Chapter 7:
Consumer Behavior Online

Learning Objectives (PPT 7-2)

Consumers in the Twenty-first Century

Since 1994, the Internet has grown more quickly than any other medium in history. Nearly 1 billion people are currently online worldwide. However, there are still 5 billion people that are not. This chapter will examine reasons for such a high rate on non-online citizens and how e-marketers are adjusting to the fact that the percentage of citizens online may never exceed 25%.

Inside the Internet Exchange Process

Exchange is a basic marketing concept that refers to the act of obtaining a desired object from someone by offering something in return. When consumers purchase a product, they are exchanging money for desired goods or services.

Technical Context
Two important developments are shaping online consumer behavior today – home connection speeds and the changing landscape of digital receiving devices such as cell phones. Online speeds and the type of equipment used to access the Internet determine whether a consumer accesses high or low graphic Web sites. Telematics is a communication system in an automobile that uses a global positioning system (GPS) for interactive communication between firms and drivers.

Social and Cultural Contexts
The Web is training consumers to help themselves to almost anything they want when and where they please. Some of the social/cultural trends that are affecting online exchanges are: Information overload, time poverty, home and work, I want what I want when I want it, online oxygen, self-service, sophisticated consumer, privacy and data security, and online crime.

Legal Context
In spite of piracy laws, illegally used software abounds. In spite of the new Can-Spam law, the number of unsolicited e-mails has actually increased. However, the RIAA (Recording Industry Association of America) sued thousands of illegal music file downloaders and had a significant affect on online consumer behavior.

Individual Characteristics and Resources
Beyond general social and cultural trends, individuals vary in their online behavior.
>*Individual Differences* – Internet users differ in their needs and desires, and differ from nonusers. Online attitude and skills vary in degree according to whether they are users or nonusers. Differences will be examined in the outline.

> *Consumer Resources* – Consumer value is the benefits minus the costs (money, time energy and psychic costs).
>> *Monetary* – Debit cards, credit cards, electronic checks (digital money), splash plastic or Paypal.
>> *Time* – Consumers want to receive appropriate benefits for the time they spend online. The average user goes online 29 times a month and is online 49 minutes each time.
>> *Energy and Psychic Costs* – Sometimes consumers feel it is too much trouble to turn on the computer, log onto the Internet, and check e-mail, especially for dial-up users.
>
> *Internet Exchange* – The actual moment when exchange occurs. Bookmarks and hyperlinks in emails assist consumers in finding specific sites, information, or specials.
>
> *Exchange Outcomes* – There are four basic things that people do online – connect, enjoy, learn and trade. Each is ripe with marketing opportunity.
>> *Connect* – The Internet allows consumers to interact with individuals and organizations using two-way communication. E-mail, chat rooms, Internet phone calls and virtual postcards are the most popular ways for users to connect.
>> *Create* – The Internet has created an ability to connect that has surpassed all previous expectations. Sites like *linkedin.com, facebook.com, myspace.com and flickr.com* allow users to connect in virtually any means possible.
>> *Enjoy* – The Internet is a source of enjoyment for many consumers. Experts believe that the Internet will become consumer's main source of entertainment within the next few years, overtaking the television.
>> *Learn* – Consumers can access information to learn things in such categories as: news, driving directions, travel information, jobs, weather, sports, and radio broadcasts.
>> *Trade* – Most consumers shop, buy or conduct other transaction-oriented activities online. Somewhere between 65% and 87% of Internet users in the U.S. have purchased products on the Web.

Chapter Summary

The Internet has grown more quickly than any other medium in history. In 2007, 1.2 billion people had access to the Internet, representing 19% of the global population. Yet 5.4 billion other people are not online, due to social and cultural, technological, and legal and political issues, as well as the idea that many activities cannot be replaced by the Internet.

The basic marketing concept of exchange refers to the act of obtaining a desired object from someone by offering something in return. Individual consumers bring their own characteristics and personal resources to the process as they seek specific outcomes from an exchange. All of this occurs within a technological, social/cultural, and legal context. Among the U.S. social/cultural trends affecting online exchanges are consumers' paramount trust in each other, consumer sophistication, information overload, multitasking, I want what I want when I want it, home and work boundary blur, online oxygen, and concerns about privacy, data security, and online crime.

Internet users ten to have a more positive attitude toward technology and be more adept and experienced with computer usage. Gender affects attitudes toward use of Internet technology, and age and ethnicity can also affect Internet usage. Online shoppers tend to be more goal oriented and be either convenience or price oriented. Finally, broadband connectivity means the ability to watch videos and listen to music online.

The four main costs that consumers exchange for benefits are money, time, energy, and psychic costs. The Internet exchange can be facilitated by browser bookmarks, e-mail messages with hyperlinks, and automated e-mails from Web sites seeking to attract visitors. The main consumer activities online can be categorized by these general outcomes: connect, create, enjoy, learn, and trade. Each outcome represents a marketing opportunity for savvy e-marketers.

Chapter Outline

Opening Vignette: The Customer's Story   **(PPT 7-3, 7-4)**
Have the class read the opening vignette on the one hour look at young Justin. Explore the difficulties Justin's short attentions span can cause in building brand awareness. Do you have any specific examples of company's that have done a good job of marketing themselves online? Company's that have done a poor job of marketing themselves on line? How might SEO (search engine optimization) enhance the online marketing?

I. Consumers in the Twenty-first Century   **(PPT 7-5, 7-6)**

    A. Users
        1. Almost 1 billion people online
        2. Has become the fastest growing medium in history
        3. 5 billion people no online
            a. Some say have no need for Internet
            b. Social, cultural, technological, legal, and political issues
        4. E-marketers have to adapt

II. Inside the Internet Exchange Process   **(PPT 7-8, 7-9)**

Exchange is a basic marketing concept that refers to the act of obtaining a desired object from someone by offering something in return.

    A. Technological Context – The Internet has moved from novelty to utility in the United States.   (PPT 7-10)
        1. Home connection speeds
            a. 71% of Americans connect with broadband
            b. Broadband consumers have different behaviors
              i.   Enjoy more multimedia games
              ii. Music
              iii. Entertainment
            c. Dial up customers access:
              i.   News
              ii. Weather

               iii.   Stock quotes
               iv.   Other low graphic data services

2. The changing landscape of the Internet with Broadband Internet service
    a. Receiving appliances are converging
        i. PC
        ii. Electronic pager
        iii. Fax machine
        iv. iTV
        v. PDA
        vi. Cell phones
    b. Telematics
        i. A communication system in an automobile that uses a global positioning system (GPS) for interactive communication
        ii. Allows for directions or emergency help

B. Social and Cultural Contexts – the following are general social/cultural trends having a huge affect on exchanges   (PPT 7-12, 7-13)
    1. Sophisticated Users
        a. In control
        b. Have choices
        c.
    2. Information overload
        a. Creates an attention economy
        b. Infinite information
        c. Demand is limited by human capacity
    3. Time poverty
        a. Creates multitasking and speeds up normal processes
        b. Contributes to a stressful environment in which consumers react badly
    4. Multi-tasking
        a. Millenials
        b. Internet and TV combination
    5. Home and Work
        a. Boundaries are dissolving
        b. Personal tasks are done at work
    6. I want what I want when I want it
        a. Anywhere, anytime convenience
        b. 24x7x365 availability
        c. 72% of Americans ranked convenience as the most important factor affecting decisions about where to shop
    7. Online Oxygen
        a. Many consumers cannot do without Internet access
        b. Email, Websites or chat rooms
    8. Self-service – empowered customers want to:
        a. Log on
        b. Make purchases
        c. Track package shipments
        d. Check their accounts
        e. Make inquires anytime, anywhere

