

Electronic Commerce

Lecture 6

IT392

**E-COMMERCE MARKETING AND
ADVERTISING CONCEPTS**

Prepared by
Dr. Eng. Youssef Ntefeh

Chapter 6

- Perhaps no area of business has been more affected by Internet and mobile platform technologies than marketing .
- As a communications tool, the Internet affords marketers new ways of contacting millions of potential customers at costs far lower than traditional media.
- The Internet also provides new ways—often instantaneous and spontaneous—to gather information from customers, adjust product offerings, and increase customer value.
- The Internet has spawned entirely new ways to identify and communicate with customers, including search engine marketing, behavioral targeting, and targeted e-mail and social marketing, among others.

Chapter 6

- Internet was just the first transformation. Today, the mobile platform based on smartphones and tablet computers is transforming online marketing and communications yet again.
- The subject of online marketing, branding, and market communications is very broad and deep.
- In this chapter, we begin by examining online consumer behavior, the major types of online marketing and branding, and the technologies that support advances in online marketing.
- We then focus on understanding the costs and benefits of online marketing communications.
- In Chapter 7, we focus on the social, mobile, and local marketing phenomenon in greater depth.

Learning Objectives

- Understand the key features of the online audience, the basic concepts of consumer behavior and purchasing, and how consumers behave online.
- Identify and describe the basic digital commerce marketing and advertising strategies and tools.
- Identify and describe the main technologies that support online marketing.
- Understand the costs and benefits of online marketing communications.

Chapter 6:
E-COMMERCE
MARKETING AND
ADVERTISING
CONCEPTS

Consumers Online: The Online Audience and Consumer Behavior

The Online Consumer Profile
Consumer Behavior Models
The Online Purchasing Decision
Shoppers: Browsers and Buyers
Why Some People Don't Shop Online

Digital Commerce Marketing and Advertising Strategies and Tools

Strategic Issues and Questions

Traditional Online Marketing and Advertising Tools

Search Engine Marketing and Advertising
Display Ad Marketing
E-mail Marketing
Affiliate Marketing

Other Online Marketing Strategies

Customer Retention Strategies
Pricing Strategies

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Supplementing the Logs: Cookies and Other Tracking Files

Databases, Data Warehouses, Data Mining, and Big Data

Marketing Automation and Customer Relationship Management (CRM)

Understanding the Costs and Benefits of Online Marketing Communications

Online Marketing Metrics: Lexicon

The Costs of Online Advertising

Marketing Analytics: Software for Measuring Online Marketing Results

Consumers Online: The Online Audience and Consumer Behavior

The Online Consumer Profile

- The first principle of marketing and sales is “know the customer.”
- Who is online, who shops online and why, and what do they buy?
- In 2022, about 90% of the U.S. population uses the Internet.
- Gen Z (born between 1997 and 2012) is pervasive, with more than 93% regularly accessing the Internet
- Owners of mobile devices spend about four and a half hours a day using them for non-telephone activities

Consumers Online: The Online Audience and Consumer Behavior

The Online Consumer Profile

- The demographic profile of the Internet and e-commerce has changed.
- Up until 2000, White, young, college-educated males with high incomes dominated Internet usage
- 2022, equal percentage of men and women in the US use the Internet.
- (18–24) adults are the highest percentage of Internet use, more than 99% followed closely by teens (12–17), at 98%.
- (65 and over) more than 75% of whom now use the Internet.
- Women are slightly more likely to purchase online than men.
- 90% of those in the 25-to-34 age buy online compared to only 75% of those between the ages of 55 and 64. while over 65 are 60% doing so.

Consumer Behavior Models

- Models of consumer behavior attempt to predict or “explain” what consumers purchase and where, when, how much, and why they buy.
- It is important to first understand why people choose to purchase online rather than in a store.
- Although price is an important consideration, consumers also shop online because of convenience, which in turn is produced largely by saving them time.

Consumers Online: The Online Audience and Consumer Behavior

The Online Purchasing Decision

- Why do consumers actually purchase a product or service from a specific vendor?
- Price and the availability of free shipping and trust.
- **Five stages in the consumer decision process:**
 - Awareness of need
 - Search for more information
 - Evaluation of alternatives
 - The actual purchase decision
 - Post-purchase contact with the firm

Consumers Online: The Online Audience and Consumer Behavior

How Shoppers Find Vendors Online ?

