and online shopping. Experiential (hedonistic) shoppers always find more enjoyment in interactive environments than in pure text environments
<b>Personal Traits — Innovativeness</b>		Personal innovativeness has both direct and indirect effects on online shopping intention, the indirect effects are mediated by attitude.

SOURCE: Lina Zhou, Liwei Dai, and Dongsong Zhang, "Online Shopping Acceptance Model—A Critical Survey of Consumer Factors in Online Shopping," *Journal of Electronic Commerce Research* 8, no. 1 (2007). Reproduced with permission.

The results of two recent studies of Canadian Internet use indicate that adults spend most of their time online searching for information, whereas youths and children spend most of their time socializing. According to the Canadian Internet Project, 62% of adults online say the Internet is a key place for them to get information and that they spend nearly 6.1 hours per week seeking information. Among adults the most

popular online activities are reading newspapers or magazines (91%), reading and searching for international affairs (66%), browsing medical information (59%), playing video games (53%), and, finally, listening to music (52%).<sup>15</sup>

According to a survey of more than 5,000 grade 4 to 11 students conducted by the Media Awareness Network, user-created content is driving usage among young Canadians. This study found that kids use the Internet to socialize and connect with friends. However, the number one activity is game playing (89% of grade 4 children play games online). Game playing declines as children grow older in favour of social activities such as instant messaging, using weblogs, and entering chat rooms.<sup>16</sup> The most popular “socializing” websites among young Canadians (ages 9 to 29) are MSN Live Spaces (57%), MySpace (41%), Hi5.com (40%), Classmates (21%), Wayn (17%), Piczo (14%), Facebook (10%), Nexopia (8%—the only Canadian-based site on this list), Friendster (8%), and, finally, Livejournal (8%).<sup>17</sup>

In *Now or Never—How Companies Must Change Today to Win the Battle for Internet Consumers*, Mary Modahl of Forrester Research identifies three factors that influence consumers’ online buying behaviour:

1. Attitude toward technology
2. Income
3. Motivation to use technology

Taking these three factors into account, buyers fit into one of three broad categories. *Early adopters* are aggressive consumers who are eager to try new technology, enjoy benefiting from the convenience it brings them, and have the means to acquire and use it. People in the *mainstream* take a more conservative approach and may wait a year or two before going online, either because of pessimism about new technology or because of a lack of resources to support it. *Laggards* are both pessimistic and low-income. These people are genuine “have-nots”; they are averse to change and unable to afford it. Many laggards may never go online.<sup>18</sup>

For high-velocity developments like the Internet, it is difficult to use historical data for making projections. For example, Internet grocery stores have been very poorly received even though they have developed solutions to their critical logistical problem, which is grocery delivery. Though they have reached out to large numbers of consumers, they have only been able to convert 30% of first-time triers into regular customers.<sup>19</sup>

In fact, the potential consumer base for every company is a combination of all three categories of adopters. The most important determinant for a company is the proportion of its customer base that corresponds to each of the three categories. Once this is known, the company can devise a targeting strategy that reflects that customer base. Well-placed magazine ads may be more effective for targeting early adopters. Broadcast media may be more effective for targeting a mainstream audience.

## 4 THE INTERNET’S IMPACT ON THE MARKETING MIX

Explain how the Internet affects the traditional marketing mix

To tap into the market represented by the ever-expanding global Internet population, the Internet has indeed changed the marketing mix, though it certainly hasn’t eliminated it. The four Ps of marketing—product, place, promotion, price—are still the central elements for designing an online marketing plan.

### PRODUCT

To understand the impact of the Internet on products, it’s important to understand products as they once were. In the days before production lines and factories, every product was either an unbranded commodity or a custom-made good.

When the Industrial Revolution began, advances in technology allowed factories with automated assembly lines to create multiple finished goods that were essentially identical. Among the benefits this provided were significantly lower prices than for comparable custom-made products and the ability to maintain consistent quality

during production. Some manufacturers' branded products became well known for the value they offered. People flocked to purchase the well-made, low-cost products these national brands represented.

## MASS CUSTOMIZATION

By the end of the twentieth century, people had become disenchanted with the sameness of products. They began to demand customized goods for the same prices as assembly-line products. Fortunately, the Internet has combined with modern, computer-controlled production facilities to enable mass customization. Levi Strauss, for example, permits customers to either modify existing Levi jean styles or create their own style "from scratch" by specifying the fit, fabric, colour, leg style, size, and fly. By mixing and matching options, a customer can create a pair of jeans unlike any others.

To customize the online experience, marketers are using customized Web pages. For example, "Webkinz" stuffed animals have become one of the hottest toys on the market. Ganz Toys of Woodbridge, Ontario, sells them for about \$11, offering forty-one different full-sized stuffed animals and twenty-five Lil'Kinz. Each toy comes with a tag containing a secret code that is a Web password to the "Webkinz" online world. The toy owner can then log in and "adopt" his or her new pet. The "Webkinz" website has a social networking site as well as games and activities.<sup>20</sup>

## BRANDED COMMODITIES

The Internet has become such a useful tool that many people are no longer seeking a personalized experience. In a Jupiter Research study conducted in 2003, loading speed, ease of use, and search functions topped the list of features that site visitors cherished most. The survey identified the most valuable features for three categories of websites: content, services, and commerce. For all three categories, personalized offerings and recommendations as well as the ability to customize a site were consistently selected as the least important features; indeed, they ranked lower than the "None of these features" option.<sup>21</sup>

Matthew Berk, research director at Jupiter Research, notes that the findings contradict the "entrenched mythology" that has long been embraced by Internet-based companies. The results show that in fact, Internet users are busy people who go online with a particular task in mind. They don't want to build a relationship, even if the marketers behind the site do.

Online shoppers are often much more loyal to certain manufacturers' brands than they are to any particular website. When the competition is just a click away, price and service comparison shopping takes virtually no effort. PriceGrabber.ca, Shopping.com, BizRate.com, and other sites devoted to comparison shopping tools make it point-and-click simple to find the lowest price on the planet for any product an online shopper might want to buy.

This has generated a new product category known as branded commodities—a term that first sounds like an oxymoron. In commodity markets, virtually indistinguishable products such as grains are bought and sold according to the best deal that can be struck; the presumption is that all the kernels of grain are of equivalent quality. The same presumption of equivalent quality holds true for a branded product manufactured by a well-known company.

For example, when someone is interested in purchasing a particular model of Sony camera at a good price, it often matters little to that person which retailer finally sells the camera. As a result, the brand rather than the retailer often becomes the driving factor in an online purchase, because two cameras bearing the same model number but purchased at different stores should be virtually indistinguishable from each other.

For a marketer trying to sell brand-name products online, one of the most important goals should be to enhance the value of the retail brand so that shoppers believe that the store offers more than branded commodities. The Jupiter Research survey identified many of the most important features that shoppers are seeking in an online

## Despair.com

Is this site a real company or just a joke? From the pessimist's mug to the back-ordered "frownies," this website promotes demotivation. Are the products sold at this site appropriate for display in the office, or are they merely supposed to be a joke? Do you think this site can provide a good income for its founder?

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

## Online



retailer. Low prices, free shipping, and a simplified checkout process are important, but for an Internet shop to be truly unique, the next element in the marketing mix becomes critical.

## PLACE

The next element of the marketing mix is place. Both online and in the physical world, customers evaluate this factor based on where they can obtain the product and the smoothness of the acquisition process. The main difference for online shoppers is that the market-place spans the entire world.

Bricks-and-mortar retailing has flourished because of affordable and widely available modes of transportation which enable people to travel greater distances from their homes in order to maximize the value of their purchases. Shopping malls expose buyers to a wide variety of merchants in a central location. Consumer demand for greater selection under a single roof has popularized superstores—giant locations that have greatly expanded the volume of available goods for consumers. People are attracted by huge buildings with seemingly endless inventory.

For the Internet marketer, getting the customer to one particular website among the hundreds of thousands available is not merely an advertising issue. Some manufacturers have found that a site named for a particular brand gives online shoppers an intuitive option to type into an Internet browser's address box. One study found that over 64% of Internet users arrived at sites by direct navigation.<sup>22</sup>

But most manufacturers of products prefer to have consumers deal with the retailers that carry their products. Accordingly, the visitors to the manufacturer's site must somehow be redirected to a local supplier for the final purchase. Manufacturers have found that the extra step involved in shifting customers from the product site to intermediaries may definitely strengthen the loyalty of those retailers, but it can also disenchant the shopper by complicating the purchase process. To simplify the ordering procedure, some manufacturers will accept the order from the customer and then pass the sales information along to the retailer for fulfillment.

**Affiliate programs** provide a way to expand the "place" of purchase to many locations, by allowing virtual vendors ("affiliates") to refer customers to an online retailer via links on their websites. In exchange for locating a ready buyer, the affiliate receives a percentage of the resulting sale. Commission Junction, the Internet's largest online affiliate services provider, provides turnkey programs that allow sellers to link up with thousands of websites ready to convert their site visitors into buyers. This is a good way for less well-known sellers to gain some of the goodwill that people feel for the content sites they regularly visit.

Of course, the best way to ensure that people are comfortable buying from an online outlet is to have a physical location with which they are already familiar. Referred to as "clicks-and-mortar" or "tricks-and-clicks" retailing, this form of multi-channel marketing has the potential to reach more customers and to provide them with a greater choice of purchase options. Such retailers enjoy better online survival rates than companies that exist solely on the Internet.

The clicks-and-mortar sites have many advantages that virtual competitors can't match: a physical-world presence to generate trust, human beings to query, tangible inventory, and an established reputation. Any financial benefit that virtual sellers enjoy owing to the absence of costly overhead items, such as rent, building maintenance, and utilities, is often offset by the increased advertising costs required to gain a buyer's business. Canadian retailers employing multichannel marketing include Canadian Tire, Future Shop, and Loblaws.

## affiliate program

A form of advertising on the World Wide Web that rewards self-selected advertisers (called affiliates) for driving traffic to the advertiser or for subsequent transactions.

## PROMOTION

As you've learned in previous chapters, promotion involves much more than sales gimmicks or public relations stunts. Promotion is part of every effort a company makes to communicate with its target market.