9. Privacy and data security
     a. Want information kept private and confidential
     b. Don't want to be bothered by sales calls
     c. Want to safeguard children
10. Online crime
     a. The Internet is home to 958 million people
     b. Internet fraud is common

C. Legal Context   (PPT 7-14)
   1. Ethical and legal factors have a quantifiable affect on consumers
     a. In spite of piracy laws, illegally used software abounds
     b. In spite of the CAN-SPAM act, the number of unsolicited e-mails has increased
   2. RIAA sued thousands of illegal music file download consumers

D. Individual Characteristics and Resources –   (PPT 7-15)
Some variances are based on differences in characteristics (demographics and attitudes), and some are based on the resources consumers bring to the exchange process
   1. Individual Differences – Internet users have several characteristics that nonusers do not. Similarly, users differ in their needs and desires
     a. Demographics
        i. 78% of 18-29 year olds use the Internet
        ii. 64% of the general population use the Internet
        iii. 25% of those over 65 use the Internet
     b. Positive attitude -- those who purchase online believe technology makes their life better
     c. Online skill and experience – those who have been online for three years or have broadband tend to be more adept at finding information and products, resulting in less frustration
     d. Online shoppers ten to be more goal oriented
     e. Online shoppers have one of these traits
        i. Price conscious
        ii. Won't turn down a bargain
   2. Consumer Resources – Value = benefits – costs   (PPT 7-16)
     a. Monetary cost – discretionary income is needed to exchange for goods and services, and for a computer, and ISP and Internet access. However, you can't really pay cash online   (PPT 7-17)
        i. Credit cards (but some people don't want them or can't get them)
        ii. Debit cards
        iii. Electronic checks (digital money)
        iv. Paypal (50 million customers)
        v. CODs
     b. Time cost – poverty of time is a major concern for single parent and dual income families.   (PPT 7-18)
        i. Users want ease of use and efficiency
        ii. The Internet helps people manage scarce time
        iii. Experts say users are 100% involved when online

         c.   Energy and Psychic Costs   (PPT 7-20)
- i. Too much trouble to log on sometimes
- ii. Web pages are too complicated
- iii. Orders are dropped in the "shopping cart"
- iv. Shipping prices are high
- v. Checkout process is too long
- vi. Checkout requires too much personal information
- vii. Site requires registration before purchase
- viii. Site is unstable
- ix. Checkout process is confusing

E. Internet Exchange – the actual moment when exchange occurs over the Internet

Browsers bookmarks help consumers quickly jump to their favorite online retailer when looking for a product or making a purchase

F. Exchange Outcomes – There are four basic things people do online: connect, enjoy, learn, and trade. Each is ripe with marketing opportunity   (PPT 7-21)

1. Connect – The Internet allows consumers to interact with each other and with organization   (PPT 7-22)
   a. Email
   b. Chat rooms
   c. Internet phone calls
   d. Virtual postcards
2. Create – creation of multimedia to connect with friends, co-workers and relatives.   (PPT 7-23)
   a. Linked in
   b. Myspace
   c. Flickr
   d.
3. Enjoy – many people use the Internet for entertainment   (PPT 7-24)
   a. Audio and visual entertainment
   b. Music
   c. Movies
   d. Celebrity news
   e. Sports
4. Learn – consumers access information to learn things   (PPT 7-26)
   a. News
   b. Driving directions
   c. Travel information
   d. Jobs
   e. Weather
   f. Sports scores
   g. Radio broadcasts
5. Trade – transaction-oriented activities   (PPT 7-27)
   a. 65% to 87% of Internet users have purchased products on the Web
   b. Users seek information before they buy
   c. eBay has 78 million users
   d. Statistics for the average Internet consumer
      i. Shops online for 1 hour per day

ii. Makes 21 purchases a year
iii. Half say the Internet has made them better consumers
iv. Spend $1.6 billion per year.

Exercise Answers

(Exercise answers prepared by David Lan, University of Nevada, Reno, with assistance from the authors)

Note

Discussion questions may require outside research whereas review questions do not require research beyond the text.

Review Questions

1. **What is an exchange?**

    An Exchange is a basic marketing concept that refers to the act of obtaining a desired object from someone by offering something in return. When consumers purchase a product, they are exchanging money for desired goods or services. However, many other types of marketing exchanges can be made, such as when a politician asks citizens to exchange their votes for his services.

2. **What are some of the trends affecting online exchanges in the United States?**

    The Internet has moved from a novelty to utility in the U.S. and most developed nations. Arranging for ISP services is like getting telephone services. Increased broadband adoption rates have also created a population that enjoys more multimedia, games, music and entertainment because they can download more quickly.

    The days of marketers holding consumers captive for the 30 seconds of a TV commercial are quickly coming to a close as well. The Web is training individuals and organizations to help themselves to information, products, and virtually everything they want when and where they please. Thus, power is shifting to consumers.

    Social/cultural trends include: information overload, time poverty, I want what I want when I want it, home and work boundary blur, online oxygen, self-service, consumer sophistication, and concerns about privacy, data security, and online crime. Technology trends include increased broadband adoption and the changing landscape of digital receiving devices such as cell phones. Legal factors include spam and software/music piracy.

3. **What individual characteristics influence online behavior?**

    Internet users tend to have a positive attitude toward technology. Those who purchase products online tend to hold the attitude that technology helps make their lives richer and easier. Online skill and experience also play an important role because those who have been online for over three years tend to be more adept than new users at finding information and products quickly. Gender also affects shopping cart abandonment with women having a more positive attitude about catalog and store shopping and men a more positive about Internet shopping in general. Local language content is also a factor with many experts thinking the Internet would be more used if it had more content in the local languages of various countries. Furthermore, online shoppers tend to be more goal oriented than experience oriented while shopping. Also online shoppers seem to be either convenience or price orientated. Finally, differences in family life cycle influence what is sought online.

4. **What are the four costs that constitute a consumer's resources for exchange?**

The four costs are money, time, energy, and psychic costs.

5. **How can e-marketers facilitate Internet exchange?**

The Internet has the added feature of automation to facilitate exchange. These could include automated e-mails, updates, weblinks, alerts, etc.

6. **What are the five main categories of outcomes sought by Internet users?**

The four main categories of outcomes sought by Internet users are connect, enjoy, learn, and trade.

7. **In what ways do consumers create content for the Web?**

Consumers create content by uploading files to various social networking sites or blogs. Users also create videos for sites like You Tube and many company's run online contests. Users also create avatars for using on sites like Second Life.

