

# [8 key element for a business model](https://assignbuster.com/8-key-element-for-a-business-model/)

E-commerce: business. technology. society. E-commerce E commerce Business. Technology. Society gy y Kenneth C. Laudon Copyright © 2011 Pearson Education, Ltd. Chapter 5 Business Models for E? commerce Copyright © 2007Pearson Education, Ltd. 2011 Pearson Education, Inc. Slide 1-2 E-commerce Business Models Business model d l Set of planned activities designed to result in a  Set of planned activities designed to result in a profit in a marketplace Business plan Describes a firm s business model Describes a firm’s business model

E commerce business model E? commerce business model Uses/leverages unique qualities of Internet and  Web W b Slide 2-3 8 Key Elements of Business Model 1. 2. 3. 4. 5. 6. 7. 8. Value proposition Revenue model Market opportunity Market opportunity Competitive environment Competitive advantage Market strategy Market strategy Organizational Development Management team Slide 2-4 1. Value Proposition Why should the customer buy from you? h h ld h b f ? Successful e? ommerce value  S f l l propositions: Personalization/customization Reduction of product search, price discovery costs Facilitation of transactions by managing product  delivery Slide 2-5 2. Revenue Model How will the firm earn revenue, generate  p profits, and produce a superior return on  p p invested capital? Major types: Advertising revenue model g Subscription revenue model Transaction fee revenue model Transaction fee revenue model Sales revenue model Affiliate revenue model Slide 2-6 3. Market Opportunity What marketspace do you intend to  h k d d serve and what is its size?

Marketspace: Area of actual or potential commercial value  in which company intends to operate in which company intends to operate Realistic market opportunity: Defined by revenue  potential in each market niche in which company hopes to  potential in each market niche in which company hopes to compete Market opportunity typically divided into  M k t t it t i ll di id d i t smaller niches Slide 2-7 4. Competitive Environment Who else occupies your intended  h l d d marketspace? p Other companies selling similar products in the same  marketspace Includes both direct and indirect competitors Influenced by: Influenced by:

Number and size of active competitors Each competitor s market share Each competitor’s market share Competitors’ profitability Competitors pricing Competitors’ pricing Slide 2-8 5. Competitive Advantage Achieved when firm: h d h f Produces superior product  or Produces superior product or Can bring product to market at lower price  than competitors th tit Important concepts: p p Asymmetries First? mover advantage Fi t d t Unfair competitive advantage Leverage Slide 2-9 6. Market Strategy How do you plan to promote your  products or services to attract your  products or services to attract your target audience?

Details how a company intends to enter market and attract customers Best business concepts will fail if not properly  marketed to potential customers k d i l Slide 2-10 7. Organizational Development What types of organizational structures  within the firm are necessary to carry out  within the firm are necessary to carry out the business plan? Describes how firm will organize work Typically divided into functional departments As company grows, hiring moves from generalists to  As company grows hiring moves from generalists to specialists Slide 2-11 8.

Management Team What kinds of experiences and  background are important for the  background are important for the company’s leaders to have? Employees are responsible for making the business model  work Strong management team gives instant credibility to  outside investors Strong management team may not be able to salvage a  weak business model, but should be able to change the  model and redefine the business as it becomes necessary Slide 2-12 Insight on Business Online Grocers: Finding and Executing the Right Model g g Class Discussion Slide 2-13 Categorizing E-commerce Business Models

No one correct way We categorize business models according to: We categorize business models according to: E? commerce sector (B2C, B2B, C2C) Type of e? commerce technology; i. e. m? commerce Type of e commerce technology; i e m commerce Similar business models appear in more than  one sector Some companies use multiple business  Some companies use multiple business models; e. g. eBay Slide 2-14 B2C Business Models: Portal Search plus an integrated package of content  and services Revenue models:  d l Advertising, referral fees, transaction fees, subscriptions g p Variations:

Horizontal / General Vertical / Specialized (Vortal) Vertical / Specialized (Vortal) Pure Search Slide 2-15 Insight on Technology Can Bing Bong Google? Class Discussion Slide 2-16 B2C Models: E-tailer Online version of traditional retailer Revenue model: Sales Variations: Virtual merchant Virtual merchant Bricks? and? clicks Catalog merchant C t l h t Manufacturer? direct Low barriers to entry Slide 2-17 B2C Models: Content Provider Digital content on the Web News, music, video Revenue models:  Revenue models: Subscription; pay per download (micropayment);  advertising; affiliate referral fees Variations:

Content owners Syndication S di i Web aggregators Slide 2-18 B2C Models: Transaction Broker Process online transactions for consumers Primary value proposition—saving time and money Revenue model:  R d l Transaction fees Industries using this model: Financial services Travel services Job placement services Slide 2-19 B2C Models: Market Creator Create digital environment where buyers  and sellers can meet and transact Examples:  Priceline eBay y Revenue model: Transaction fees Revenue model: Transaction fees Slide 2-20 B2C Models: Service Provider Online services e. g. Google: Google Maps, Gmail, etc. Value proposition  Value proposition

Valuable, convenient, time? saving, low? cost alternatives to  traditional service providers t diti l i id Revenue models: Revenue models: Sales of services, subscription fees, advertising, sales of  marketing data marketing data Slide 2-21 B2C Models: Community Provider Provide online environment (social  network) where people with similar  interests can transact, share content, and  , , communicate  E. g. Facebook, MySpace, LinkedIn, Twitter Revenue models: R d l Typically hybrid, combining advertising, subscriptions, sales, transaction fees, affiliate fees Slide 2-22 B2B Business Models Net marketplaces E? istributor E procurement E? procurement Exchange Industry consortium Industry consortium Private industrial network Private industrial network Single firm Industry? wide Industry wide Slide 2-23 B2B Models: E-distributor Version of retail and wholesale store,  , MRO goods and indirect goods Owned by one company seeking to serve  many customers Revenue model: Sales of goods Example: Grainger. com Slide 2-24 B2B Models: E-procurement Creates digital markets where  participants transact for indirect goods B2B service providers, application service providers (ASPs) B2B service providers application service providers (ASPs)

Revenue model: Service fees, supply? chain management, fulfillment  services Example: Ariba Slide 2-25 B2B Models: Exchanges Independently owned vertical digital  p y g marketplace for direct inputs Revenue model: Transaction, commission fees Revenue model Transaction commission fees C eate po e u co pet t o bet ee Create powerful competition between  suppliers Tend to force suppliers into powerful price  T d f li i f l i competition; number of exchanges has  dropped dramatically d dd ll Slide 2-26 B2B Models: Industry Consortia Industry? wned vertical digital marketplace  open to select suppliers More successful than exchanges More successful than exchanges Sponsored by powerful industry players Strengthen traditional purchasing behavior Revenue model: Transaction, commission fees R d l T ti i i f Example: Exostar Example: Exostar Slide 2-27 Private Industrial Networks Designed to coordinate flow of communication  among firms engaged in business together fi di b i h Electronic data interchange (EDI) Single firm networks Most common form  M t f Example: Wal? Mart’s network for suppliers

Industry? wide networks Often evolve out of industry associations  Often evolve out of industry associations Example: Agentrics Slide 2-28 Other E-commerce Business Models Consumer? to? consumer (C2C) eBay, Craigslist Peer? to? peer (P2P) Peer to peer (P2P) The Pirate Bay, Cloudmark M? commerce: Technology platform continues to evolve Technology platform continues to evolve iPhone, smartphones energizing interest in m? commerce  pp apps Slide 2-29 Insight on Society Where R U? Not Here! Class Discussion Slide 2-30 E-commerce Enablers: Gold Rush Model