One of the biggest hurdles an online business has to overcome is consumers' lack of awareness that its website even exists. Companies in the twenty-first century are coming to realize that a website is as important to them as the telephone was in the twentieth century. In fact, a website is becoming more important than the telephone because it is "open" 24/7. Try to find a business that answers its phone calls 24/7! But even after sufficient ads have been placed or word of mouth generated to draw consumers to a website, more promotion is needed to help consumers understand the competitive strengths offered by the company behind that site. Back in the 1990s, online companies often found promotion to be the single biggest line item expense.

In 1999 and 2000 it was reported that customer acquisition costs to convert browsers into buyers ranged from a low of \$20.40 for online car dealer Autobytel<sup>23</sup> to a high of \$84 for online grocer Webvan.<sup>24</sup> The difference was even more compelling when companies' profit margins were factored in. The profit margin for the sale of one car could easily cover Autobytel's acquisition costs; it would have taken many grocery deliveries over weeks of service for Webvan to see a profit. It should be obvious why Webvan didn't survive whereas Autobytel is still selling cars.

Online promotion encompasses a variety of platforms. Though each company's own website immediately springs to mind as an information source that can lure people to buy, there are many other ways for marketers to communicate with online customers. For example, e-mail reduces the cost of communicating with current customers and prospecting for new clients to the point of being nearly free. That makes e-mail a very attractive vehicle for commercial communications.

## SPAM: E-MAIL WE LOVE TO HATE

Not all commercial messages are welcome, however. The broadcasting of unsolicited e-mail across the Internet is scornfully referred to as spamming. Although the Internet makes it very easy to send messages to undifferentiated lists of e-mail addresses, spamming is considered more than a simple invasion of privacy because recipients have to pay to receive those messages, either by wasting the time it takes to scan and delete the offending message, or by receiving the message via a pay-per-use system such as a cell phone or an Internet café. Unfortunately, many irresponsible companies resort to **spam** as a cheap and easy way to generate sales, despite the negative effects on others, and use conversion rate statistics to prove that doing so is worthwhile. The **conversion rate** is the percentage of website visitors or e-mail recipients who take a desired action, such as purchasing a product or requesting additional information.

Even when the conversion rate is as low as one buyer per 10,000 contacts, the results can be quite profitable when millions of spam messages are sent.

Thus e-mail—often referred to as the "killer" application of the Internet—has become both an indispensable communication tool and a time-robbing, productivity-sapping nuisance. On a daily basis, 85% of all e-mail messages are considered spam, and that number may even be higher. For companies, the cost of handling bandwidth-hogging HTML messages had caused many IT managers to restrict their company's access to e-mail.<sup>25</sup>

Still, it's the legitimate and responsible uses that continue to make e-mail the most widely and frequently used Internet service. Comparing the commercial potential of e-mail to that of the Web, industry observer Robert Seidman comments: "E-mail is easy—it's like newspaper home delivery, while the Web is like running down to a newsstand to buy a paper." His words were true back in 1996, and they remain true today.<sup>26</sup>

One generally acceptable way for marketers to use the power of e-mail is to encourage their customers to send personal messages to their friends as the Internet's version of word-of-mouth referrals. The process is called **viral marketing** because if a consumer tells a friend, who tells others, and they tell even more, the message can spread just as rapidly as a virus-based illness such as the flu. To promote viral marketing, marketers must find compelling ways to get people to tell their friends about the company's goods or services. The resulting spread of favourable personal e-mail fosters a significantly higher conversion rate than any spam campaign possibly could.

### untargeted e-mail marketing (spam)

A mass e-mailing sent to unqualified e-mail addresses.

### conversion rate

The percentage of website visitors or e-mail recipients who take a desired action, such as purchasing a product or requesting additional information.

### viral marketing

Marketer use of e-mail to encourage their customers to send personal messages to their friends to refer them to products or services.

### Unleashing the Ideavirus

Seth Godin's book is available for free online. It's also been printed as a paperback. Analyze Godin's strategy for giving away his book and decide whether it's a good idea or a bad one. Despite his generosity, his book became an international best-seller. Explain why people would purchase a book that's available for free. Is this kind of strategy wise in these post-Bubble years of the twenty-first-century Internet?

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

Online



Stopping spam is not easy. Some people have advocated a “do not spam” list similar to the “do not call” lists developed for telemarketers. The regulation of telephone systems makes it theoretically possible to enforce a do-not-call registry; however, most spam originates outside of Canada, which limits the effectiveness of any Canadian laws. It is interesting that in the United States, California has passed a law that prohibits spam; this law targets both the senders of the messages and any companies whose products are being sold. According to California state senator Kevin Murray, “even if they’re in some third-world country which doesn’t have a treaty with the United States, if they have to use Visa or MasterCard, we can get the money.” By holding both the sender and the company liable for fines reaching \$1 million, California’s law may have enough teeth to make spammers think twice before adding California residents’ e-mail addresses to their databases.<sup>27</sup>

Stopping spam through legislation may prove difficult, however. Laws have to specifically define the actions they seek to regulate, but few can agree on a definition for spam that is broad enough to provide an accurate description of the problem, but not so broad as to include legitimate types of e-mail. Then, too, technology seems to move faster than lawmakers. By the time a law is passed to deal with the existing technology, some new technique will probably have been developed to circumvent that law.

Those who oppose attempts to legislate against spam advocate fighting technology with technology instead. New and more powerful spam-filtering programs employ increasingly sophisticated methods. Proofpoint, for example, features predictive analytic algorithms based on heuristics, Bayesian analysis, and logical regression to create a dynamically adaptive spam detection engine. As the spam agents change their tactics, Proofpoint adapts to meet the new challenge. Clearly, the future will be more challenging for online marketers, who will face both political and technological barriers in their efforts to reach target audiences with their online products and services.

## BUZZ BEATS SPAM

Because viral marketing has so much appeal for marketers, the concept has been encapsulated in a book by Seth Godin titled *Unleashing the Ideavirus*. The book takes advantage of the viral marketing platitudes it preaches by being available as a free download at [www.ideavirus.com](http://www.ideavirus.com). It has become the most downloaded e-book in history; and as a paperback it has made multiple bestseller lists.

The first premise of *Unleashing the Ideavirus* is that being interesting is a better and inherently more successful marketing strategy than being obnoxious. As Godin puts it: “Marketing by interrupting people isn’t cost-effective anymore. You can’t afford to seek out people and send them unwanted marketing messages, in large groups, and hope that some will send you money.”

The second premise builds on Godin’s previous book, *Permission Marketing*, in which he noted that once you get the attention of your target market, you’d better make certain you have something worthwhile to say. In *Ideavirus*, Godin emphasizes that point: “Ignite consumer networks and then get out of the way and let them talk.”

A classic example of successful viral marketing was the online publicity for the independently made and marketed movie *Blair Witch Project*. The movie, which cost about \$100,000 to shoot, grossed \$1.5 million in its first weekend of limited distribution and \$136.2 million in the first three months following its release. How? By developing a compelling website with new information added weekly. As the prototypical fan site, it blended reality with the movie’s fantasy world by including fake evidence and police reports regarding the main characters’ disappearance. Other promotional media reinforced the story line; these included a book, a mock documentary, a comic book, and a cassette tape, all of which pulled elements of the movie into the visitors’ online and offline conversations.<sup>28</sup>

Not every viral marketing effort is as well received as the Blair Witch campaign, however. When Christian music singer Amy Grant released her seventeenth album, the record company launched a contest to spread the word about the album. But the first line of the contest rules caused both fans and foes to cry foul: “Send the contest e-mail to as many people as you can.”<sup>29</sup>

## COMMUNICATE INSTANTLY

The latest communication tool for online banter is instant messaging (IM). It's faster than e-mail, provides real-time responses, and especially suits hyperconnected Generation Y. IM has also been embraced by customer service teams, who find that customers appreciate receiving immediate answers to their questions. Customer service agents can improve their efficiency by communicating with several customers at once. In 2003, 582 billion instant messages were sent worldwide each day; the 2007 estimate has been set at 1.38 trillion. Such numbers make it clear that marketers definitely need to incorporate the power of this communication tool into the marketing mix.<sup>30</sup>

## INTERACTIVE ADS

Interactivity is a critical feature that differentiates the Internet as a communication channel. And the name that has become practically synonymous with interactive advertising is EyeBlaster. Offering innovative formats including floating ads, expandable banners, and full-page overlays, EyeBlaster helps companies cut through the advertising clutter online and get noticed. The most eye-catching styles are minicommercials that take control of the viewer's screen for a few seconds, often while the computer would have been performing some other task anyway.

The interactivity lies in each ad's ability to take orders, link back to the client's website, or even offer a game of some sort. The ads are attractive because of Flash technology, which provides the movement and sounds that make the messages more compelling than static, mute images. Exhibit 19.4 lists the top reasons for using interactive ads.

Nonetheless, there are certain pitfalls to avoid when planning an interactive ad campaign. First, don't send e-mail messages containing Flash files. Flash uses an executable file, just as online viruses do. Many people delete all files containing executable files, regardless of their origin. A better plan is to send an e-mail containing a link to a Flash file on your website so that the visitor can enjoy the ad without fear of destructive computer contamination. Second, when using video, make certain you include all three of the most popular video formats, since no universal player yet exists: Microsoft's Windows Media, Apple's QuickTime, and RealNetworks' RealOne Player. Third, let the visitor control any audio you may have. Even better, ensure that all audio files begin with and default to the "off" setting. Fourth, make certain your ad can assess the bandwidth available to your site visitor and deliver content that's appropriate for the download speed of the computer. Fifth, size your ad appropriately. Not all visitors will tolerate having you hijack their computer. Make it a practice to test your ad on members of the target market to make certain the ad will be well received.<sup>31</sup>

### EXHIBIT 19.4

Reasons to Use Interactive Ads

#### Potential uses of interactive advertising

- Increase brand awareness and brand awareness tracking
- Generate trials of the product or service
- Increase usage of the brand
- Up-sell customer to premium product or service
- Encourage customers to buy more per visit

#### How to measure performance

- Pre-post (or exposed versus unexposed)
- Increase target audience
- Track first-time buyers
- Track frequency of purchase
- Filed usage study
- Track purchase behaviour over time (what was brought)
- Track amount purchased per purchase occasion

SOURCE: Interactive Advertising Bureau, "28 Reasons to Use Interactive Advertising," [www.iab.net](http://www.iab.net).

## PAID SEARCH ENGINE LISTINGS

Search engines are the key way for new customers to find relevant websites. One way to make certain your company's website reaches the top of the search engine listings is to pay for the position you want.<sup>32</sup> Every major search engine now offers prime spots for listings on search-result pages, which advertisers can pay to obtain. To determine which listing gets which position on the page, the advertisers bid in an online auction. The highest bidder gets the top position on the pages that display the search results for the desired keyword phrases.