Discussion Questions

8. **Why would a consumer go to the library instead of using the Internet for research?**

Students should understand the difference between public Web sites and proprietary online databases. The latter may be available to students from the library's Web site, but are the equivalent of library research. These include numerous periodical articles that are not freely distributed on public Web sites. This question is an important opportunity to let students know that most privately generated articles and research are not available on the public Web, making library research a particularly valuable complement to other Internet research.

9. **Can an attention economy exist in countries where Internet penetration is low? Explain your answer.**

An attention economy is the idea that there is infinite information but the demand for it is limited by human capacity. This serious problem is compounded by the Internet and is one reason why consumers have little tolerance for spam (unsolicited e-mail). Even in low penetrated Internet countries, the information available can seem overwhelming. The Internet just compounds this overwhelming feeling because it makes access even more convenient than before. Previously information overload could be seen in libraries, book repositories, etc. Attention economies existed before the Internet, thus they can exist in countries where Internet penetration is low.

10. **What might e-marketers do to accommodate consumers who are experiential shoppers?**

Experience orientation relates to having fun, bargain hunting, or just surfing to find something new. When consumers are looking for experiential shopping, it makes sense that they would find this more often in brick-and-mortar stores than online. Thus e-marketers can accommodate consumers by making the browsing experience more fun, offering bargains, and updating the site regularly. This could include flash games, streaming video, coupons, online deals, daily news, etc.

11. **Do you consider the concept of flow an explanation for what some observers call Internet addiction? Explain your answer.**

Hoffman and Novak at Vanderbilt University applied the concept of flow from psychology to Web navigation behavior (www2000.ogsm.vanderbilt.edu). They define flow as:

the state occurring during network navigation which is (1) characterized by a seamless sequence of responses facilitated by machine interactivity, (2) intrinsically enjoyable, (3) accompanied by a loss of self-consciousness, and (4) self-reinforcing.

Internet addiction can be similarly described, but would probably also include a facet that describes an inability to stop. Addictions are self-reinforcing habits that can be characterized by the above. They may also include attributes detrimental to everyday functions such as work, socializing, etc.

12. **How might e-marketers capitalize on consumer interest in relationships as an outcome of Internet activity?**

Internet users spend much of their precious online time handling e-mail or other communication related activities; nearly all Internet users send e-mail. This is true worldwide, as well as in the United States. Consumers communicate online because it is an inexpensive way to keep in touch, and because it is usually text based so can be easily accomplished with a slow modem or over a wireless handheld device. In addition, consumers form new relationships with the people they meet online that sometimes carry over to the physical world. Consumers also spend time in chat rooms, use the Internet to make phone calls, and visit online dating sites. Some of this communication takes place in communities of interest—for example, many people with serious diseases gain great comfort from participating in online support groups. Consumers exchange time and energy to build relationships with friends and family, and even to work out problems with companies.

Companies can capitalize on all these opportunities through advertisements, banners, etc. Note that while the paying customers are retailers and advertisers, these sites are exchanging free services with consumers.

13. **What are the reasons for the growth in social networking online?**

Answers will vary, but most responses should be focused around the file sharing phenomenon and the multiple means of communication that web pages now offer. The boundaries between home and work are dissolving, creating the need to communicate at any given time. For many users, this means logging in (and staying logged in) to their social networking site of choice. Often times, these sites replace the need for phone calls, snail mail and even email.

14. **Why do you think that consumers trust each other more than they trust companies? What can marketers do about this?**

Answers will vary, but most consumers are wary of companies simply because of the lack of ethics and morality that many companies have displayed over the past few years. Consumers have been subject to bait-and-switch fiascos, executive embezzlement, the cooking of books and being outright lied to from Fortune 500 companies. By connecting through the Web, consumers build bonds by rallying "against" the companies that may have caused them irritations or dissatisfaction. Blogs, newsletters, wiki's, and chat rooms create and environment where consumers can share war stories with one another. This leads to a sense of trust when users find other consumers with similar experiences.

Chapter 8:
Segmentation and Targeting Strategies

Learning Objectives (PPT 8-2)

Segmentation and Targeting Overview

Market segmentation is the process of aggregating individuals or businesses along similar characteristics that pertain to the use, consumption, or benefits of a product or service. A market segment can be any size from one person to millions of people.

Three Markets

Businesses, consumers, and governments.

> *Business Market*
> The business market involves the marketing of products to businesses, governments, and institutions for use in the business operation, as components in the business products, or for resale.

> *Government Market*
> The U.S. government is the world's largest buyer, purchasing over $200 billion in goods and services every year. Government agencies have many rules for suppliers to follow regarding qualification, paperwork, etc. One current debate is whether or not the government should accept advertising on their web pages.

> *Consumer Market*
> The consumer market involves marketing goods and services to the end consumer.

Market Segmentation Bases and Variable

Marketers base their segmentation on demographics, geographic location, psychographics, and behaviors with regard to the product. Firms often combine bases and focus on categories such as geodemographics (geography and demographics).

> *Geographic Segments*
> Geographic location of computers in cyberspace is not important, however it is important to firms with an Internet presence. Product distribution strategy is the driving force behind geographic segmentation.

> *Important Geographic Segments for E-Marketing*
> 19 country markets have more than 50% Internet penetration, with the United States leading at 186 million users. One barrier to E-marketers is language. Only 33% of all Internet pages are written in the English language.

Demographic Segments
In the early years, the typical Internet user was a young male, college educated, with a high income. The following sections describe three market segments that have recently caught the attention of e-marketers.

> *Millennials* – Those born between 1979 and 1994, over 75% use the Internet. These individuals are good at multitasking and are better able to handle information overload. Millennials are the first generation to control information quickly, use many technology gadgets at once, and totally ignore marketers.
>
> *Kids* – The under 16 market is ever increasing, and children now account for over $40 billion of current online spending power.
>
> *Ethnic Groups* – Hispanics, African-Americans, and Asians are important online markets. Hispanics have a 59% Internet adoption rate. African-Americans are one of the fastest growing ethnic groups for Internet adoption. Asians have over 65% of their population online.
>
> *Influentials* – Influentials are individuals that influence others, driving change in America. These people represent 10% of the population and 15% of Internet users.

Psychographic Segments
Psychographics include personality, values, lifestyle, activities, interests, and opinions.

> *Interest Communities* – The Internet is an ideal gathering place for people from anywhere in the world with similar interests and tasks. People can connect through social networking and similar practices. Exhibit 8.7 shows ten types of online communities. Online communities can be targeted through chat rooms or discussion boards, advertisements on other sites, or actually joining a community and posting messages as member.
>
> *Attitudes and Behaviors* – Attitudes are internal evaluations about people, products, and other objects. Behavior refers to what a person physically does, such as talking, eating, etc. This information is important to e-marketers to help them define and describe market segments to better meet consumer needs.
>
> *Attitude Toward Technology* – Most believe that demographics are not indicative of who will purchase online. **Technographics** is a term used to describe consumer and business attitudes toward technology combining three specific variables: optimism or pessimism toward technology, income levels, and primary motivation for going online.

Behavior Segments
Two commonly used behavioral segmentation variables are benefits sought and product usage.