- One might think customers are “driven” to online vendors by spur-of-the-moment decisions. In fact, only a tiny percentage of shoppers click on display ads to find vendors. They are focused browsers looking for specific products, companies, and services. Once they are online, a majority of consumers use a search engine as their preferred method of research for purchasing a product.
- Many will go directly to an online marketplace, such as Amazon or eBay, and some will go directly to a specific retail website. Merchants can convert these “goal-oriented,” intentional shoppers into buyers if the merchants can target their communications to the shoppers and design their sites and apps in such a way as to provide easy-to-access and useful product information, full selection, and customer service and do so at the very moment the customer is searching for the product.

Consumers Online: The Online Audience and Consumer Behavior

Why Some People Don't Shop Online: Trust, Utility, and Opportunism in Online Markets

- About 7.4% of Internet users do not shop or buy online. Why not? One of the most important factors cited by those who don't shop or buy online is the “trust factor,” the fear that online merchants will cheat you, lose your credit card information, or use the personal information that you give them to invade your personal privacy, bombarding you with unwanted e-mail and pop-up ads.
- Secondary factors can be summarized as “hassle factors,” like shipping costs, returns, and inability to touch and feel the product.
- Consumers want good deals, bargains, convenience, and speed of delivery.

Consumers Online: The Online Audience and Consumer Behavior

Why Some People Don't Shop Online: Trust, Utility, and Opportunism in Online Markets

- The seller usually knows a lot more than the consumer about the quality of goods and terms of sale. This can lead to opportunistic behavior by sellers.
- Consumers need to trust a merchant and marketplace platform before they make a purchase.
- Merchants can develop trust among online consumers by building strong reputations of honesty and delivery of quality products

Consumers Online: The Online Audience and Consumer Behavior

Why Some People Don't Shop Online: Trust, Utility, and Opportunism in Online Markets

- Platforms need to assure users that the platform will protect both the security and the privacy of the user's data.
- Online recommendations from previous purchasers and feedback forums are examples of trust-building online mechanisms.
- A review of the literature suggests that the most important factors leading to a trusting online relationship are perception of website credibility, ease of use, and perceived risk.

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How an internet built on ads works

Digital Commerce Marketing and Advertising Strategies and Tools

- ***Marketing***: is to build customer relationships so that the firm can achieve above-average returns (both by offering superior products or services and by communicating the brand's features to the consumer)
- Online marketing is very different from ordinary marketing because the nature of the medium and its capabilities.
- Compared to traditional print and television marketing, online marketing can be more personalized.

Digital Commerce Marketing and Advertising Strategies and Tools

Strategic Issues and Questions

- The most common “traditional” marketing techniques for establishing a brand and attracting customers were **search engine marketing, display ads, e-mail campaigns, and affiliate programs**
- The five main elements of a comprehensive multi-channel marketing plan are: website, traditional online marketing, social marketing, mobile marketing, and offline marketing
- If you’re a manager of a startup or the website manager of an existing commercial website, you face a number of strategic questions. **Where should you focus first?** Build a website, develop a blog, or jump into developing a Facebook presence?
- If you have a successful website that already uses search engine marketing and display ads, where should you go next: **develop a social network presence or use offline media?**
- **Does your firm have the resources to maintain a social media marketing campaign?**

Digital Commerce Marketing and Advertising Strategies and Tools

Strategic Issues and Questions

- **Resource allocation.**
- **Each of the different major types of marketing has different metrics to measure its effectiveness.**
- For instance, in social marketing, engagement level (as evidenced by follows, reactions and shares) is an important metric.
- In search engine marketing, effectiveness is measured by how many clicks your ads are receiving; in display advertising, by how many impressions of your ads are served.
- **Each of these platforms has different costs.**
- In order to choose where your marketing resources should be deployed, you will have to link each of these activities to sales revenue and determine how much they are worth