### Online

#### WestJet Airlines

Do some investigating at the website for WestJet Airlines. How does WestJet provide value to its customers? How does its website support its ability to satisfy potential and existing customers? What evidence can you find that is both successful and organization-wide?

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

NEL

The most popular phrases with the greatest search traffic tend to be more expensive; the less frequently accessed but more descriptive phrases often produce searchers who can more readily be converted into buyers. These listings are an exceptionally affordable option for marketers because payment is due only when a person actually clicks on the advertiser's link. This kind of pay-for-performance function encourages marketers to target their listings for the most relevant search terms.

To differentiate the paid search results from the standard rankings, the paid listings are usually segregated. On Yahoo!, they are labelled "sponsor results" and appear at the top of the search-result pages. On Google they are called "sponsored links" and appear enclosed in boxes, often along one edge of the page.

Google handles its own auctions for these paid search terms. Another company, Overture, manages the auctions and supplies paid listings for several search engines, including Yahoo!, MSN, Lycos, and Alta Vista. With perpetual bidding for prime positions available for pennies per click, it's not surprising that strategies abound to help advertisers bid efficiently and word their listings for maximum effectiveness.

Underscoring the popularity of this marketing tactic, a report published by Jupiter Research predicts that by 2009 the amount marketers spend on paid search listings will reach \$5.5 billion—roughly 35% of all estimated online advertising expenditures.<sup>33</sup> Clearly, online marketers have embraced the concept of advertising in a relevant search context.

In 2003, Google offered a new twist on contextual advertising when it introduced its AdSense ads. Those ads offered content providers an opportunity to get paid for the information presented on their sites. Like paid search ads, AdSense ads require the advertiser to pay only for clicked links. But unlike the search ads, AdSense boxes appear on specific websites, which are selected by an algorithm for relevant content. Without the clutter of the search engine results, AdSense ads command attention. AdSense's competitor, Overture, followed with a similar offering called Content Match, which uses both algorithms and humans to determine good pairings.<sup>34</sup>

Not everyone believes that all paid listings are equivalent. At the Search Engine Strategies 2003 Conference & Expo, NewGate Internet, a search marketing agency, demonstrated that click-through rates were 14 times higher using search ads than with AdSense ads. **Click-through rates**, or the number of clicks a hyperlink records, are used to charge for advertising based on the number of people clicking on an ad. Clearly, each advertiser should carefully monitor the cost of any online marketing campaign and track the subsequent click-through and conversion rates to ensure optimal results.

## ONLINE SALES PROMOTIONS

Sales promotions are designed to provide a short-term incentive for consumers to purchase a product. This is done in many ways online. If the company is selling goods online, electronic coupons, time-limited special purchase offers, and free shipping with a minimum purchase are all tactics designed to persuade consumers to purchase products they might not otherwise have bought. In fact, more than half of the online consumers surveyed by NFO Interactive indicated that incentives would cause them to return to shop at the same online store.<sup>35</sup>

Loyalty programs are also used online to reward customers when they purchase. The same technology that allows customers to view their loyalty points and even redeem those points online without the aid of a company representative also gives customers a level of freedom usually not available in the physical world. Moreover, the company saves time and money when its customers can handle the more mundane aspects of the program on their own. Shoppers Drug Mart allows people to enroll online for its Optimum Card rewards program. Existing card holders can check their point totals, transfer their points to other family members, and even donate their points to one of more than 100 registered charitable organizations.<sup>36</sup>

## ONLINE PUBLIC RELATIONS

Grabbing people's attention and creating a favourable impression are at the heart of good public relations. Online PR efforts should be fun and informative for both the

### click-through rate

The number of clicks a hyperlink records; used to charge for advertising based on the number of clicks an ad generates.

visitors and the company and should help generate positive “word of mouse” communications among members of the target market.

Often, an online event such as an informative Webcast presentation can be archived for future visitors to reference. Company-sponsored chat areas can foster an inviting sense of community among regular customers and newcomers. And cause-based affiliations can strengthen the allegiance of people who feel strongly about the cause.

The easiest way to make an online event fun is to outsource the hard work to an online PR firm. Almost every company that specializes in PR has developed some Internet experience, but the best firms take a holistic approach to the promotion and ensure that it enhances the client company’s positioning, raises market awareness, and provides measurable factors for evaluating the campaign’s success.

## PRICE

Pricing a product online can be a difficult task. Just as nationally advertised manufacturer’s suggested retail prices (MSRPs) drove price competition from the 1840s to the 1990s, software-based intelligent shopping agents (commonly referred to as shopbots) and comparison search sites are today generating pricing pressures online. Because savvy online shoppers can use these tools to automatically identify the lowest prices in the world for any product imaginable, it’s easy to assume that the lowest price will always win the sale. In fact, the listed price is only one of the factors guiding a buyer’s purchase decision. Less obvious factors include shipping and handling charges, taxes, and insurance.

Nonfinancial costs may also influence the buyer. For example, lack of familiarity with a website may cause the person to weigh the cost of dealing with an unknown seller and raise concerns about efficiency and honesty. What will be the cost if the product never arrives after it’s paid for? What will be the cost if the credit card information is used repeatedly without the cardholder’s permission?

To determine the likelihood of such unwanted costs, many buyers consider the professional appearance of a website, examine its customer service capabilities, and turn to trusted third parties such as the Better Business Bureau and *Consumer Reports*.

## TYPES OF ONLINE PRICING

A variety of pricing methods are used online. Auction pricing has been made popular by sites such as eBay. Instead of offering a product for a predetermined price, interested buyers bid among themselves for the right to purchase the product at the highest bid price. eBay offers a variety of auction styles, including Dutch auctions, where multiple items can be bid for, and reserve-price auctions, where the seller can stipulate the lowest acceptable price to start the bidding. Many eBay sellers also offer a “buy it now” option for goods they have available in “mass” quantities.

Demand pricing, where the price rises and falls with demand in order to maximize revenue, can be performed quite easily online by creating a pricing algorithm that factors in the changing levels of buying activity. A similar tactic would involve monitoring the price that competitors are charging and creating a pricing algorithm to maintain competitiveness.

Of course, the key problem with variable pricing is that it makes forecasting and planning quite challenging. In addition, low-price leadership is often a losing proposition, as evidenced by the demise of virtually every dot.com site based on a free product or service model.

## PROMOTING LOYALTY

Instead of trying to offer the lowest prices, most online marketers try to promote customer loyalty. Loyal customers not only ensure repeat sales but also reduce the overall cost of customer acquisition. In fact, a 5% increase in customer retention can raise a company’s profits by 50% or more.<sup>37</sup>

As InfoWorld columnist Sean Dugan points out, however, the best loyalty program is better customer service.<sup>38</sup> A survey by Jupiter Research found that although 75% of

Canada Post  
FedEx  
UPS

Check the cost to send a one-pound package from your house address to a relative who doesn't live in the same house. Compare the available prices and services to determine which of these delivery services provides the best value. Explain the reasons for your selection.

[www.canadapost.ca](http://www.canadapost.ca)  
[www.fedex.ca](http://www.fedex.ca)  
[www.ups.com](http://www.ups.com)

Online



the queried consumers participated in at least one loyalty program, only 22% said that incentive programs drove them to purchase online. Consumers consistently rate online customer service as poor. And even though 72% of respondents to the Jupiter survey said that customer service was important to them, only 41% were satisfied with their online experiences. Thus, the key to profitability lies less in the pricing algorithms than in the caring quotient.

Of course, the younger the customer who becomes loyal, the more profitable the sales relationship can be over time. For online retailers seeking the loyalty of teenage buyers, however, the biggest problem is their lack of credit cards. Business in the physical world is easily transacted using cash; obviously, currency can't be physically exchanged in the virtual world of the Internet.

To address this problem, CyberCash and Digicash created forms of electronic money back in the mid-1990s. CyberCash required buyers to electronically send a digital "wallet" to vendors, who then used a software extraction method to remove the agreed-upon value. The Digicash scheme involved a 64-bit electronic code to represent its "e-cash," which a consumer electronically passed to a vendor, who then got the code verified at an online bank before accepting the payment.

These two companies grabbed most of the press coverage in 1996 as e-cash trailblazers; however, the concept garnered less public acceptance than expected. In November 1998, Digicash declared bankruptcy, followed in 2001 by CyberCash, whose assets were acquired by VeriSign, thus ending the era of e-cash.<sup>39</sup>

Other companies tried offering bonus points, which customers could redeem for merchandise and entertainment. Flooz and Beenz were popular "Internet currencies" in the late 1990s. Flooz encouraged relatives of teens who wanted to shop online to purchase its currency with a credit card; the teens could then use that currency like cash at participating online retailers such as Tower Records and Barnesandnoble.com. Beenz rewarded online shoppers for taking surveys and logging on through certain Internet service providers. Both companies ended operations within a week of each other in 2001. Bearers of Flooz discovered that the currency was suddenly worthless. Beenz customers were given ten days to spend their remaining funds.<sup>40</sup>

Now, instead of creating new currencies, most companies are focusing exclusively on credit cards. The difficulty with credit cards is consumers' lingering concern that electronic eavesdroppers could intercept credit card numbers and use them to go on a shopping spree at the cardholder's expense. This concern received much press coverage in the mid-1990s; actually, the danger was minimal. Internet browser software uses data scrambling techniques called encryption algorithms to prevent unauthorized access to sensitive information. Furthermore, almost all major credit cards have a liability limit for credit card holders who are victims of fraud—whether online or off.<sup>41</sup>

## INTEGRATING CONVENTIONAL AND INTERNET MARKETING STRATEGIES

The best online strategy often involves integrating conventional with Internet marketing strategies. Even popular Internet vendors that want to expand their customer bases often resort to physical-world promotional tactics. Yahoo! uses TV ads bearing the tag line, "Do you Yahoo?" AOL seems to be trying to blanket the world with sign-up CDs. Clearly, the four Ps are still as relevant online in the twenty-first century as they were in the 1960s when E. Jerome McCarthy first defined the marketing mix. For a quick synopsis on how technology has changed the four Ps, see Exhibit 19.5.