> *Benefit Segments* – The Internet offers something for everyone: information, entertainment, news, social meeting places, etc. To determine benefit segments, marketers look at what people actually do online.
>
> *Usage Segments* – Segmentations are also developed according to how they use the medium: home vs. work, access speed and preferred receiving device, time spent online, and industry specific usage

Home and Work Access – E-marketers want to know if you access the Internet from home or from work, as these segments tend to have different needs on the Web.

Access Speed – The type of Internet connection and the receiving appliance can affect usage behavior. Broadband connections create the ability to receive larger data files with more multimedia content. PDAs and cell phone users might tend to stay away from sites with high multimedia programming.

Time Online – The amount of time spent online varies greatly and has been categorized: simplifiers, surfers, connectors, bargainers, routiners, and sportsters

Industry-Specific Usage Segments – Usage varies from industry or business types to the other. Three visitors to web site have been categorized as: explorers, off-roaders, and cruisers

Targeting Online Customers

E-marketers have four approaches for segmenting online consumers. Mass marketing (or undifferentiated targeting) uses one marketing mix for the entire market. Multisegment marketing occurs when a firm selects tow ore more segments and designs strategies for each. Niche marketing occurs when a firm selects one segment and develops one or more marketing mixes for that segment. Micromarketing (individualized marketing) occurs when a firm tailors all or part of the marketing mix to a very small number of people.

Chapter Summary

E-business occurs primarily in three markets – business to business (B2B), business to consumer (B2C), and business to government (B2G), although business also become involved in the consumer to consumer (C2C) market. The majority of dollars change hands in the B2B market, with many firms connected to the Internet. Information technology is creating efficiencies while increasing competition. The consumer market is huge and active online. The government market consists of numerous states, cities, counties, municipal agencies, and countries buying goods and services. Business must pay close attention to the rules for selling to this market. A number of trends are affecting the ability of marketers to tap new growth areas and become successful e-marketers.

Marketing segmentation is the process of aggregating individuals or businesses along similar characteristics that pertain to the use, consumption, or benefits of a product or service. This results in groups of customers called market segments. Targeting is the process of selecting market segments that are most attractive to the firm and choosing an appropriate segment coverage strategy.

The four bases for consumer market segmentation are demographics, geographic location, psychographics, and behavior with respect to the product. Each basis is further refined into segmentation variables – such as age and gender variables within demographics. Currently e-marketers are targeting a number of demographic niches, and look forward to newly important segments: millennials, ethnic groups, and influentials. Different strategies are used to target each segment

User psychographics include personality, values, lifestyle, attitudes, interests, and opinions. The Internet is an excellent way to gather people with similar interests and

tasks into online communities for effective targeting. An important segmenting variable to predict online purchase behavior is attitude toward technology. Two behavioral segmentation variables commonly used by e-marketers are benefits sought (based on how customers behave on the Internet).

User segments can be divided according to home or work access, access speed, time online, and industry-specific usage segments.

Marketers use four coverage strategies to reach the segments: (1) mass marketing (undifferentiated targeting), (2) multisegment marketing, (3) niche marketing, and (4) micromarketing (individualized targeting). The Internet holds out tremendous promise for effective micromarketing, in particular.

Chapter Outline

Opening Vignette: 1-800-Flowers (PPT 8-3, 8-4)

Have the class read the opening vignette on 1-800-Flowers. What type of market segments would 1-800-Flowers be targeting to succeed online? How does the varying consumer needs affect the level of service provided by 1-800-Flowers? How is the SAS software related to the success or failure of the business? Has anyone in the class used 1-800-Flowers? If so, discuss.

I. Segmentation and Targeting Overview   (PPT 8-5)

For firms to clearly understand the needs and behaviors of its various targets, they must have in-depth market knowledge and devise a savvy segmentation and targeting strategy.

  B. Marketing Segmentation
    1. Defined – the process of aggregating individuals or businesses along similar characteristics that pertain to the use, consumption, or benefits of a product or service.
    2. The resulting groups are called market segments
    3. May range from one person to several million people

  C. Market Targeting
    1. Defined – the process of selecting the market segments that are most attractive to the firm and selecting an appropriate segment coverage strategy.
    2. Criteria for segment selecting may be:
        a. Accessibility
        b. Profitability
        c. Growth

II. Three Markets   (PPT 8-6, 8-7)

Three important markets that both sell and buy to each other: businesses, consumers and governments.

  G. Business Market

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1. Marketing of products to business, governments, and institutions for use in the business operations.
    a. Very large market because most firms are connected to the Internet
    b. Much activity is transparent to consumers
2. Information technology creates tremendous efficiencies
    a. Globalization is causing increased competition
    b. The Internet makes supply chains more efficient
    c. Firms experience greater interdependence in their value chain.
3. Internet allows for strange bedfellows
    a. Unlikely industries find partnerships due to the Internet
    b. Strategic partnerships are formed that would not be possible without Web access

H. Government Market
    1. The world's largest buyer
        a. Purchases over $200 billion
        b. Authorizes thousands of work contracts
    2. Unique challenges faced
        a. Rules
        b. Paperwork
        c. Specific bidding processes
        d. Most businesses have an equal chance of selling to governments
    3. The great debate
        a. Should government agencies allow advertising on their Web sites?
        b. Fees would subsidize costs and lower taxes
        c. Could be considered unethical to mix government and business in this way

I. Consumer Market – Involves marketing goods and services to the end consumer.

III. Market Segmentation Bases and Variables   (PPT 8-8)

Marketers can base their segmentation of consumer markets on demographics, geographic location, psychographics, and behavior with regard to the product. To understand this, realize that segmentations are bases are a few general organizing categories, and segmentation variables include numerous subcategories. Another important thing to remember is that marketers create segments based on variables that can be used to identify and reach the right people at the right time.

A. Geographic Segments   (PPT 8-9)
    1. Location of computers is not important to users
    2. It is very important to organizations
        a. Firms target specific cities, regions, states, or countries
        b. Product distribution is the driving force behind geographic segmentation
    3. Bi-lingual or multi-lingual Web sites are required for many firms

B. Important Geographic Segments for E-Marketing
    1. Sizes:
        a. U.S. – 186 million users
        b. China – 95.6 million users
        c. Japan – 77.9 million users
    2. 19 countries have more than 50% Internet penetration
        a. Represent good markets for new technology
        b. Considered to be Internet savvy
    3. Languages of Web pages and bulletin boards   (PPT 8-10)
        a. English – 33%
        b. Japanese – 8%
        c. Chinese – 14%
        d. French – 6%
        e. German – 5%

C. Demographic Segments – In the early years, Internet users were young, college educated males with above average income. Marketers are constantly looking for demographic niches, detailed below   (PPT 8-11)
    1. Millennials – born between 1979 – 1994   (PPT 8-12)
        a. 75% use the Internet
        b. Adept at multitasking
        c. Able to handle the information overload
        d. 80% carry cell phones
        e. 36% use them for text messaging (SMS)
        f. The first generation to ignore marketers
    2. Kids   (PPT 8-13)
        a. Spending power of $40 Billion
        b. Under 16 online group increasing
    3. Ethnic Groups   (PPT 8-14)
        a. Hispanics – 59% Internet adoption
        b. Hispanics spend an average of 7% more than nonusers
        c. African Americans are growing more quickly than any other ethnic market
        d. The average Chinese American has an average income of $69,000
    4. Influentials   (PPT 8-15)
        a. Defined – individuals that influence others, driving change in America
        b. Represent 10% of the population
        c. Represent 15% of Internet users

D. Psychographic Segments – includes personality, values, lifestyle, activities, interests, and opinions.   (PPT 8-16)
    1. Interest Communities – people can gather from anywhere with a common interest or similar task (see figure 8.7)   (PPT 8-17)
        a. Social networking – expanding the number on contacts one has
        b. Six degrees of separation
        c. Three ways to target online communities
            i. Build community at its own Web site through chat rooms or bulletin boards

    ii. Advertise on another firm's community site

    iii. Stealth marketing – join a community as a member and post messages

  2. Attitudes and Behaviors   (PPT 8-18)

    a. Attitudes – internal evaluations about people, products, and other objects

    b. Behaviors – what a person physically does.