Digital Commerce Marketing and Advertising Strategies and Tools

Search Engine Marketing and Advertising

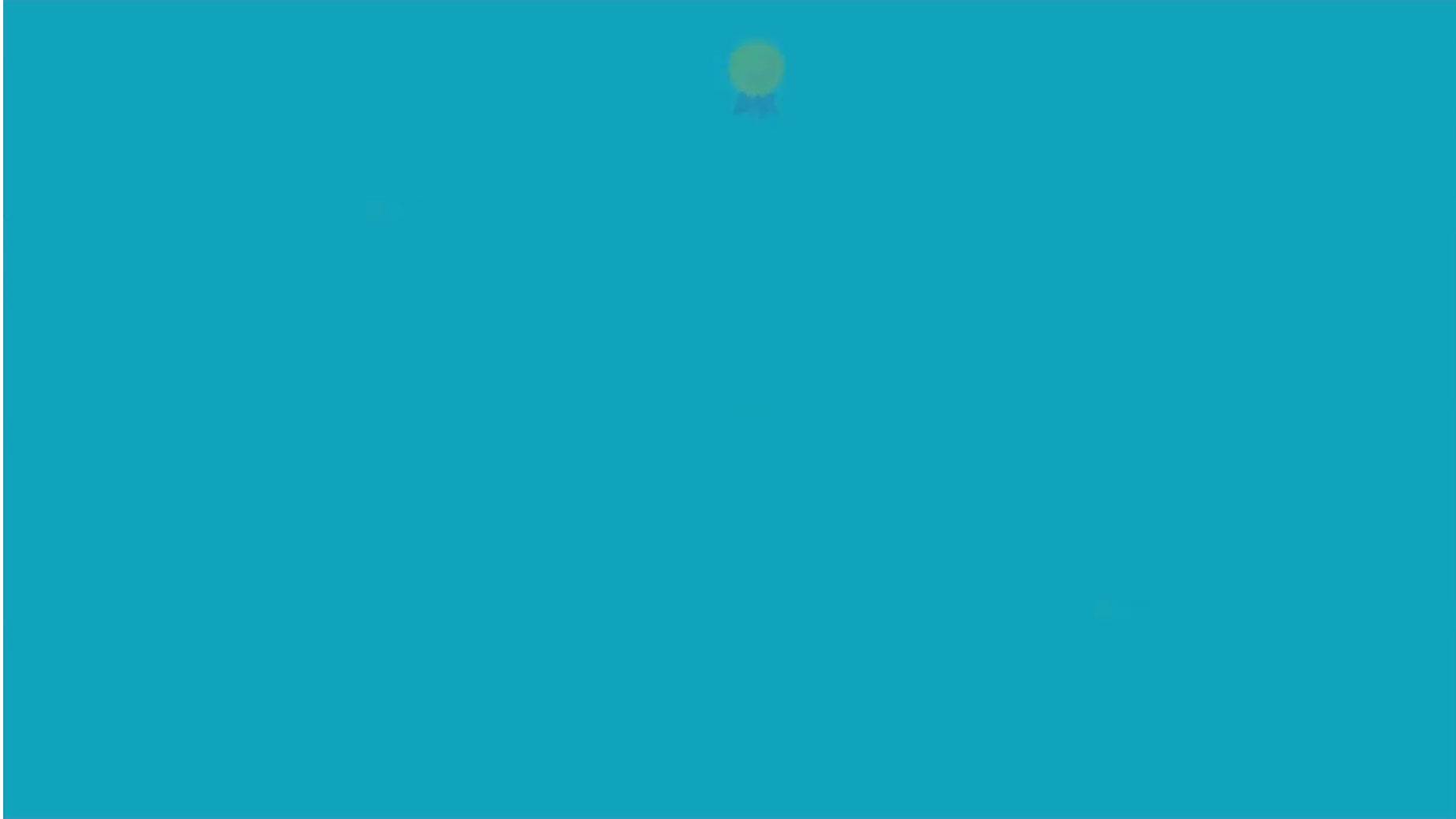
- Top three search engine providers (google, microsoft/bing, and yahoo/AOL)
- Amazon has become increasingly more important as a starting point for consumers searching for products.
- **Search engine marketing (SEM):** use of search engines to build and sustain brands.
- **Search engine advertising:** use of search engines to support direct sales to online consumers.

Digital Commerce Marketing and Advertising Strategies and Tools

Types of Search Engine Advertising

- **Organic search:** inclusion and ranking of websites based on a more or less unbiased application of a set of rules imposed by the search engine
- **Keyword advertising,** merchants purchase keywords through a bidding process at search engines, and whenever a consumer searches for that word, their advertisement shows up somewhere on the page.
- **Adsense:** publishers accept ads placed by google on their websites and receive a fee for any click-throughs from those ads

Digital Commerce Marketing and Advertising Strategies and Tools



Digital Commerce Marketing and Advertising Strategies and Tools

Search engine optimization (SEO) is the process of improving the ranking of web pages with search engines by altering the content and design of the web pages and site.