## 5 LEVERAGING THE POWER OF ONLINE TECHNOLOGY

Describe how marketers are leveraging the power of online technology

Of course, online marketing goes beyond the four Ps as companies continue to find new ways to incorporate a continuous stream of new technologies. Because technology is constantly evolving, online marketers must remain well informed in order to cope with the dynamic nature of the Internet. Only marketers that understand how

	Product	Place	Promotion	Price
<b>Era of personal selling</b> (pre-1840s)	<i>Commodities</i> —Availability of delivered goods	<i>Retail store</i> —Local vendors selling unbranded products	<i>Store displays</i> —Whatever the shop owner had handy; seen only by local customers	<i>Going rate</i> —Whatever the local buyers would pay
<b>Era of advertising</b> (pre-1840s to 1990s)	<i>National brands</i> —Manufacturer's image, reputation, and product quality.	<i>Malls and superstores</i> —Advances in transportation technology broadened geographic availability for products	<i>National advertising</i> —Newspaper, radio, and TV communicated nationwide	<i>Retail price</i> —Greater competition generates lower prices
<b>Era of interactive commerce</b> (1994 and beyond)	<i>Branded commodities</i> —Finding the lowest worldwide price for well-known goods	<i>Worldwide marketplace</i> —Shopping from home or office via desktop computer	<i>Internet-based websites</i> —Delivering worldwide goods and services to customer's computer	<i>Intelligent Software Agents</i> —Automatically locating the lowest worldwide price
	<i>Mass customization</i> —Using technology to deliver unique goods at the lowest worldwide price	<i>Affiliate programs</i> —Increasing marketing opportunities obtained by recruiting other sites to drive traffic and sales	<i>Interactive ads</i> —Making the Internet more relevant with targeted and personalized offerings	
			<i>Instant Messaging</i> —Speeding two-way communication with customers without the lag-time of e-mail or the high cost of telephoning	

emerging technology can provide a competitive edge will see their companies flourish in the Internet's highly competitive environment.

The beginning of the twenty-first century witnessed a shakeout among companies doing business online. As the information age continues to unfold, intangibles such as utility, creativity, and efficiency have become the measures on which the survival of online companies depends. Many of the early dot.com companies were creative; many, however, went out of business when customers failed to find them useful or efficient compared to existing alternatives. Webvan is an excellent example of such a failure. This delivery service was a creative way to serve time-starved grocery shoppers, but most people found that its utility failed to justify the delivery costs associated with the service. When considering new technologies, companies must also consider the technology currently used by customers. POP.com was a heavily hyped Hollywood entertainment venture backed by such heavyweights as Steven Spielberg and Ron Howard.<sup>42</sup> POP.com promised video on demand via the Internet and live Web events and was lauded by the media for doing so. The problem was that the concept was simply ahead of its time. Video requires a lot of bandwidth, and at the time the site was launched, most of the Internet population was still using dial-up connections. Without broadband, people couldn't enjoy what POP.com was offering, and the company soon failed. Certainly, when video, sound, and computer data are digitally encoded, they increase in value when combined, enhanced, and manipulated. The Internet is ideally suited to these functions, and now that broadband has been widely adopted, the company has re-emerged and is having success.

### THE GLOBAL MARKETPLACE

Worldwide, more than 1.1 billion people have access to the Internet. Although that is an impressive number compared to the 28.8 million online in 1995, it is only 17% of

the world's population. Asia has recently surpassed Europe for the lead in Internet access, with nearly 400 million people online, but this is only 10.7% of the region's population. The European continent now accounts for 315 million of the world's Internet users (38.9% penetration); the United States and Canada together supply just under 234 million, making for the highest penetration rate (69.7%).<sup>43</sup> Exhibit 19.6 shows Internet access in the top 20 countries.

As business and commerce expand into the global arena, the Internet is helping bridge the physical distance that separates the world's peoples. Many factors are going to contribute to greater diversity and sophistication in the marketing environment. At the same time, however, social, cultural, economic, political, demographic, resource, infrastructure, and legal conflicts may intensify owing to the accelerating rate of online interactions. Although its ultimate effects cannot be known, the Internet will certainly be a catalyst for change. To survive and prosper, organizations will need to develop a vision that strikes a balance between local and global factors.

Although online technology makes communication between distant people possible, language differences complicate interaction. Despite a number of strong efforts, there is still no seamless universal language translator; mechanical, word-by-word translations are clumsy and lack the nuances contributed by cultural influences and human thought. Even among those who speak the same language, regional dialects can generate confusion. For example, although many of their words are similar, the dialects of Castilian, South American, and Mexican Spanish differ significantly.

Marketers in a global environment must be aware of such issues and adapt their marketing mixes to appeal to the diverse cultures they address online.

## EXHIBIT 19.6

Top 20 Countries with Highest Number of Internet Users

	Country or region	Internet users	Population (2007 est.)	% Internet penetration	Source and date of latest data	% of users of world
1	United States	211,108,086	301,967,681	69.9	Nielsen//NR Dec. 06	18.9
2	China	137,000,000	1,317,431,495	10.4	CNNIC Dec. 06	12.3
3	Japan	86,300,000	128,646,345	67.1	eTForecasts Dec. 05	7.7
4	Germany	50,471,212	82,509,367	61.2	Nielsen/NR Dec. 06	3.6
5	India	40,000,000	1,129,667,528	3.5	IWS Nov. 06	3.6
6	United Kingdom	37,600,000	60,363,602	62.3	ITU Sept. 06	3.4
7	Korea (South)	34,120,000	51,300,989	66.5	eTForecast Dec. 05	3.1
8	Brazil	32,130,000	186,771,161	17.2	ITU Mar. 07	2.9
9	France	30,837,592	61,350,009	50.3	Nielsen/NR Jan. 07	2.8
10	Italy	30,763,848	59,546,696	51.7	Nielsen/NR Jan. 07	2.8
11	Russia	23,700,000	143,406,042	16.5	eTForcasts Dec. 05	2.1
12	Canada	22,000,000	32,440,970	67.8	ITU Mar. 07	2.1
13	Mexico	20,200,000	106,457,446	19.0	AMIPCI Oct. 06	1.8
14	Spain	19,765,032	45,003,663	43.9	Nielsen/NR Jan. 07	1.8
15	Indonesia	18,000,000	224,481,720	8.0	eTForcasts Dec. 05	1.6
16	Turkey	16,000,000	75,863,600	21.1	ITU Sept. 06	1.4
17	Vietnam	14,913,652	85,031,436	17.5	VNNIC Jan. 07	1.3
18	Australia	14,729,191	20,984,595	70.2	Nielsen/NR Dec. 06	1.3
19	Taiwan	14,500,000	23,001,442	63.0	FIND Dec. 06	1.3
20	Argentina	13,000,000	38,237,770	34.0	Indec Sept. 06	1.2
	<b>Top 20 Countries</b>	867,138,708	4,174,463,557	20.8	IWS Mar 07	77.8
	<b>Rest of the World</b>	247,135,718	2,400,202,860	10.3	IWS Mar. 07	22.2
	<b>Total World—Users</b>	1,114,274,426	6,574,666,417	16.9	IWS Mar. 07	100.0

SOURCE: [www.internetworldstats.com/top20.htm](http://www.internetworldstats.com/top20.htm). Copyright © 2000-2007, Miniwatts Marketing Group. All rights reserved.



visitor left the document. Then, when the visitor returns to that site, its server can ask the visitor's computer for the cookie and return the visitor to the spot where he or she left the document.

Cookies have always been a part of the Web, but few people paid much attention to them until version 3.0 of Netscape Navigator was released. It provided a way to let Web surfers know when their computers were encountering cookie requests. The way cookies were set up, only the site that stored a cookie on a visitor's hard drive was supposed to be able to retrieve it.

Some Navigator-enabled Web surfers noticed, however, that sites they hadn't visited were requesting cookies from their computers. The culprits turned out to be marketers, who were sharing cookie access with their client sites to prevent visitors from seeing the same ads at multiple websites. Even though the intent was benign, these marketers had demonstrated that anyone can obtain information from a person's cookie file and even trace the path a person had taken along the Internet.

Some people object to an unknown computer storing information on their computers; cookies do, however, permit a level of interactivity and personal service that websites would otherwise lack. By using cookies, sites can offer personalized advertising messages based on a visitor's interests or compile level-of-interest data based on the length of time a visitor lingered over particular pages of information.

Even so, privacy advocates argue that sites using cookies are spying on their customers through electronic surveillance tactics without shoppers' consent or knowledge. One organization at CookieCentral.com expounds on the "dark side" of cookies, insisting that they represent a blatant invasion of privacy and offering ways to circumvent cookies. Yet those who disable cookies also disable a personalized experience online.<sup>49</sup>

Most Internet users now seem more concerned about transaction security than about cookies. When they provide a website with confidential data including phone number, address, and credit card numbers, people worry about the risks associated with identity theft.

There is, though, a technology that offers security in this regard: a data encryption standard called **Secure Sockets Layer (SSL)**. SSL enables a sending computer to use an encryption process to scramble the data it sends via the Internet. On the receiving end, another computer uses a 128-bit key to decode the information that was sent. Visual indicators that a secure site is at work include "https://" at the beginning of the address for the secured page and a small image of a closed lock near the bottom of the screen.

## SEARCH ENGINE OPTIMIZATION

Of course, before shoppers can purchase anything, they must first find an online store that sells what they are seeking. In the physical world, the shopper might turn to a phone book to find the appropriate retailers. Online, shoppers often turn to a search engine. In fact, at least 75% of all Internet users rely on search engine results to find what they are looking for.<sup>50</sup>

Maximizing the site's use of search engines is a critical task that isn't as much about technology as it is about marketing. Companies use **search engine optimization** to improve their placement in search engine results for targeted keyword phrases that relate to the companies' site content. Unless an online vendor has a high ranking in the search engine listings, customers may never find it. In a recent survey, iProspect reported that 88% of people who use search engines stop searching after scanning three pages if the results aren't acceptable; 41% quit searching after the first page of results.<sup>51</sup>

Hundreds of search engines are available. The most popular ones in terms of share of searches undertaken are Google (43.7%), Yahoo! (28.8%), MSN, (12.8%), AOL/Time Warner (5.9%), and Ask (5.4%).<sup>52</sup> Unfortunately, each engine uses a different set of heuristics to determine which position each site will occupy in the search listing generated by a particular word or phrase. Entire books have been written about search engine optimization techniques. Certain techniques have been shown to improve a company's location in the results.