  3. Attitudes Toward Technology

    a. Will users buy when they surf the web?

    b. **Technographics** – measures consumer and business attitudes toward technology   (PPT 8-19)

     i. Are you optimistic or pessimistic toward technology?

     ii. Income level

     iii. Primary motivation for going online

    c. Technology optimism declines with age

    d. Men are more optimistic

    e. 40% of high income citizens are optimistic

 E. Behavior Segments – are normally categorized by benefits sought and product usage.   (PPT 8-20)

  1. Benefit Segments – the Internet has something for everyone(PPT 8-21)

    a. Best way to determine is to look at what people actually do online

    b. What Web sites are most popular?

  2. Usage Segments – categorize users according to how they use the Internet   (PPT 8-22)

    a. Home and Work Access

     i. Home – 202.4 million users from home

     ii. Work – 56 million users from work

     iii. Those at work visit twice as many sites and spend twice and much overall time online

    b. Access Speed – how fast and what appliance affects usage

     i. Broadband allows for more multimedia to be downloaded

     ii. Appliances like PDAs and cell phone are not conducive for large or multimedia files

    c. Online Engagement Level

     i. Simplifiers – end-to-end convenience with quick, quality service

     ii. Surfers – want what's new, and view up to four times as many pages as the average user

     iii. Connectors – novelty seekers looking for reasons to use the Internet

     iv. Bargainers – look for deals and spend the least amount of time online

     v. Routiners – want something special and search Web site very carefully

     vi. Sportsters – desire highly interactive content visiting colorful, exciting sports and entertainment sites

   d. Industry-Specific Usage Segments – usage varies from industry to industry. Some categories from the auto industry:
    i. Explorers – the smallest group, but half buy their new vehicle within two months of visiting a site
    ii. Off-roaders – tend to do a lot of research online, are likely to purchase offline
    iii. Cruisers – visit car sites frequently but only 15% buy a car in the short term

IV. Targeting Online Customers   (PPT 8-24)

After determining what segments to market, e-marketers must decide what approach to use

  A. Mass Marketing (undifferentiated targeting)
    1. Defined – when a firm offers only one marketing mix for the entire market
    2. Wrigley's gum
    3. Banner ads on the Internet

  B. Multi-segment Marketing – when a firm selects two or more segments and designs marketing mix strategies specifically for each

  C. Niche Marketing
    1. Defined – when a firm selects one segment and develops one or more marketing mixes to meet the needs of that segment
    2. Amazon
    3. Can be risky because competitors may be drawn into lucrative markets

  D. Micromarketing (individualized targeting) – when a firm tailors all of the marketing mix to a very small number of people.

Exercise Answers

(Exercise answers prepared by David Lan, University of Nevada, Reno, with assistance from the authors)

Note

Discussion questions may require outside research whereas review questions do not require research beyond the text.

Review Questions

15. What are the three main markets of e-business, and how do they differ?

Exhibit 8-2 highlights three important markets that both sell and buy to each other: Businesses, consumers, and governments.

The business market is huge because a higher proportion of firms are connected to the Internet than consumers, especially in developing countries. Much of the B2B online activity is transparent to consumers because it involves proprietary networks that allow information and database sharing. Businesses that sell online face increasing competition due to globalization and lower market entry barriers brought about by the Internet. Because the Net contributes to market deconstruction, many firms are changing their entire supply chain structures—which often results in conflict between different marketing channels. This is especially true when manufacturers sell directly to consumers online, thus taking business from retail partners. On the other hand, many firms experience greater interdependence in their value chain due to electronic collaboration practices. Other issues include difficulties serving both offline and online customers, Information overload, and generating revenues in a digital economy. Finally companies in unlikely industries find it relatively easy to forge partnerships that supply value to customers.

The balance of power is shifting to consumers—one of the most fundamental changes to marketing because of the Internet. Marketers have practically lost control of brand images and must consistently underpromise and overdeliver, or be found out under the bright lights of the globally networked community. This community also differs greatly by average annual income, Internet penetration, and online usage. The Consumer market is concerned with privacy, safeguarding their children from objectionable Web sites, unsolicited e-mail messages, as well as provide convenience, self-service, speed, good customer service, personal attention, and value. Fortunately, e-marketing can meet all these needs.

The U. S. government is the world's largest buyer, purchasing over $200 billion in goods and services every year. Add to this the purchasing power of U.S. states, counties, cities, and other municipal agencies, and this makes for a huge market. The governments of other countries are also major purchasers. Government agencies have many rules for suppliers to follow regarding qualifications, paperwork, and so on. Additionally, firms often must compete to be on the government list of approved suppliers, and then compete yet again for specific work contracts through a bidding process. Government agencies are generally very particular about timely delivery of quality products at reasonable prices. The good news is that small and large businesses usually have an equal chance of selling to governments, and that

government Web sites announce their buying needs in advance of the bidding process.

16. **Define the four main segmentation bases and list at least two segmentation variables for each.**

    Geographic -- Although the geographic location of computers in cyberspace is not important to users accessing Web sites, it is very important to organizations with an Internet presence. The reason is that most firms target specific cities, regions, states, or countries with their product offerings.

    Demographics – Knowing that U.S. Internet users mirror the population, marketers need to identify attractive demographic niches for their products. These could include Age, Income, Gender, Education, or Ethnicity.

    Psychographics – An important segmenting variable to predict online purchase behavior, psychographics can include attitudes, activities, Interests, Opinions, Personality, and Values.

    Behavior – This segmenting variable helps e-marketers identify consumer mannerisms online and can include Benefits sought, Usage level, Brand loyalty, and User status.

17. **Why do e-marketers need to measure attitude toward technology? What measures are available?**

    E-marketers measure attitude towards technology because it is an important segmenting variable to predict online purchase behavior. Two behavioral segmentation variables commonly used by e-marketers are benefits sought (based on the benefits customers desire from the product, such as e-mail or shopping) and product usage (based on how customers behave on the Internet).

18. **What benefits do consumers seek online?**

    Marketers using benefit segmentation often form groups of consumers based on the benefits they desire from the product. A Harris Survey reports that "70% of online shoppers can be segmented into two groups: bargain hunters and convenience shoppers. Bargain hunters consist of smaller segments: Hooked, Online & Single (16%), Hunter-Gatherers (20%). Convenience includes Time-Sensitive Materialists (17%), brand loyalists (19%), E-Bivalent Newbies (5%), and Clicks & Mortars (23%)."