- By carefully selecting keywords used on the web pages, updating content frequently, and designing the site so that it can be easily read by search engine programs, marketers can improve the impact and return on investment in their web marketing programs.
- SEO is particularly important because Google and other search engine firms make frequent changes to their search algorithms to improve search results and user experience.
- Google, for instance, reportedly makes more than 600 search engine algorithm changes in a year

What Is Search Engine Optimization / SEO



Search Engine Advertising Issues

- How Google decides to rank one company over another in search results is not known.
- No one really knows how to improve in its rankings (although there are hundreds of firms who claim otherwise).
- Using paid sponsored listings, as opposed to relying on organic search results, eliminates some, but not all, of this uncertainty.

Search Engine Advertising Issues

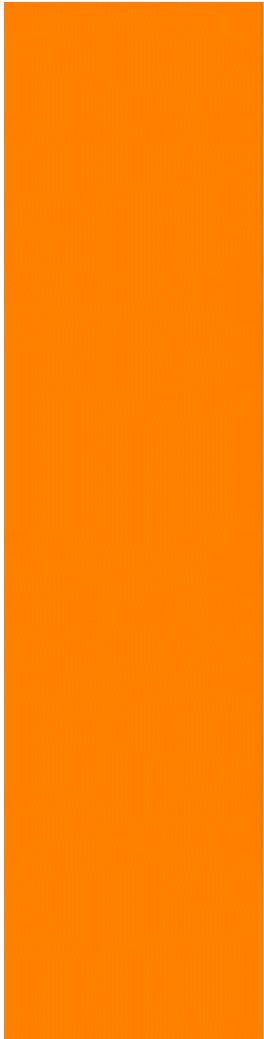
- ***Click fraud:*** occurs when a competitor clicks on search engine results and ads, forcing the advertiser to pay for the click even though the click is not legitimate.
- ***Content farms:*** companies that generate large volumes of textual content for multiple websites designed to attract visitors and search engines
- ***Link farms:*** groups of websites that link to one another, thereby boosting their ranking in search engines

Digital Commerce Marketing and Advertising Strategies and Tools

Display Ad Marketing

- Display ads cover banner ads, rich media ads, video ads, sponsorships, and native advertising
- The key players in display ad revenue are Meta (Facebook/Instagram), Google, and Amazon, collectively making up 55% of U.S.
- A ***banner ad*** displays a promotional message in a rectangular box on the screen of a desktop/laptop computer or mobile device.
- ***Rich Media Ads:*** Ads that employ interactive features that engage the user such as animations (moving graphics); elements that trigger new content experiences, such as ad expansion, where the ad expands to a size bigger than its original size; or video play

What is a Banner Ad



Rich Media Ad Showcase

a.com/fandom

FANDOM GAMES MOVIES TV WIKIS

ADVERTISEMENT

Dive into a new dimension.
Paint 3D on Windows 10 PCs.

Experience 3D now

Microsoft

Pen sold separately.

THE WALKING DEAD - TV

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Digital Commerce Marketing and Advertising Strategies and Tools

Display Ad Marketing

- ***Sponsorship***: a paid effort to tie an advertiser's name to information, an event, or a venue in a way that reinforces its brand in a positive yet not overtly commercial manner
- ***Native Advertising***: Advertising that looks similar to editorial content
- In the online world, native ads are most often found on social networks, for instance, as part of a Facebook Feed or Instagram Story.
- In fact, almost all (more than 97%) of social network ad spending is native advertising. They do not have room for ads on the right side of the screen, and therefore native ads in the form of posts that look like other posts are the favored option

What is Native Advertising

WHAT ARE NATIVE ADS?

Digital Commerce Marketing and Advertising Strategies and Tools

Display Ad Marketing

- ***Advertising Networks*** In the early years of e-commerce, firms placed ads on the few popular websites in existence, but by early 2000, there were hundreds of thousands of sites where ads could be displayed, and it became very inefficient for a single firm to purchase ads on each individual website.
- Advertising networks sell advertising and marketing opportunities (slots) to companies that wish to buy exposure to an online audience (advertisers).
- Advertising networks obtain their inventory of ad opportunities from a network of participating sites “publishers” that want to display ads on their sites in return for receiving a payment from advertisers every time a visitor clicks on an ad.