Probably the most important step here involves determining which search terms prospective visitors are most likely to use. Once those are determined, the site's content

### Secured Sockets Layer (SSL)

A protocol that transmits communications via the Internet in an encrypted format. SSL ensures that the information is sent, unchanged, to the server you intended to send it to.

### search engine optimization

The efforts made to improve a website's placement in search engine results for targeted keyword phrases that relate to the site's content.

must be more relevant to the search terms than any competing site's content. Relevance is determined in many ways by the various search engines; generally, though, it includes the number of times the words from the search term appear on the site's page. But this only works up to a point. In the early days, marketers would flood a page with hundreds of words in the same colour as the background of the page. This allowed the search engine to see the words without irritating human visitors to the site. Sometimes the words had nothing at all to do with the readable content on the site and were used only to trick searchers into going to the site. Now, when search engines see inappropriately coloured words or impossibly repeated words, the site may actually be banned from the search results.

Another relevance-related factor is the position of important words on the page. Search engines perceive text near the top of each page as important. The use of bold type and headlines also implies importance. Using strategically developed keyword, page, and title descriptors called **meta tags** also significantly improves the results.<sup>53</sup>

Another factor that can boost a site's position is the number of nonreciprocal links that other sites have created. When two sites link to each other, the search engine assumes there is some sort of relationship between them and doesn't attribute much relevance to the link; but when many links are going in only one direction to a site and are not being returned, the engine assumes that the site being linked to is a source of important data that should receive a higher search listing.

A search engine's ability to rank a site is also affected by graphics and Flash animations, neither of which a search engine can see. Using explanatory text called "alt tags" at least provides a description for the search engine and for any vision-impaired visitors using special text-reading equipment to obtain online information. But even alt tags describing a Flash-animated home page can't make up for the lack of relevant information that the search engine is looking for. So if a search engine is important, a full-screen Flash introduction isn't a good optimization strategy, regardless of its visual impact.<sup>54</sup>

## 6 MEASURING ONLINE SUCCESS

Name the critical factors marketers face when measuring online success

To understand what works and what doesn't work in their online efforts, marketers must be able to analyze the vast amount of data stored in the log files generated by their Web servers. Not all of the data are relevant for planning an online strategy, but by combining certain log file results with sales information, a marketer can fine-tune the marketing effort to maximize online success.

In the mid-1990s many websites displayed **hit** counters on their pages. This software device counted the number of file requests made of the server to create the pages seen by visitors. Unfortunately, these hit counters didn't record who visited or how many times or even what interested the visitors. The information the counters gathered didn't provide much useful information; that's why they're rarely seen now.

Even counting the number of times a particular link or picture has been clicked offers limited information for marketers. Until those click data are combined with information tying the visitor to prior events, the marketer cannot determine any patterns to analyze the effectiveness of the marketing efforts associated with a given page.

Three of the most important things to measure don't even come from the server logs: recency, frequency, and monetary value. *Recency* relates to the fact that customers who have made a purchase recently are more likely to purchase again in the near future than customers who haven't purchased for a while. *Frequency* data help marketers identify the frequent purchasers who are definitely more likely to repeat their purchasing behaviour in the future. The *monetary value* of sales is important because big spenders can be the most profitable customers for a business.<sup>55</sup>

*NetGenesis*, a company that has been purchased by SPSS, has suggested a number of interesting equations that can help online marketers better decipher server log files. For example, combining frequency data with the length of time a visitor spent on the website (duration) and the number of site pages viewed during each visit (total site reach) can provide an analytical measure for your website's **stickiness**:

$$\text{Stickiness} = \text{Frequency} \times \text{Duration} \times \text{Site reach}$$

### meta tag

An HTML coding statement used to describe some particular aspect of a Web page's contents.

### hit

A record that a file was requested from a website.

### stickiness

A website's ability to retain a visitor for a long time and to compel that visitor to return.

By measuring the stickiness factor of a website before and after a design or function change, a marketer can quickly determine whether visitors embraced the change. By adding purchase information to determine the level of stickiness needed to provide a desired purchase volume, the marketer can gain an even more precise understanding of how a site change affected business. An almost endless number of factor combinations can provide a quantitative method for determining buyer behaviour online. First, though, the marketer must determine which measures are required and which factors can be combined to arrive at those measurements. Those measures and factors vary from one company to another.

## 7 PRIVACY ISSUES

Discuss the privacy issues surrounding Internet-based commerce

Unfortunately, as the number of Internet users increases, more opportunities will arise for dishonest people to take advantage of others. Companies and individuals seeking to do business on the Internet have practical concerns about the safety of conducting commerce online.

Technical problems—such as the speed of data communication and the quality of video images—will be solved or minimized as technology advances and becomes adopted. In contrast, privacy and security issues seem to grow more complex as technology provides unscrupulous people with new and better tools for breaking the law, causing chaos, and intruding into others' personal affairs. We have already discussed two privacy issues—spam and cookies—and touched on the security concerns that trouble online shoppers. Next we examine the problems of e-mail security, identity theft, and other issues.

### NOT-SO-PRIVATE E-MAIL

In Canada there is no single entity tasked with ensuring the security of e-mail. However, Canada's Criminal Intelligence Service, which is chaired by the RCMP, brings together all of Canada's policing agencies (e.g., the RCMP, Canada Border Services Agency, Defence Department, Ontario Provincial Police, Ottawa Police Service, Montreal Municipal Police, and Quebec Provincial Police) to share information and to determine jurisdiction.<sup>56</sup> In the United States in the wake of the terrorist attacks of September 11, 2001, the U.S. Congress passed the Patriot Act, which allows the government to conduct e-mail surveillance using tools such as the FBI's online data interception tool, called Carnivore. When hooked into the equipment of an Internet service provider (ISP), Carnivore can scan the contents of every e-mail message passing through the ISP's servers. The typical period of time for such surveillance is 30 days.<sup>57</sup>

The implications of the Patriot Act for Canadian businesses are significant because of how that act is applied. All American domestic businesses, all American multinationals, and all visitors to the United States are subject to the act. This means that any Canadian business or organization that conducts trade or business with an American company can become the subject of surveillance by the U.S. government. This became an issue in British Columbia when, in order to reduce costs, the B.C. government planned to outsource the operations of the province's medical service plan to Maximus, an American-based multinational. The BCGEU (B.C. Government & Services Employees' Union) protested the planned move, noting that it would enable the U.S. government to invade the privacy of Canadian citizens. The outsourcing eventually went ahead after Maximus provided privacy protection guarantees. The BCGEU's concerns cannot be considered groundless, given evidence that the national driving records and voter databases of Mexican citizens that were sold to an American company were later accessed by the U.S. Immigration and Naturalization Service.<sup>58</sup>

### IDENTITY THEFT

One of the most troubling issues in online commerce is identity theft. Identity theft occurs when someone uses another person's personal information such as name, SIN number, credit card number, or other identifying information, without the owner's permission, to commit fraud or other crimes. Example: "PhoneBusters, a police task

force set up to tackle telemarketing fraud in Canada, received calls from some 7,800 identity theft victims reporting losses to themselves and to businesses totalling more than \$16 million in 2006. However, PhoneBusters estimates those numbers represent only a small percentage—perhaps 5 percent—of the actual figure. Nine percent of Canadians—or 2.7 million people—have fallen victim to identity theft at some point in their lives, according to the findings of a 2003 Ipsos Reid survey.”<sup>59</sup>

Obviously, consumers should do all they can to protect themselves from identity theft. The following is a list of steps recommended by Canada’s Privacy Commissioner:

- Keep key documents that you don’t need on a regular basis—your birth certificate and SIN card, for example—in a safe place such as a safety deposit box.
- Put a lock on your mailbox. Keep track of when credit card bills are supposed to arrive and call the company if they are late.
- Don’t give credit card numbers over the phone unless you are sure who you are speaking with.
- Review all credit card and bank statements as soon as they arrive to check for discrepancies.
- Shred or burn all papers with personal or financial information, including statements, bills, receipts, and credit card offers.
- Immediately report the loss or theft of credit and debit cards and government documents such as SIN cards, birth certificates, driver’s licences, and immigration papers.
- Educate yourself about online security and privacy measures, including firewalls and virus protection.
- Be suspicious of e-mails from financial institutions and other organizations asking you to provide personal information online. Reputable companies never ask for personal information in this manner. Look up their telephone number in the directory and call.
- Never click on any links in the e-mail or cut and paste them into your browser—the link may take you to a fake website.
- Check your credit report from a credit reporting agency once a year to ensure that it is accurate and doesn’t include debts you haven’t incurred.<sup>60</sup>

## HACKERS

Hackers present a major problem for computer networks even though these people can be prosecuted under the Canadian Criminal Code. The Organization for Economic Co-operation and Development (OECD) has outlined five types of computer crimes: “(1) unauthorized access; (2) unauthorized use; (3) dishonest manipulation or alteration of data; (4) computer sabotage; and (5) theft of information.”<sup>61</sup>

There have been a number of “sensational” cases of hackers bringing down computer systems or acquiring sensitive information affecting hundreds of thousands of people. In March 1999, the Melissa Virus was launched around the world, affecting an estimated one million computers and causing \$80 million in damage. In 2000, in the United States, its creator David Smith was sentenced to 20 months in jail and fined \$5,000. In 2000, a Canadian teenage hacker known only as Mafiaboy (because of the anonymity granted by the Young Offenders Act) launched denial-of-service attacks against 1,200 websites, including CNN, Yahoo!, eBay, Amazon, Excite, and E-Trade, for several hours. The attacks were estimated to have cost hundreds of millions of dollars. Finally, Sven Jaschan, an 18-year-old German, created and launched the Sasser virus in 2004. Sasser attacked millions of computers around the world. His friends turned him in when Microsoft offered a \$250,000 reward.<sup>62</sup>

## PREDATORS ON THE LOOSE

**Cyberstalking**, or using the Internet to stalk or harass a person, is on the rise, according to the online safety group WiredSafety.<sup>63</sup> Women and children are most often the targets of cyberstalkers, but the number of female stalkers is also increasing. Despite warnings not to provide an online stranger with personal information such as a phone number or address, caution seems to be declining as online dating becomes more popular. In Canada, cyberstalking is handled under “harassment” in the Criminal

### cyberstalking

The use of the Internet, e-mail, or other electronic communication devices to stalk or harass a person. Stalking is defined as repeated harassing or threatening behaviour.