19. **How do benefit segments differ from usage segments?**

    Marketers using benefit segmentation often form groups of consumers based on the benefits they desire from the product. An example of this type of segmentation could be Bargain Hunters and Convenience Shoppers. Usage Segments on the other hand are segmented according to how they use the medium. For example, home versus work access, access speed, and time spent online.

20. **What are the two most important online engagement segmentation levels?**

    The categories of creators and critics are widely recognized as the two most highly engaged segments. Creators are those online clients that Posted to a blog, updated a Web page, or uploaded a video within the last month. Critics are those users that have commented on blogs or posted ratings and reviews. Forty percent are also creators.

21. **How does micromarketing differ from multisegment marketing, niche marketing, and mass marketing?**

Micromarketing, also known as individualized targeting, occurs when a firm tailors all or part of the marketing mix to a very small number of people. Taken to its extreme, this can be a target market of one person.

Multi-segment marketing occurs when a firm selects two or more segments and designs marketing mix strategies specifically for each. Most firms use a multi-segment strategy.

Niche marketing occurs when a firm selects one segment and develops one or more marketing mixes to meet the needs of that segment. Amazon adopted this strategy when it targeted Web users exclusively. This strategy has real benefits but can be risky because competitors are often drawn into lucrative markets and because markets can suddenly decline, leaving the firm with all its eggs in one falling basket.

Mass marketing, also called undifferentiated targeting, occurs when the firm offers one marketing mix for the entire market. Wrigley's gum uses this strategy. On the Internet, many firms use an undifferentiated strategy. For example, banner ads that appear on portal site home pages (e.g., Yahoo!) tend to appeal to the entire market.

22. **Why would an e-marketer want to create or nurture a Web site for building a community?**

The Internet is ideal for gathering people with similar interests and tasks into communities. When folks with similar interests gather at the virtual watering hole to discuss issues, the value they receive in both information and social bonding keeps them returning. If a firm builds and maintains the watering hole, it can present products and messages customized to the group's interests. Thus product targeting can be achieved by building community through online chat rooms, discussion groups, bulletin boards, and online events.

Discussion Questions

23. **Underdeveloped countries tend to have sharper class divisions than exist in the United States. It is not uncommon for 2% of the population to control 80% of the wealth. As a marketer, how would you use this knowledge to develop a segmentation strategy for targeting consumers in these countries?**

Marketers can base their segmentation of consumer markets on demographics, geographic location, psychographics, and behavior with regard to the product. Further segmentation bases are derived under subcategories of these. In this case, companies will combine bases and focus on categories based on geodemographics (geography and demographics from income). By building segments using these and subcategories unique to their target market, e-marketers can better make sense of their industry. The important thing to remember is that marketers must create segments based on variables that can be used to identify and reach the right people at the right time.

In this case, e-marketers would be wise to take into account cultural attitudes toward technology. Furthermore, segmentation strategies that work in the U.S. may not apply given the low penetration rate. Also language sensitivity and lack of payment/shipping infrastructure could influence the E-marketers overall marketing

plan. (Why even market when there are no means to receive payment or ship the product?) All these factors and more play into the e-marketer's endeavors abroad.

24. **Many parents are upset that some Web sites specifically target children and young teens. Outline the arguments for and against a company using this segmentation and targeting strategy. Which side do you support—and why?**

By targeting children and young teens, websites are concentrating on a largely untapped market that will inevitably be satisfied by market forces. Sites will sprout up despite parental concerns, thus the need for responsible organizations that monitor chat rooms, material, etc. So long as the company is proactive in listening and addressing parental concerns, companies should not be restricted to advertising to only adults. Obvious limitations include the inability for children to make online payments and legally purchase products. Also ethical questions of privacy arise from monitoring children online, since they may not be fully aware of their rights. Finally chat rooms and other online groups orientated toward children may expose them to individuals and ideas parents may not approve of.

25. **Some company managers forbid employees from using the Internet for non-work-related activities. What are the implications for e-marketers that segment their markets using the variable of home and work access?**

Many companies segment by whether users access the Net from home or work. Access point is important because home and work segments tend to have different needs on the Web. In general, most home users have slower connection speeds than those who enter the Net from work, making large graphics and other files undesirable on sites frequented from home. Another characteristic of the home market is that a growing number of households have more than one PC and are networking them within the home.

Nielsen//NetRatings researched at work access in the United States, Australia, France, and Italy, and found some consistent and significant differences from home segments. One key finding is that people who access from work spend nearly twice as much overall time online than those who access only from home. For example, U.S. work users spend about 19.25 hours a month online, while at home users spend about 11.1 hours—a pattern that held for all countries in the study. In addition, the audiences in all countries are much more heavily male for the at-work segment.

E-marketing strategists can use such information to target their Web site offerings. Strategies might include special products, the language in sites, and the amount of interactivity and multimedia possible for work users.

26. **Forrester Research suggests a segmentation scheme for online engagement. Interview some of your classmates to see what proportion fall back into each segment.**

Answers will vary depending on the class size and the interview responses.

Chapter 9:
Differentiation and Positioning Strategies

Learning Objectives (PPT 9-2)

Differentiation

The process of adding a set of meaningful and valued differences to distinguish the company's offering from competitors' offerings

> *Differentiation Dimensions*
> There are five ways for a firm to differentiate is offerings: product, services, personnel, channel, and image.
>> *Product Differentiation* – The Internet offers virtually unlimited assortments of products and services. Customization is available online which creates a personalized package for nearly every customer.
>> *Service Differentiation* – Customer service can be enhanced online through 24 hour a day email or chat services. Delivery of products, online banking, and other service may some day replace offline services.
>> *Personnel Differentiation* – The Internet has reduced the supply chain and can deliver product more cost effectively by eliminating the expensive human element.
>> *Channel Differentiation* – The Internet is a location-free and time-free distribution and communication channel. With the Internet, a firm's reach is now global, 24 hours a day, and has an unlimited assortment of products.
>> *Image Differentiation* – A company can differentiate itself by creating a unique customer experience such as superior customer service and, in turn, brand the experience.

> *Differentiation Strategies*
> Experts list specific differentiation strategies that are particularly important in e-marketing initiatives: be the first to market, own a product attribute or quality in the consumer's mind, demonstrate product leadership, utilize an impressive company history or heritage, support and demonstrate the differentiating idea, and communicate the difference.
>> *Site Environment/Atmospherics* – refers to the in-store ambiance created by brick-and-mortar retailers. Web sites can be differentiated by providing visitors with a positive environment to visit.
>> .
>> *Build Trust* – When customers are expected to pay online, trust is a key issue and should be an integral part of a Web site's marketing strategy.
>> *Efficient and Timely Order Processing* – Ease of ordering can be the strongest motivator for consumers to make Web-based purchases.
>> *Pricing* – Today, prices are relatively comparable on the Web, although some companies do used lower prices as an incentive. Price is easy to imitate and non-price differentiation is more enduring.