Digital Commerce Marketing and Advertising Strategies and Tools

Display Ad Marketing

- **Display Advertising Issues**
- ***Viewability***. A significant percentage of online ad impressions served are not actually viewed or even viewable.
 - ❖ **First**, there is no mechanism for measuring how many people actually see an online ad that has been served.
 - ❖ **Second**, a large percentage of ads served appear lower down on the screen, where users are less likely to go, or video ads on auto-play are playing in areas the user cannot see. Advertisers are still charged for ads that are served but not viewed. Unscrupulous publishers can place multiple ads on top of each other and charge multiple times for the same page space.
 - ❖ **Third**, botnets can be programmed to click on ads on fraudulent websites, generating impressions and ad serves even though no one actually sees the ads.

E-mail Marketing

- ***Direct e-mail marketing***: messages sent directly to interested users.
- E-mail marketing and advertising are inexpensive, the primary cost is for the purchase of the list of names to which the e-mail will be sent.
- ***Spam*** is unsolicited commercial, and *spammers* send unsolicited e-mail to a mass audience that has not expressed any interest in the product.

Digital Commerce Marketing and Advertising Strategies and Tools

Affiliate Marketing

- ***Affiliate marketing:*** a firm pays a commission, typically when visitors to a different website, blog, or social media page click the firm's link or ad on that website or page and visit the firm's website.
- Amazon Associates. Participant sites receive up to 10% commission on sales that their referrals generate.
- Amazon, eBay, and other large e-commerce companies with affiliate programs typically administer such programs themselves.

Digital Commerce Marketing and Advertising Strategies and Tools

Customer Retention Strategies

- ***One-to-one marketing (personalization)*** segments the market on the basis of individuals, based on a precise and timely understanding of their needs, targeting specific marketing messages to these individuals and then positioning the product vis-à-vis competitors to be truly unique.
- ***Behavioral targeting*** (also known as **interest-based advertising**) involves using the online and offline behavior of consumers to adjust the advertising messages delivered to them online
- ***Frequently asked questions (FAQs)*** a text-based listing of common questions and answers, provide an inexpensive way to anticipate and address customer concerns.

Customer Retention



Marketing that starts in customer

Digital Commerce Marketing and Advertising Strategies and Tools

Pricing Strategies

- Pricing of e-commerce goods is difficult, as unlike traditional goods where fixed and variable costs are taken into account, some online goods are priced far below their marginal costs.
- Different strategies have been developed to address this issue. Some companies offered products for free or very cheap in the short term, hoping to build a customer base and then monetise through advertising or subscription fees. Freemium models, where basic services are free but premium services cost money, are a variation on this method.

Pricing Strategies

- Another strategy is ***versioning***, creating multiple versions of a product and selling them to different market segments at varying prices. Similarly, bundling sells a group of products together at a reduced price.
- ***Dynamic pricing strategies*** allow prices to vary depending on customer demand and seller supply
- Many e-commerce businesses struggle to convert free users into paying customers and need to find the balance between offering free or cheap products and ensuring profitability.

Pricing Strategies

- ***Fixed costs*** are the costs of building the production facility.
- ***Variable costs*** are costs involved in running the production facility—mostly labor.
- ***Marginal costs*** (the incremental cost of producing the next unit) after manufacturers have paid the fixed costs to enter the business.

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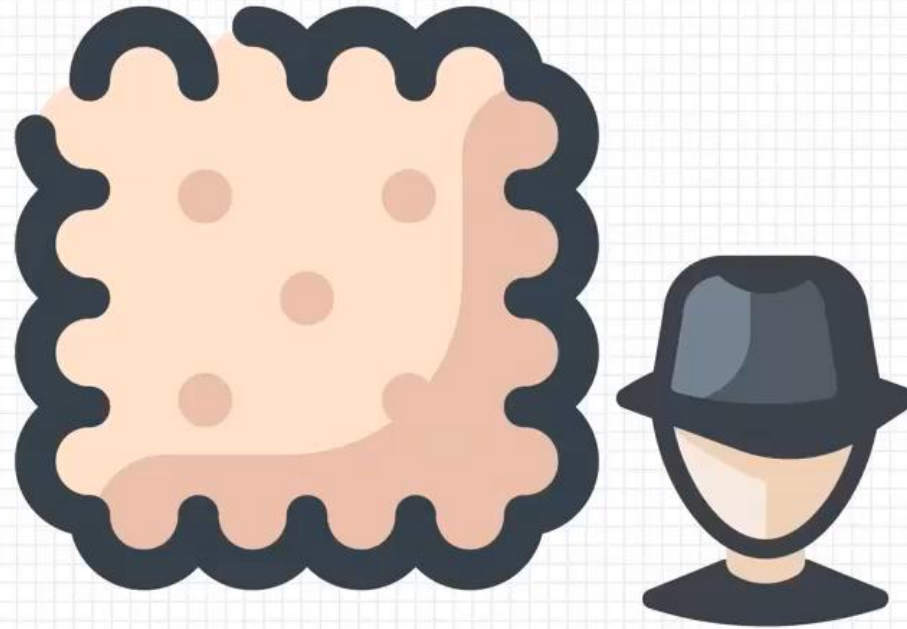
- ***Web server transaction logs*** are a primary source of information about online consumers, recording user activity on websites. This data is even more insightful when coupled with registration forms and shopping cart databases.
- Registration forms collect personal data, while shopping cart databases capture purchase and payment information. For high traffic websites, these entries create a substantial data pool, which is invaluable for marketing purposes. This data can provide insights on user behavior, interests, purchase patterns, and website usability.
- However, due to the massive amount of information stored in these logs, technologies are necessary to help businesses effectively utilize this data.