## Carnivore

The FBI has developed a computer system that can tap into your ISP's servers and scan the contents of all the electronic communications passing through it, including e-mail. The FBI says the public shouldn't worry about this surveillance tool, even though it can use it even before a court order is obtained granting permission for the investigation. What do you think about Carnivore? Do such tools enhance or decrease consumers' confidence in online safety?

[r-s-g.org/carnivore](http://r-s-g.org/carnivore)

## Online



Code. In a recent case, Jonathan Barnes of Alberta was sentenced to one year in jail for cyberstalking. Barnes harassed his ex-girlfriend by using Internet keyloggers and fake e-mail addresses, hacking into her cellphone and bank accounts, and sending embarrassing pictures of her to her friends and family.<sup>64</sup>

When people hear about these unsavory online activities, they become doubtful, uncertain, and fearful. Marketers must realize that fearful people aren't likely to have an enjoyable shopping experience. They may not even want to go online. A heavy dose of trust is needed to dispel any fears, uncertainties, and doubts attributable to the negative aspects of the Internet.

Until a website visitor becomes a customer, he or she has no past experience to draw from to develop trust. The typical heuristics that work in the physical world (buildings, well-stocked shelves, knowledgeable salespeople) simply aren't relevant online. A beautiful website can be built by a 12-year-old with no business experience. In-stock icons can be images with no functional programming. Great-sounding product descriptions can be copied from some other website.

Online merchants can use branding, ease of use, and customer service to elevate shoppers' level of trust. Branding is easy, even when the site is newly launched. If the



## COLLECTING CUSTOMERS' DATA WHILE MAINTAINING THEIR PRIVACY

Internet marketing and customer relationship management are two of the hottest concepts in business today. Yet a key component of both these concepts is often overlooked: privacy. To remain competitive and to comply with the law, businesses must include privacy relationship management as part of their business practices.

The capture of personal data for marketing purposes is a longstanding practice in Canadian business. Today, though, policies and laws that govern what businesses can do with customer information are changing. In Canada, Bill C-6, the Personal Information Protection and Electronic Documents Act (PIPEDA), came into force on January 1, 2004. PIPEDA requires all businesses across Canada to follow rules designed to protect the personal information of both employees and customers. Businesses are required to appoint a privacy specialist; they must also have systems in place to ensure that customer information is gathered with the consent of customers and once gathered, that the information is secure, accurate, and not used beyond the stated purpose for which it was collected and stored. These new rules are expected to be most taxing for small businesses. A survey conducted for the Canadian Chamber of Commerce in 2003 found that "81 percent of small and mid-sized businesses were nearly clueless about the need to comply with new privacy legislation." In addition to PIPEDA, provincial privacy legislation has been passed in British Columbia, Alberta, and Quebec.<sup>65</sup>

In other parts of the world, policies and laws regarding the use of customer data for marketing purposes are becoming increasingly restrictive. At the Direct Marketing Association/Internet Alliance

2001 Government Affairs Conference, it was reported that 465 privacy-related bills were introduced in 46 American states in 2001. Argentina now has the strictest information protection law in Latin America. In Europe, all member nations of the European Union (EU) have agreed to abide by the Data Protection Directive of 1998; this formal set of strict privacy practices forbids the transmission of personal data to countries that don't have parallel privacy safeguards. One consequence has been that data flowing from the EU to Canada and the United States have been severely restricted. Canada responded with PIPEDA, which has brought Canadian rules into line with those of the EU. With respect to American companies, the U.S. Commerce Department and the European Commission have negotiated "Safe Harbor," which was approved in July 2000. Safe Harbor allows American companies to voluntarily self-certify to the Commerce Department that they will adhere to certain privacy principles as stated by the EC. In this way, American companies can avoid experiencing interruptions in their business dealings with the EU or facing prosecution by European authorities under European privacy laws. Safe Harbor ensures that American businesses will provide adequate privacy protection as defined by the directive. If these companies comply with the EU's privacy laws, they will most likely be in compliance with PIPEDA as well.<sup>66</sup>

How can a company create a privacy management program that will make customers and prospects feel comfortable when they provide personal data? What should a company with international markets, especially in Europe, be doing regarding privacy?

store's name isn't well known, the site can be aligned with some other well-known brand name. The brand can be a line of famous, high-quality products the store sells. Or branding can be achieved through an affiliation with a famous company.

## ONLINE TRUST FOR SALE

One well-branded company that Canadian consumers recognize readily is the Better Business Bureau (BBB). The BBB online site offers two different programs to help inspire trust in site visitors. Most companies choose the Online Reliability Seal Program, which lets visitors know that the site is a member of the BBB. Clicking on the Reliability Seal logo pops up a window from the BBB's server that acknowledges the validity of the seal and provides information about the company—including the name and phone number of the BBB's contact at that company. The other BBB program uses a Privacy Seal designed to guarantee that the site will not misuse any personal or financial data you may provide. Both seals require the company to comply with a thorough background investigation by the BBB; among other things, the company must prove that it has been in business for at least a year, has a physical location in Canada, and has a satisfactory complaint-handling record with the BBB.

ScanAlert is another company that offers a seal to ease shoppers' worries. The company's date-stamped Hacker Safe logo lets site visitors know that ScanAlert's Security Centre audits the site's Web servers on a daily basis to ensure there is no way for hackers to break into the system. When a visitor clicks on a ScanAlert seal, a window from the ScanAlert site verifies that the site was indeed tested that day and that it exhibits no vulnerabilities to computer break-ins.

Other companies provide seals to help consumers feel safe online. Truste offers a privacy seal to assure visitors that the site will not misuse any information provided by the shopper. The Internet Content Rating Association (ICRA) allows sites to rate the content they offer based on suitability for children. VeriSign provides verification that a website bearing its "Secure Site" seal is using 128-bit SSL encryption to secure transaction data being sent via the Internet. As mentioned earlier, SSL ensures that the information is sent, unchanged, only to the server that it was intended to be sent to.

Seals and laws are in place to help create an online environment where shoppers feel safe in their transactions. Notes Seth Godin, author of *Permission Marketing* and past vice president of marketing for Yahoo!: "You have to turn attention into permission, permission into learning, and learning into trust. Then you can get consumers to change their behavior."<sup>67</sup> That's true in the physical world *and* online. Marketers seeking to develop a profitable online business must first build trust into all the company's activities.

## PRIVACY AND REGULATION

Canadian marketers developing Internet marketing programs must be in line with PIPEDA, but they must also be aware of provincial privacy laws recently enacted by Quebec, Alberta, and B.C. Marketing firms using e-mail are advised to consider the guidelines presented in Exhibit 19.7 if they want to be in compliance with Canada's federal and provincial privacy legislation.<sup>68</sup>



### EXHIBIT 19.7

Some Privacy Guidelines for E-mail Marketers

- Provide customers with an explicit reason for collecting their personal information.
- Ask only for what is relevant to the identified purpose.
- Provide a clearly worded sign-up form or opt-in page to confirm consent.
- Link the opt-in page to the company's privacy policy.
- Disclose any third parties, such as a marketing firm, involved in e-mail promotions and campaigns; link to the third party's privacy policy as well.
- Maintain accurate records of customer sign-ups and ensure individuals have access to their records on request.
- Use personal information only for its stated purpose; gain additional consent if that purpose changes.
- Do not make information collection a condition of an offer.
- Destroy personal information records after they've been used for the permitted purpose.
- Visit the Privacy Commissioner of Canada website at [www.privcom.gc.ca](http://www.privcom.gc.ca) for a PIPED Act e-kit for businesses. For more on PIPA, visit the B.C. Office of the Information and Privacy Commissioner at [www.oipcbc.org](http://www.oipcbc.org).

SOURCE: Carrie Harrison, "E-mail Marketing in a Private World," *Marketing Magazine*, March 8, 2004.

### Online



#### Privacy Commissioner of Canada

Visit the Privacy Commissioner of Canada website. What resources have been made available to marketers and businesspeople to help them comply with Canadian privacy laws? Take the privacy quiz to see how well you know your privacy rights. How did you do?

[www.privcom.gc.ca](http://www.privcom.gc.ca)

More than 50 countries already have privacy legislation or are developing it. For example, Australia recently introduced legislation that would require private companies to follow a set of guidelines relating to the collection, storage, use, and transfer of personal information about individuals. Privacy laws typically relate to obtaining data fairly and lawfully, using the information only for the original purpose specified, ensure that it is accurate and up to date, and destroying data after the purpose for collection is completed.



## LOOKING BACK

As the chapter-opening feature on consumer-generated content discussed, the Internet is a powerful communication tool that has broadened the opportunities for marketers. Search engine companies like Google and content providers like

YouTube and BiteTV are all providing services to Internet users. The Internet is truly creating a global village and reaching out to a very large market. As a Global medium, the Internet remains essentially unregulated. Despite its power

and versatility, the Internet is a very “cluttered” medium, and for that reason, marketers need to realize that outside their own websites, they do not have very much control over it.

## USE IT NOW

Starting a successful career is just like starting a new business. It requires careful and creative planning. Start by analyzing the job environment. Then establish specific goals and objectives for obtaining the career you want. Finally, create strategies that will let you achieve those objectives.

You can integrate the Internet with other sources of information to accomplish each of those steps. Start by visiting **labourmarketinformation.ca** to compare salaries for different professions across different geographic regions. This can help you identify which types of professions you want to pursue and in which locations. Then head off to online employment services such as **Monster.ca** and **CareerBuilder.ca** to see what types of jobs are currently available in your desired profession and location. This process should help you set your career goals.

Next, determine how you will use the Internet to achieve your career goals. Will you use it only for research or for promotion as well?

You can post your online résumé in several places: online employment services, your university Web page, or a site of your

own. If you decide to promote your skills through your website, what type of online presence will you have? What URL will you reserve for your site’s address? Check **GoDaddy.com** to see whether the URL you want is available. Be sure to include hyperlinks on your site that lead to the campus organizations in which you’re involved. Enhance your Web presence by providing pictures along with an audio statement of career goals and corresponding skills and qualifications—a virtual sales presentation!

What marketing strategies will you use to get employers to visit your site? How will you encourage them to contact you directly? Untargeted email (e.g., spam) is probably not a good idea. But targeted e-mails responding to online employment ads are a valid promotional tactic. Your campus career services office may have a list of employers who can’t visit the campus but who would be happy to review your qualifications. Also, remember to contact friends and relatives to see whether they can provide you with leads. Networking is one of the best ways to launch a career.