Customer Relationship Management – CRM is becoming more predominant as a means of differentiation.
Invite User-Generated Content – A company can use virtual tours, customer reviews, 3-D images, trial downloads, or product image enlargements to make the offering seem more tangible

Positioning

Positioning strategies help to create a desired image for a company and its products in the minds of a chosen user segment. Positioning is the process of creating this image, and a position is the resulting view of the firm or brand from the consumer perspectives (often two very different things.)

Bases and Strategies for Positioning
Firms can position on the basis of product or service attributes, high-tech image, benefits, user categories, or comparison with competitors.
Product or Service Attribute – Product or service features such as size, color, ingredients, speed and so forth.
Technology Positioning – Positioning on the basis of technology shows that a firm is on the cutting edge.
Benefit Positioning – Benefits are the flip side of attributes – the customers' perspective of what the feature will do for them.
User Category – This type of positioning relies on customer segments. It is successful when the segment has some unique quality that ties product benefits more closely to the group than to other segments.
Competitor Positioning – Firms that provide specific benefits or advantages over competitive offerings.
Integrator Positioning – Firms that want to be known for providing everything a consumer needs in a particular product category, industry, or even in general.
Repositioning Strategies – Repositioning is the process of creating a new or modified brand, company, or product position.

Chapter Summary

Differentiation is what a company does to the product. Positioning is what it does to the customer's mind. The proliferation of information, products, and services available on the Internet means companies must find ways of differentiating their products and services in order to attract customers and build long-term relationships.

Many traditional differentiation strategies can be applied to an e-marketing strategy, including early market entry, product ownership, product leadership, impressive company history, and the ability to demonstrate and communicate differentiation. Although these strategies are effective in both online and off-line differentiation, e-marketing requires some additional and unique differentiation strategies focusing on site/environment atmospherics, trust, efficiency, pricing, customer relationship marketing, and inviting user-generated content.

Marketing strategies online and off-line depend on the position that the brand, company, or product holds in the minds of customers. In today's environment, where information is easily accessible and consumers hold the power of choice, positioning

needs to be focused on customers' desires and personalized to individuals rather than focusing on the product. Any position must answer the customer's question: "What's in it for me?"

Traditional offline positioning strategies also apply to the Internet. However, e-marketers can use Internet-specific strategies such as positioning on the basis of technology, benefit, user category, competitor, or integrator. Repositioning may be required over the life cycle of the brand, company, and/or product. Repositioning is the process of creating a new or modified brand, company, or product position. Companies, offline and online, face a long-term challenge when attempting to use repositioning to change the way customers perceive their brands.

Chapter Outline

Opening Vignette: The J. Peterman Story (PPT 9-3)
Have the class read the opening vignette on J. Peterman. J. Peterman created a classic feeling with service and product differentiation by creating a 1950's like atmosphere. Have the students check out the web page and discuss the differences between J Peterman and other popular site like landsend.com, gap.com or americaneagle.com

www.jpeterman.com

I. Differentiation (PPT 9-4)

Differentiation is the process of adding a set of meaningful and valued differences to distinguish the company's offering from competitors' offerings.

- D. Differentiation Dimensions – a firm can differentiate itself along the following five dimensions. (PPT 9-5)
    1. Product Differentiation (PPT 9-6)
        a. Product line differentiation is the Internet's greatest contribution
        b. Customization and bundling
        c. Combination of products or services the individual needs
        d. Supports one-to-one relationship building
    2. Service Differentiation (PPT 9-7)
        a. Customer service is enhanced by the ability to receive feedback 24 x 7 x 365
        b. Product distribution for online orders
        c. Online banking or securities trading
    3. Personnel Differentiation (PPT 9-8)
        a. Offline one-to-one relationships requires costly skilled personnel
        b. The Internet allows companies to deliver their products and service through low-cost channels
        c. The Internet leads to lower transaction costs
    4. Channel Differentiation (PPT 9-9)

          a.   The Internet is a location-free and time-free distribution and communication channel

          b.   The Internet expands firms to global, 24 x 7 x 35 companies with an unlimited assortment of products

          c.   The Internet can be used as a means of communication

          d.   Commercial transactions online capitalize on the Internet's transaction and distribution channels

          e.   The Internet offers highly specialized personal services

    5.   Image Differentiation   (PPT 9-10)

          a.   A firm can create a unique customer experience

          b.   Firms can retain customers

          c.   Target key customers

          d.   Enhance network profitability

E. Differentiation Strategies – be the first to enter the market, own a product attribute or quality in the consumer's mind, demonstrate product leadership, utilize an impressive company history, support and demonstrate the differentiating idea, and communicate the difference   (PPT 9-11)

    1.   Examples:

          a.   Amazon.com – first Internet book retailer

          b.   Monster.com – gained ownership of online job searches

    2.   Site Environment/Atmospherics   (PPT 9-13)

          a.   In-store ambiance (brick-and-mortar)

          b.   Web sites that create a positive environment

    3.   Build Trust   (PPT 9-13)

          a.   Trust is key

          b.   Privacy policies should be listed

    4.   Efficient and Timely Order Processing   (PPT 9-14)

          a.   Ease of ordering is a strong motivator to purchase online

          b.   Commitment to on-time delivery is an important benefit

          c.   Firms need to follow through on promises

    5.   Pricing   (PPT 9-14)

          a.   Pricing is not as common as in the past

          b.   Prices are relatively comparable to offline stores

          c.   Many firms choose to differentiate themselves in other ways

    6.   Customer Relationship Management   (PPT 9-14)

          a.   CRM is more predominant as a means of differentiation

          b.   Allows for greater one-to-one marketing

    7.   Invite User-generated Content   (PPT 9-14)

          a.   Trust customers

          b.   Listen and Respond

          c.   Learn

II. Positioning   (PPT 9-15)

Positioning is the process of creating an image for a company and its products in the minds of a chosen user segment. A position is the resulting view of the firm or brand from the consumer perspective. The positioning rule of thumb is "Mediocrity deserves no

praise." If a firm establishes no position for their brands, they have very little control over brand image.

     J.   Bases and Strategies for Positioning – firms can position on the basis of product or service attributes, high-tech image, benefits, user categories, or comparison with competitors.   (PPT 9-16)

          1.   Product or Service Attribute   (PPT 9-17)
               a.   Attributes are product or service features such as
                   i.   Size
                 ii.   Color
               iii.   Ingredients
               iv.   Speed
               b.   A patented product or process
                   i.   iVillage
                 ii.   Pillsbury
               iii.   Kraft Foods
               iv.   Tylenol

          2.   Technology Positioning – positioning on the basis of technology shows that a firm is on the cutting edge   (PPT 9-18)
               a.   Lands' End
               b.   American Airline

          3.   Benefit Positioning   (PPT 9-19)
               a.   The flip side of attributes – the customers' perspective of what the feature will do for them
               b.   A stronger basis for positioning
               c.   What will this do for me?
                   i.   Polo
                 ii.   Miller Lite
               iii.   Valvoline
               iv.   Kimberly-Clark's Huggies

          4.   User Category   (PPT 9-20)
               a.   Relies on customer segments
               b.   Is successful when the segment has unique qualities
               c.   Kellogg's
               d.   Yahoo!
               e.   The Agent Provocateur-Lingerie

          5.   Competitor Positioning   (PPT 9-21)
               a.   Firms tout specific benefits that provide advantages over competitive offerings
               b.   Position themselves against and entire industry
               c.   According to relative industry position

          6.   Integrator Positioning   (PPT 9-22, 9-23)
               a.   Firm's want to be known for providing everything a consumer needs in a category, industry, or in general
               b.   Martha Stewart
               c.   Microsoft
               d.   Zip Realty
               e.   Lending Tree
               f.   Home Gain

K. Repositioning Strategy   (PPT 9-24)

        1. the process of creating a new or modified brand, company, or product position

        2. Firms face long-term challenges when attempting to reposition

                a. Yahoo

                b. Amazon

Exercise Answers

(Exercise answers prepared by David Lan, University of Nevada, Reno, with assistance from the authors)

Note

Discussion questions may require outside research whereas review questions do not require research beyond the text.