Online Marketing Technologies

Supplementing the Logs: Cookies and Other Tracking Files

- These files monitor searches, website visits, accessed content and online purchases, typically without user awareness.
- Both individual websites (first-party tracking) and advertising networks such as Google, Microsoft, and Meta (third-party tracking) use it to personalize ads.
- ***Cookies*** are small files that store user data, enabling easier identification and understanding of user behavior. They aid in determining site visit frequency and make shopping carts functional.

How cookies can track you



Tracking cookies

Online Marketing Technologies

Databases, Data Warehouses, Data Mining, and Big Data

- **Profiling** is used to create a digital consumer profile, varying in detail, based on the amount of data used and the analytical power of the software and hardware used.
- These techniques aim to identify the customer's specific needs and preferences and are more efficient and accurate than traditional demographic and market segmentation methods.
- To decipher these data containing transaction records, registration forms, social media activities, and more, marketers require extensive databases, database management systems, and analytic tools.

Online Marketing Technologies

Databases, Data Warehouses, Data Mining, and Big Data

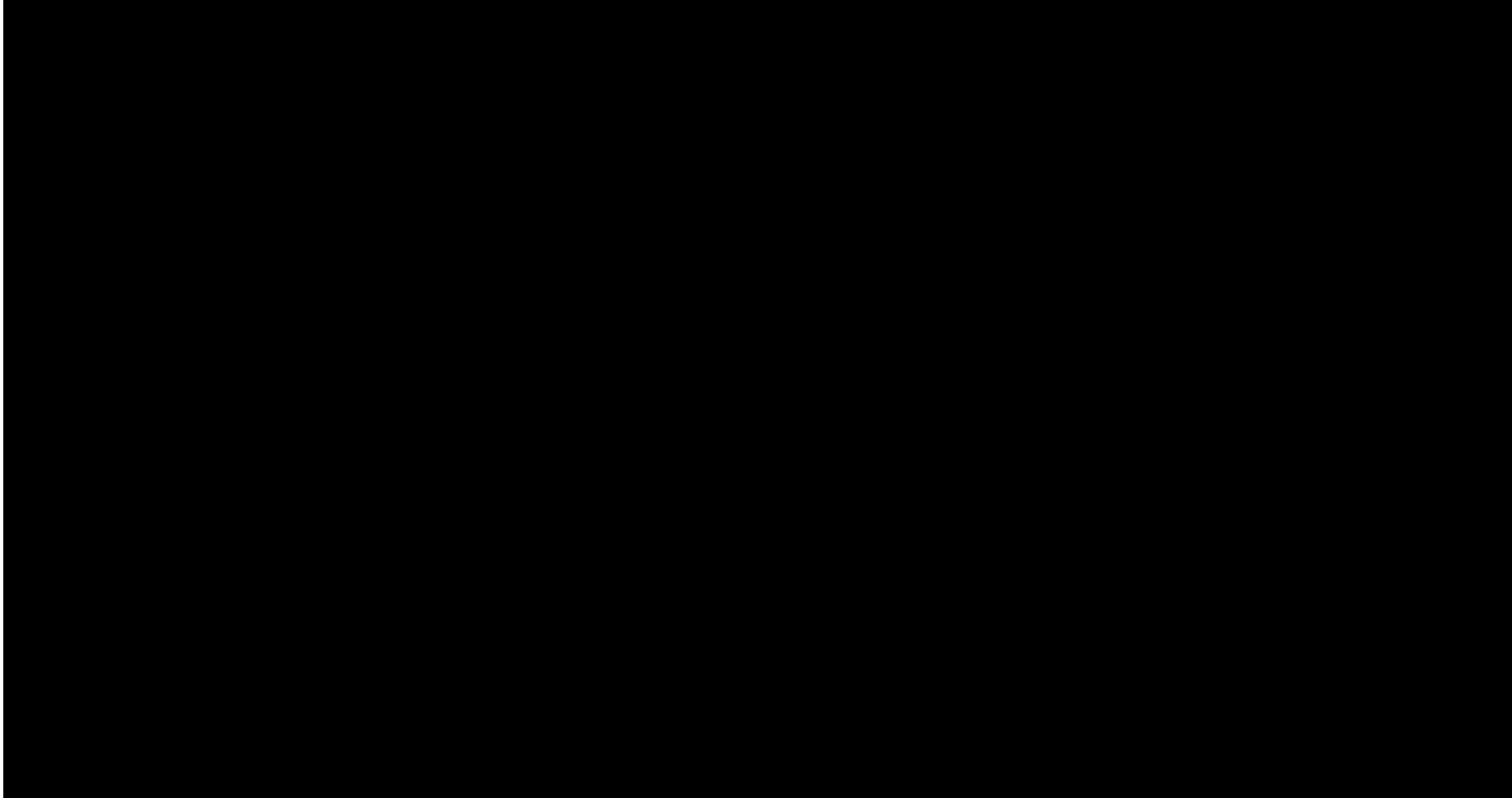
- A **database** is a software application that systematically stores data.
- **Relational database**, organizes information into user-friendly, two-dimensional tables of rows and columns, much like a spreadsheet.
- A **Database Management System (DBMS)** is used to create, maintain, and access these databases, frequently using the industry-standard Structured Query Language (SQL).
- **Nonrelational databases** (also known as NoSQL databases) are another type, designed for managing large sets of structured and unstructured data.
- Finally, **Blockchain** is a distributed database technology that instantaneously verifies transactions without a central authority.