## REVIEW AND APPLICATIONS

**1** Describe the impact of the Internet on business. The Internet represents a new electronic channel for conducting all of a company’s marketing activities, including advertising, customer service, marketing research, transactions, distribution, and even new-product development. Companies that embrace Internet technology can gain advantages, especially in the areas of marketing channels, finance, marketing research, marketing communications, and marketing

strategy. The Internet is a convergent medium that combines the characteristics of all pre-existing media. Despite efficient search engine tools, information overload can be a problem on the Web. A Web-based business is a franchise that is open 24/7, and this provides for excellent customer relationship management (CRM). Companies that embraced Internet technology first have been able to gain an advantage over their competitors that did not. Launching Internet operations does not usually require a heavy financial investment of the kind needed to open a bricks-and-mortar company. However, these reduced start-up costs translate into low barriers to entry, which in many industries has created a crowded field of online competitors.

- 1.1 The Internet is revolutionizing how business is conducted. How could you utilize the Internet to start up a small business? What are some advantages and disadvantages of doing business over the Internet?
- 1.2 Explain why it is important for a company to convey a consistent message and appearance in all the media forms it uses in its marketing endeavours. Identify a specific company that employs broadcast, print, and Internet media in its marketing efforts. Discuss their effectiveness in projecting a consistent message and appearance in all these media forms.

**2** **Discuss the effects of the Internet on marketing objectives and strategy.** In “Strategy and the Internet” Porter adapts his five competitive forces to the Internet in an effort to determine profitability in the online arena. The five forces are rivalry among existing competitors, barriers to entry, threat of substitutes, bargaining power of suppliers, and bargaining power of buyers. Together, these factors provide a structure for strategic development. All five forces place negative pressure on the profitability of the Internet. But by rejecting the standard myths of online success, focusing on developing a distinctive competence, and then ensuring that a sustainable competitive advantage is in place, marketers can help their companies overcome the negative profitability effects of Porter’s competitive forces.

- 2.1 McDonald’s has successfully employed brand recognition to build relationships with its customers for many decades without using the Internet. Visit the McDonald’s website and comment on how well it integrates and reinforces the brand identity the company has built into its conventional marketing channels. How “sticky” is the site?
- 2.2 The Internet can have a strong impact on product distribution. Many steps in the product supply chain can be eliminated, thus reducing both delivery times and prices for consumers. What types of organizations and industries could be adversely affected by the Internet? What are some of the potential negative impacts on individual companies and industries that have been eliminated from the supply chain? Discuss how Porter’s five competitive forces have affected one of the companies or industries you have identified.
- 2.3 A significant decision that must be made for any website is what the uniform resource locator (e.g., URL) should be. Go to the VeriSign home page and enter a domain name for a business that you might like to start. Is it available? If not, is an acceptable option available? Who currently owns the domain name (select the “WHOIS” option)? How much does it cost to register a domain name?

**3** **Describe buyer behaviour on the Internet.** Internet business activity can be distinguished as either business-to-consumer (B2C) electronic commerce; business-to-business (B2B) electronic commerce, or consumer-to-consumer (C2C) electronic commerce (the latter is exemplified by eBay). In all cases, knowing the online habits of the target market is essential. The commerce model for electronic redesign highlights a five-step buying/selling process in which buyers and sellers exchange information on the Internet. Marketers have found nine consumer factors that can affect online shopping behaviour: demographics, Internet experience, online experience, psychological perception, online shopping experience, normative beliefs, shopping orientation, shopping motivation, and personal traits.

When people first began using the Internet, they checked their e-mail, looked for specific information, and then logged off. Now, people surf the Net and socialize online. Online buyers can be characterized as early adopters, the mainstream, and laggards. One way to identify and target specific markets is through virtual communities, which include members who share a common interest, such as a hobby, sport, or other avocation. These virtual communities use bulletin boards, chat rooms, newsletters, and discussion lists to build social relationships and exchange information.

- 3.1 Refer to the commerce model. Go online to your favourite e-tailer (e.g., Future Shop is one of the author's) and go through the shopping process (you don't have to complete the purchase). Relate your actions to the model. What steps did you go through? What steps does the e-tailer go through? What kind of information did you exchange? Write up the process in detail.
- 3.2 Form a group with three or four classmates. Discuss how you use the Internet on a regular basis. Try to break down your activities and the percentage of time you devote to each of them on the Internet. What "social" websites (if any) do you subscribe to? How many do you subscribe to? Develop a profile for each member of your group. How are you all different? How are you all similar?

**4 Explain how the Internet affects the traditional marketing mix.** Although the Internet provides marketers with a wonderful communication channel that is altering the scope of the marketplace, the four Ps of marketing—product, place, promotion, price—remain the key elements of online marketing plans. Technology creates new product opportunities for marketers by enabling mass customization. However, consumers' ability to search for the lowest worldwide price for brand-name goods has reduced products to little more than branded commodities. With the online market, place has expanded to encompass the entire planet. In addition, affiliate programs have provided a way to expand the place of purchase to as many locations as there are affiliates. New kinds of promotions became possible with the advent of the Internet. Websites have introduced products to shoppers who might not have been able to purchase them otherwise. Interactive ads have converted advertising into a two-way communication with the customer. Instant messaging has given marketers a faster and less expensive way to provide customer service. Pricing online is becoming a challenge because consumers can use shopbots; the result is increasing pressure to reduce online prices.

- 4.1 Online customization of digital products is a natural fit for the Internet, but what about online customization of tangible products? Start by reading the article "How Reflect.com Turned Browsers into Buyers." Then click through to Reflect.com and explore the custom beauty products. How reliable are online "customized" beauty products? What is the target market for these online customized beauty products? What are some other tangible product categories where we might see online customization?
- 4.2 The Internet is providing new opportunities for companies to operate their businesses. Some products and services are well suited for online marketing; others are inappropriate for the Internet.
  - a. Suggest a product or service that is ideally suited for marketing over the Internet. Explain why online marketing of this product or service is superior to more traditional marketing approaches.
  - b. Suggest a product or service that is inappropriate for marketing over the Internet. Explain why more traditional marketing approaches would be more successful than online marketing for this product or service.
- 4.3 Harvey's has successfully employed brand recognition to build relationships with its customers for many decades without using the Internet. Visit the Harvey's website ([www.harveys.ca](http://www.harveys.ca)) and comment on how well it integrates and reinforces the brand identity the company has built into its conventional marketing channels.
- 4.4 The Internet can have a strong impact on product distribution. Many steps in the product supply chain can be eliminated, thus reducing both delivery times and prices. What types of organizations and industries could be adversely affected by the Internet? What are some of the potential negative impacts on individual companies and industries that have been eliminated from the supply chain?

**5 Describe how marketers are leveraging the power of online technology.** More than 1.1 billion people have access to the Internet. By closing the physical distances between markets, the Internet has made it easier to target international markets. To succeed on the Web, organizations need to develop a global vision that recognizes social, cultural, economic, political, demographic, resource, infrastructural, and legal differences. Technology is constantly evolving, and online marketers must remain well informed in order to cope with the dynamic nature of the Internet. Only marketers that understand how emerging technology can provide a competitive

edge will see their companies flourish in the Internet's highly competitive environment. That said, the abilities and interests of target markets are much more important than a company's ability to exploit the latest technology. If the target market isn't ready to adopt the technology, the online company will not succeed.

Every bit of information learned about customers should be stored in a database for future use in CRM strategies. Most Internet users today are concerned about transaction security. When providing a website with confidential data, shoppers want to know that their online activities are secure enough to prevent problems. This kind of security is offered by a data encryption standard called SSL. At least 75% of Internet shoppers rely on search engine results to find what they are looking for.

- 5.1 E-marketplaces often set themselves up as online agents—that is, they create a marketplace for buyers and sellers. Read about **Monster.ca**. Then go to the Quarterly Metrics Report. What are the major categories of commissions and fees? Next, go to the Monster Products information page. What are some of Monster's products, and who pays for them?
- 5.2 Choose a product you might like to buy. Then do price/quality comparisons across a variety of sites, including an online mall (e.g., **Canada.com/shopping**), an e-tailer (e.g., **Chapters.Indigo.ca**), and an online broker/auctioneer (e.g., **eBay**). Then go to a shopbot (e.g., **mySimon**) and search for the same product. What are the differences in prices, product assortment, and quality across sites? Are the differences similar to price/assortment/quality variations you find in traditional stores?

**6 Name the critical factors marketers face when measuring online success.** Online marketers must first determine what must be measured, because that will determine what data must be collected and analyzed. Combining server log data with actual sales data can help identify both the successes and the failures in the company's online strategy. One approach is to measure the site's stickiness factor:  $\text{Stickiness} = \text{Frequency} \times \text{Duration} \times \text{Site reach}$ . By measuring the stickiness factor of a website before and after a design or function change, the marketer can quickly determine whether the change was embraced by the visitors. Measuring recency, frequency, and monetary value will help the marketer identify which customers will be most likely to purchase again.

- 6.1 Portals like **Canada.com** and **Canoe.ca** generate much of their revenue from advertising. It would be logical for these companies to have marketing objectives to increase (1) the length of time each visitor spends at the site, and (2) the frequency of return visits.
  - a. What types of services do these sites provide that encourage customers to increase the length of each visit?
  - b. What types of services do these sites provide that create a dynamic marketplace that encourages consumers to keep coming back?

**7 Discuss the privacy issues surrounding Internet-based commerce.** Privacy and security issues are the focal points for many consumers' reluctance to fully embrace the Internet. Identity theft is the most feared danger online; 9% of Canadians have fallen victim to identity theft at some point. Hackers are a major problem for computer networks; they commit five types of computer crimes: (1) unauthorized access; (2) unauthorized use; (3) dishonest manipulation or alteration of data; (4) computer sabotage, and (5) theft of information. Cyberstalking—using the Internet to stalk or harass a person—is on the rise. Marketers are aware of the importance of instilling trust in Internet transactions. The Better Business Bureau's Online Reliability Seal and Privacy Seal programs guarantee that a website will not misuse any personal or financial data.

Most consumers are unaware of how personal information is collected, used, and distributed. Also, there is widespread misunderstanding among consumers regarding existing privacy laws and regulations. All business firms operating in Canada must conduct their business in accordance with PIPEDA and must also be aware of provincial privacy laws. If they are doing any international business, they need to be aware of foreign privacy laws.