Review Questions

1. How does differentiation differ from positioning?

   Differentiation is what a company does to the product. Positioning is what it does to the customer's mind.

   Kotler defines "differentiation **as the process of adding a set of meaningful and valued differences to distinguish the company's offering from competitors' offerings." (Kotler, 2003, p. 315). "A company can differentiate its market offering along five dimensions: product, services, personnel, channel, and image."**

   Positioning **is the process of creating this image, and a** position **is the resulting view of the firm or brand from the consumer perspective (often two very different things). The concept is simple: to be successful, a company must differentiate itself and its products from all others, and position itself among its competitors in the public's mind to carve out its own market niche. Firms can position brands, the company itself, or individual products. The positioning rule of thumb: "Mediocrity deserves no praise."**

2. What levels of online channel differentiation exist as options for companies?

   Online channel differentiation occurs on multiple levels. First, companies that provide product or service information on the Web have an advantage over companies with no Web presence by exploiting the Internet as a communication channel. Second, companies that conduct commercial transactions online capitalize on the advantage of the Internet's properties as a transaction and distribution channel. At a higher level is the differentiation of competitors' Internet-related service offerings. For example, in the banking industry, "one bank may provide a 'virtual pass book' facility, while another may transact on behalf of the client (e.g., digital signatures), and a third may actually provide interactive portfolio management services to key account holders" (Chakravarthy, 2000, p. 2). Finally, highly specialized personal services—"Do it yourself," Web sites—allow users to conduct activities such as transfer phone service and pay bills online.

3. What is the goal of experience branding?

   Experience branding occurs when a company differentiates itself by creating a unique customer experience such as superior customer service. In turn, experience branding can increase customer loyalty and retention and produce referral business. Through experience branding, "firms can greatly improve their ability to retain customers, target key customer segments and enhance network profitability

4. How do site atmospherics affect online differentiation?

   Atmospherics **refers to the in-store ambiance created by brick-and-mortar retailers. Similarly, Web sites can be differentiated by providing visitors with a positive environment to visit, search, purchase, and so forth. Visitors want a site that easily downloads, portrays accurate information, clearly shows the products and services offered, and is easily navigated.**

5. Why should e-marketers try to invite user-generated content?

   E-marketers must try to invite user-generated content to capitalize on the popularity and success of online social networking sites. Sites like Youtube and Flickr invite users to upload data and information to share with other users. By accepting user-generated content, a company is placing trust into their clients, but additionally listening to their needs and becoming more customers focused.

6. Why is benefit positioning so powerful?

   Benefit positioning is generally a stronger basis for positioning because of its customer orientation in answering the question: *What will this do for me?*

7. Why would an e-marketer choose to use competitor positioning? Integrator positioning?

   Many firms position by touting specific benefits that provide advantages over competitive offerings. Online or offline companies often position themselves against an entire industry ("I Can't Believe It's Not Butter" margarine), against a particular firm (Amazon.com for toys), or according to relative industry position (AOL is the ISP connection leader and Earthlink a challenger). In the software business, Microsoft is the industry leader and lets everyone know it. E-marketers can also build off the brand awareness of their competitors as less expensive alternatives of the industry leaders.

   E-marketers may want to utilize integrator positioning for providing everything a consumer needs in a particular product category, industry, or even in general (e.g., Wal-Mart). This is a particularly important strategy online because busy consumers want convenience and one-stop shopping.

Discussion Questions

8. Why is a company able to directly control the differentiation of its brand but not its positioning?

   Differentiation is what a company does to the product. Positioning is what it does to the customer's mind. Companies with well-known brands have a greatly needed competitive advantage because of the low entry barrier of doing business on the Internet. Customers are drawn to brands they trust, an attraction that is enhanced by a positive company history. When firms don't include positioning strategies in their e-marketing plans, they have very little control over brand images. Positioning strategies help to create a desired image for a company and its products in the minds of a chosen user segment. Positioning **is the process of creating this image, and a** position **is the resulting view of the firm or brand from the consumer perspective. Ultimately a product position is in the eye of the customer relative to other companies and thus cannot be directly controlled.**

9. The positioning rule of thumb states that "Mediocrity deserves no praise." What does this statement mean? Do you agree with this statement? Explain your answer.

The e-marketer's goal is to build a strong and defensible position on one or more bases that are relevant and important to the consumer—and do it better than the competitors. The statement "Mediocrity deserves no praise" reflects the need for e-marketers to establish something more than your competitors. Companies cannot maintain a good position in the public eye if lumped together with all the other nonspecific companies out there. Numerous websites exist that can be classified as generic and boring. Relative to differentiated brand names, these companies deserve no praise; they are no better than the rest.

10. How might an online company react if a rival embarks on competitor positioning in an unflattering way?

Competitor positioning can used both in a positive or negative way. Both involve building on existing brand value and awareness of a competitor. In the case of an unflattering strategy, the company can sue for damages or dilution of their brand name. Companies must be quick to sue once they are aware of competitors using their trademarks, images, brands, etc. For example, Ford Motor company was quick to shut down websites that used their slogan unflatteringly as "Where quality is job none." Companies spend millions on building brand awareness and differentiation so are quick to stop any competitor positioning that may cause their brand name to lose its value.

11. Are customers likely to be confused by an integrator positioning that suggests a Web site sells anything and everything? What are the advantages and disadvantages of this positioning?

Depending on customer attitudes toward technology and internet usage they may or may not be confused toward integrator positioning. For example, those that browse purely as "bargain hunters" will care very little about where they find their products. They are solely interested in finding the best deal based on price. It doesn't matter if they find it at a specialized online store or a big online integrator like Amazon. On the other hand, customers that care very much about quality and brand names may find themselves lost in the myriad of online malls that have sprung up. However, these users are more likely to go to well established names like Amazon or brick-and-mortar online entities like Walmart for their shopping. The advantage of integrator positioning is that it gives consumers a one-stop shopping place that provides convenience. The disadvantage is that consumers may expect exactly that… one stop shopping for everything from dog food to bricks. (Products not conducive to Internet shopping because of high shipping charges or the lack of hands-on trials.) Amazon has had to cut a few of these products because of their lack of a brick-and-mortar presence.