Online Marketing Technologies

Databases, Data Warehouses, Data Mining, and Big Data

- Data warehouses serve as a comprehensive collection of a company's transactional and customer data, aggregating information from various sources like website logs, shopping carts, and financial data.
- These large data repositories enable businesses to analyze patterns, evaluate marketing strategies, and understand their customers more effectively.
- A **data mart**, on the other hand, is a more refined, focused segment of a data warehouse, designed for a specific user base. A **data lake** is a storage system that holds raw data until needed.
- **Data mining** encompasses a series of techniques that search for patterns or model consumer behavior in databases, data warehouses, and data lakes. This process is instrumental in creating customer profiles and detecting fraudulent activities based on a user's behavior.

What Is a Data Warehouse



Online Marketing Technologies

Databases, Data Warehouses, Data Mining, and Big Data

- The explosion of data from sources such as social media, web traffic, and sensor data has created challenges on how to store, analyze, and glean insights from this so-called "**big data**".
- Organizations find storing and analyzing such huge data sets often exceeds the capabilities of traditional relational database management systems (DBMSs).
- Instead, these firms have turned to software like **Hadoop**, which can divide massive data tasks among multiple budget-friendly computers and process different types of data.
- **Apache Spark** is another example of a tool developed for handling big data, offering rapid processing by utilizing random access memory.

What is Customer Relationship Management (CRM)



Online Marketing Technologies

Marketing Automation and Customer Relationship Management (CRM) Systems

- *Marketing automation systems* are software tools that help marketers track every step within the lead generation portion of marketing.
- These tools assist in every stage of the process, from making potential customers aware of their product offerings, to comparing and choosing to purchase, to tracking their progression from exposure to ads or search engines, and directing follow-up interactions.
- Once a lead becomes a customer, customer relationship management (CRM) systems maintain the relationship by using collected customer information to '**know the customer**' and meet their needs. CRM systems document all interactions a customer has with a firm.

Online Marketing Technologies

Marketing Automation and Customer Relationship Management (CRM) Systems

- CRMs collate a wealth of information on individual customers - relationship maps, product usage, demographic and psychographic data, profitability measures, contact history across organization communication channels, and marketing engagement data like email responses, website visits, and mobile app downloads.
- By integrating all the customer data into a single system, CRM systems are able to provide a complete view of the customer, with the goal of improving customer loyalty and increasing profitability.