- 7.1 Visit the Privacy Commissioner's website (**www.privcom.gc.ca**). Look for the commissioner's findings under PIPEDA. Read up on several recent cases the commissioner has judged. Discuss some of the implications of these cases for Canadian companies doing business online.
- 7.2 Online privacy is a great concern for some consumers. Many people do not fully understand online tracking technology. To better understand how online companies track your movements across the Internet, consider how DoubleClick does it.

- a. Look at your own cookie file. Choose the "Start," "Search," "File," or "Folders" option from the menu bar. Look in the computer's hard drive (usually C:) for a file named "cookies." Double-click on the cookies text file located in your Internet browser folder. Then do a search for "doubleclick." You will probably find an entry that looks something like doubleclick.net TRUE/FALSE 1920499140 id 99999996452b115.
- b. Now that you know what a cookie file looks like, go to the DoubleClick website and click over to the privacy policy statement. What happens when you choose the ad-serving cookie opt-out option? How does your cookie file change? How does that change the online ads you see in the future? Did you opt out? Why or why not?

**7.3 BizRate.com and Gomez.com** are two companies that provide ratings of online merchants. Visit these two sites and compare their rankings for an online industry (e.g., bookstores or electronics). How similar or dissimilar are these rankings? What explains the dissimilarities? Which methodology seems more comprehensive or reliable?

## TERMS

affiliate program 19-13	consumer-to-consumer (C2C) electronic commerce 19-9	search engine optimization 19-23
banner advertisement 19-3	conversion rate 19-14	secured sockets layer (SSL) 19-23
business-to-business (B2B) electronic commerce 19-7	cookie 19-22	stickiness 19-24
business-to-business online exchange 19-7	cyberstalking 19-26	untargeted e-mail marketing (spam) 19-14
business-to-consumer (B2C) electronic commerce 19-7	e-tailing 19-3	viral marketing 19-14
click-through rate 19-17	hit 19-24	
	meta tag 19-24	

## EXERCISES

### APPLICATION EXERCISE

Throughout the book, you have been given the opportunity to review nearly one hundred corporate websites through the online activities located in the chapter margins.<sup>69</sup> For this application, you will need to choose one of the company websites you have visited (or another that you like) and do an in-depth analysis and evaluation of the site.

#### Activities

1. Consider the nature of the site. Is it a Web business, a support site for a traditional business, or the e-commerce arm of a clicks-and-bricks business? From the customer's vantage point, what is the value of the site?
2. Does this website have competition, or is it one element in a larger competitive relationship between two (or more) companies? What are the competitive strengths of your company's website? Of its competition's website(s)?
3. What economic benefit do the company and the customer realize from this website?
4. Does the website offer personalized content? A conventional shopping experience (if applicable)? Is the site easy to use? Is it "sticky"? Do you think the site will be around in five years?
5. Based on your overview of the site, write an e-mail describing the benefits of the site and recommending any improvements to its functionality and content.

### ETHICS EXERCISE

In December 2003, the Copyright Board of Canada ruled that downloading copyright music from peer-to-peer networks is legal if it is for personal use, although uploading music is not legal. To understand this ruling, remember that unlike in the United States, Canadian copyright holders have been compensated through special taxes that the federal government levies on blank media, including audio cassettes (29 cents) and CD-R audio (59 cents). Worldwide, the average ratio of unauthorized to authorized downloads is 14 to 1; this ruling, then, seems to all but ensure that the ratio in Canada will be higher than average.

In the wake of this ruling, the Canadian Recording Industry Association went to court to force Internet service providers to turn over their customer lists so that the industry could identify and shut down a number of individuals who were known to be major “illegal uploaders” from which the rest of Canadians were able to “legally” download. In early 2004, the Supreme Court of Canada supported the Copyright Board and refused to force Internet service providers to turn their customer lists over to the music industry.

Who are these downloaders and uploaders? Jerry Langton of the *Toronto Star* interviewed a number of people who downloaded music. There was 22-year-old Neil, who claimed to have more than 3,000 songs on his computer that he hadn’t paid for. He admitted that he knew it was stealing, but he was addicted to the practice. All of his friends were downloading music, and had rationalized their theft with statements such as “musicians make too much money,” “the recording companies steal from their artists,” “music is overpriced,” and “[we’re] sticking it to the man.”

What do recording artists think about “free” P2P sharing? Rapper LL Cool J, in testimony before a U.S. congressional subcommittee looking at illegal downloading, made this comment: “If a contractor builds a building, should people be allowed to move into the building for free? That’s how I feel if I record a song or make a movie, and it zooms around the world for free.” Chuck D, founder of the rap group Public Enemy, took a different stand: “P2P to me means power to the people.” He later added, “LL’s a staunch American. He’s my man and all, man, but when you solely have an American state of mind, you’re increasingly becoming a smaller part of the world.”

In Canada, fledgling performers find that they can’t make a living because of P2P sharing. July Black, an internationally acclaimed singer from Toronto, has worked with Destiny’s Child and Nas and is extremely popular but also poor. In a single year, P2P downloaders made 2.8 million requests for her songs; that same year, she sold only 15,000 records! Canadian bands Feist and Arcade Fire can’t get platinum records; they also lose out on international tours because downloaders have depressed their record sales. “When an artist can’t show big numbers of record sales, recording companies and tour organizers are reluctant to invest in them. According to the CRIA, the combined profits of all independent record producers in Canada fell from \$15 million in 2002 to \$1 million in 2003.”

In Canada, Puretracks.com bills itself as “Canada’s first legal, digital music download site.” Unlike similar American services such as iTunes, which have the legal right to prevent P2P music downloads, Puretracks.com must compete in an environment where P2P downloads are legal. In 2007, Puretracks.com claimed to have more than one million music tracks, deliverable directly to any Internet-connected computer. The site emphasized that the music was legally available and that purchasers could download as many as three copies of any music file they purchased to ensure a quality download. Still, P2P companies continue to offer a wide variety of music for the price of a “guilty conscience” alone.<sup>70</sup>

### Questions

1. What is your stand on file sharing? Is downloading a music file any more insidious than audio-taping a song from the radio or using a DVR to record a movie from a local TV station?
2. Compare the two rap artists’ positions. Which is more persuasive? Which is more practical? Which is more appropriate?
3. Will downloading “Make the Music Die”? Explain why or why not.

### CAREER EXERCISE

A useful site is [www.emarketingassociation.com](http://www.emarketingassociation.com). The eMarketing Association (eMA) is an international association of companies, governments, and individual marketers committed to the advancement of marketing in the digital era. The eMA provides resources, certifications, educational programs, and events for its members and the marketing community, all of which you may find helpful as you build a résumé for an Internet marketing career. And don’t forget all the resources from Chapter 1; they can be helpful in this chapter, too.

### INSOUND.COM

The brief history of e-commerce is littered with stories of failed companies that staked their success on being revolutionaries. But Matt Wishnow and Ari Sass, music connoisseurs and founders of Insound.com, have proved that building a successful Internet business from scratch is still possible, and they are doing so in one of the most competitive arenas that the Internet and the physical retail world have to offer.

Over the past few years, major record labels and music retailers have suffered a \$3 billion market contraction. This is because download sites, file-sharing programs, and major retailers such as Amazon.com, Best Buy, and Wal-Mart have been enticing customers with free or below-cost music. Most consumers have benefited, but many of the diehard fans of underground music—the ones who happily hang out in physical stores or search online for hours for rare vinyl records, titles from independent labels, or the newest releases of locally popular bands—have been lost in the shuffle.

Wishnow and Sass understood that undiscovered bands and independent recording labels still play a pivotal role in the music scene. Unfortunately, the reach of these musicians was often limited to pockets of extremely faithful followers. As a consequence, fans in Halifax, for example, were unlikely to ever experience the quality music being produced by a fledgling band in Vancouver unless they travelled there.

The two visionaries saw the Internet as the means to solve that problem. In 1999, both left Elektra Records to form a new venture at Insound.com. The duo built Insound's credibility by hosting live shows and sponsoring new talent; in return, the Insounds store received free promotion from bands' labels. One industry analyst observed: "When the Internet exploded as an outlet for those artists, Insound promoted itself as the place to go."

Insound is a one-stop shop where hardcore music fans from all over the world can browse and buy releases from a library of more than 200 independent music labels and filmmakers. The online store has forged a unique brand identity and is enthusiastically supported by 250,000 loyal customers. The customer base may seem trivial compared to the more than 41 million customers that Amazon boasts, but as Wishnow notes, "our audience is small, but they're savvy and cynical in the right way."

Insound offers shoppers a lot, but its virtual store is not for everyone. Traditional pop, rap, or country music fans should steer clear, as the site specializes in vintage vinyl, edgy britpop, progressive rock, indie punk, and underground electronic music. Newbies can, however, sample typical Insound offerings while they shop simply by clicking on the radio icon and scrolling through a rotating list of 35 complete tracks. Visitors to the site can use a direct search tool to find desired titles, or they can just hang out and browse sections for classics, new releases, or employee-recommended selections.

For avid and experienced fans, Insound offers even more. Newshounds can visit the "zines-stand," where Insound showcases several music rags available for purchase, complete with listings of each magazine's featured articles and a number of full-length sample articles. Fans can purchase tickets to shows, download free MP3 singles, or participate in user-driven discussion threads. Insound even provides a humorous Cranky Sales Guy who will recommend titles, answer questions about the website, or critique the selections in any buyer's order.

What Insound delivers that Amazon, Wal-Mart, and Future Shop never will is a genuine and highly regarded music community. As Sass puts it, he and Wishnow "wanted to form a site online that was a centralized forum for independent and underground music—where people could do everything from shop, to chat, to read." Insound's customers have responded by opening their wallets. The average Insound customer makes four to five more purchases per year than the average Amazon customer and provides margins three to four times higher than Amazon's. Thanks to its customers' loyalty, Insound had achieved profitability by 2003 on revenues of \$3.8 million. During the first few months of 2004, revenues were on pace to eclipse the 2003 figures by 25 percent.<sup>71</sup>

### Questions

1. How does the Insound's website build a sense of community for its visitors? Why is that important?

2. Is Insound a B2C, B2B, or B2B2C enterprise? Explain.
3. How does Insound enable viral marketing?
4. Visit [www.insound.com](http://www.insound.com) and discuss what you like and do not like about the site. How would you improve the site?

### **NEED MORE? HERE'S A TIP**

Go to the Google search engine and type in this question: "How to market on the Internet?" A large number of websites will come up. Select some that look interesting and see what they have to say about how marketers can use this unique communication tool.