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Understanding the Costs and Benefits of Online Marketing Communications

Online Marketing Metrics: Lexicon

- Online marketing requires knowledge in key metrics to properly evaluate the impact and results of campaigns.
- Initial metrics such as impressions, click-through rate, view-through rate, hits, page views, viewability rate, unique visitors, loyalty, reach, recency, and stickiness focus on a website attracting visitors
- Some terms such as impressions and hits can be misleading due to technicalities in data counting, making raw hits and views not a very accurate measure of activity and engagement.

Display ad metrics	Description
Impressions	Number of times an ad is served
Click-through rate (CTR)	Percentage of times an ad is clicked
View-through rate (VTR)	Percentage of times an ad is not clicked immediately but the website is visited within 30 days
Hits	Number of HTTP requests
Page views	Number of pages viewed
Viewability rate	Percentage of ads that are actually seen online
Unique visitors	Number of unique visitors in a period
Loyalty	Measured variously as the number of page views, the frequency of single-user visits to the website,
Reach	Percentage of website visitors who are potential buyers; or the percentage of total market buyers
Recency	Time elapsed since the last action taken by a buyer, such as a website visit or a purchase
Stickiness (duration)	Average length of stay at a website
Acquisition rate	Percentage of visitors who indicate an interest in the website’s products by registering or visiting product pages
Conversion rate	Percentage of visitors who become customers
Browse-to-buy ratio	Ratio of items purchased to product views
Abandonment rate	Percentage of shoppers who begin a shopping cart purchase but then leave the website without completing a purchase
Retention rate	Percentage of existing customers who continue to buy on a regular basis (similar to loyalty)

Understanding the Costs and Benefits of Online Marketing Communications

Online Marketing Metrics: Lexicon

- It's important to remember that the user's path from ad impression and website visit to final purchase and repeat business is a long and complex one.
- It involves building trust, presenting good value, providing a secure transaction environment, and encouraging repeat business or referrals.
- Monitoring and understanding these metrics are essential to any online marketer.

Understanding the Costs and Benefits of Online Marketing Communications

The Costs of Online Advertising

- The costs of online advertising are based on various models such as cost per thousand impressions (CPM), cost per click (CPC), and cost per action (CPA).
- Measuring the effectiveness of online marketing requires identifying additional revenue gained versus campaign costs, with any positive number indicating a successful campaign.

Understanding the Costs and Benefits of Online Marketing Communications

Review

- Understand the key features of the online audience, the basic concepts of consumer behavior and purchasing, and how consumers behave online.
- Key features of the online audience include the number of users online, the intensity and scope of use, demographics and aspects, and community effects.
- Models of consumer behavior attempt to predict or explain what consumers purchase and where, when, how much, and why they buy. Factors that impact buying behavior include cultural, social, and psychological factors.
- There are five stages in the consumer decision process: awareness of need, search for more information, evaluation of alternatives, the actual purchase decision, and post-purchase contact with the firm.

Review

- Identify and describe the basic digital commerce marketing and advertising strategies and tools.
- ***Search engine marketing and advertising*** involve the use of search engines to build and sustain brand as well as to support direct sales of products and services.
- ***Display ads*** include banner ads, rich media, native advertising.
- ***E-mail marketing*** sends e-mail directly to interested users and has proven to be one of the most effective forms of marketing communications.

Review

- ***Affiliate marketing*** is a form of marketing in which a firm pays a commission when visitors to a different website, blog, or social media page click the firm's link on that website or page and visit the firm's website and/ or make a purchase there.
- ***Customer retention techniques*** for strengthening customer relationships include personalization, one-to-one marketing, and customer service (such as FAQs).
- ***Online pricing strategies*** include offering products and services for free, versioning, bundling, and dynamic pricing.

Review

- Identify and describe the main technologies that support online marketing.
- **Web transaction logs**—records that document user activity at a website
- **Tracking files**—various files, like cookies, that follow users and track their behavior as they visit sites across the Web.
- **Databases, data warehouses, data marts, data lakes, data mining, and profiling**—technologies that allow marketers to identify exactly who the online customer is and what they want and then to present the customer with exactly what they want, when they want it, and for the right price.

Review

- **CRM systems**—a repository of customer information that records all of the contacts a customer has with a firm and generates a customer profile that is available to everyone in the firm who has a need to “know the customer.”
- **Effectiveness** cannot be considered without analysis of cost. Typical pricing models for online marketing communications include barter, cost per thousand (CPM), cost per click (CPC), cost per action (CPA).

Reference