E? commerce infrastructure companies  p have profited the most: Hardware, software, networking, security E? commerce software systems, payment systems Media solutions, performance enhancement CRM software CRM software Databases Hosting services, etc. Slide 2-31 How Internet & Web Change Business E? commerce changes industry structure  g y by changing: Basis of competition among rivals Barriers to entry y Threat of new substitute products Strength of suppliers Bargaining power of buyers Bargaining power of buyers Slide 2-32 Industry Value Chains

Set of activities performed by suppliers,  manufacturers, transporters, distributors, and  f di ib d retailers that transform raw inputs into final  products and services  Internet reduces cost of information and  Internet reduces cost of information and other transactional costs Leads to greater operational efficiencies,  lowering cost, prices, adding value for  lowering cost prices adding value for customers Slide 2-33 E-commerce & Industry Value Chains Figure 5. 4 Slide 2-34 Firm Value Chains Activities that a firm engages in to create inal products from raw inputs Each step adds value Effect of Internet: Eff fI Increases operational efficiency p y Enables product differentiation Enables precise coordination of steps in chain E bl i di ti f t i h i Slide 2-35 E-commerce & Firm Value Chains Figure 5. 5 Slide 2-36 Firm Value Webs Networked business ecosystem  Uses Internet technology to coordinate the  value chains of business partners l h i fb i Coordinates a firm’s suppliers with its own  C di t fi ’ li ith it production needs using an Internet? based  supply chain management system

Slide 2-37 Internet-Enabled Value Web bl d l b Figure 5. 6 Slide 2-38 Business Strategy Plan for achieving superior long? term  returns on the capital invested in a  business firm  business firm Four Generic Strategies 1. Differentiation  2. Cost 3. Scope 4. 4 Focus Slide 2-39 Chapter 6 E-commerce Marketing Copyright © 2010 Pearson Education, Ltd. 2011 Pearson Education, Inc. Slide 6-40 Netflix N fli Strengthens and Defends Its Brand Class Discussion Slide 6-41 Consumers Online: Internet Audience & Consumer Behavior Around 70% (82 million) U. S. ouseholds have  Around 70% (82 million) U S households have Internet access in 2010 Growth rate has slowed Intensity and scope of use both increasing d f b h Some demographic groups have much higher  Some demographic groups have much higher percentages of online usage than others  Gender, age, ethnicity, community type, income, education Slide 6-42 Consumers Online: Internet Audience & Consumer Behavior Broadband audience vs. dial? up audience Purchasing behavior affected by  neighborhood Lifestyle and sociological impacts Use of Internet by children, teens Use of Internet as substitute for other social activities

Media choices Traditional media competes with Internet for attention Traditional media competes with Internet for attention Slide 6-43 Consumer Behavior Models Study of consumer behavior Social science  Attempts to explain what consumers purchase  Attempts to explain what consumers purchase and where, when, how much and why they buy Consumer behavior models Predict wide range of consumer decisions Predict wide range of consumer decisions Based on background demographic factors and  other intervening, more immediate variables  h i i i di i bl Slide 6-44 General Model of Consumer Behavior Figure 6. Slide 6-45 Background Demographic Factors Culture: Broadest impact Subculture (ethnicity, age, lifestyle, geography) S b lt ( th i it lif t l h ) Social Reference groups Direct  reference groups g p Indirect reference groups Opinion leaders (viral influencers) Lifestyle groups  f l Psychological Psychological profiles Slide 6-46 Online Purchasing Decision Psychographic research Combines demographic and psychological data Combines demographic and psychological data Divides market into groups based on social class, lifestyle,  and/or personality characteristics and/or personality characteristics

Five stages in the consumer decision process: 1. 2. 3. 4. 5. Awareness of need Search for more information Evaluation of alternatives Actual purchase decision Actual purchase decision Post? purchase contact with firm Slide 6-47 Consumer D i i C Decision Process & P Supporting Communications Figure 6. 3 Slide 6-48 Model of Online Consumer Behavior Decision process similar for online and offline  behavior General online behavior model Consumer skills Product characteristics Attitudes toward online purchasing Perceptions about control over Web environment p Web site features

Clickstream behavior: Transaction log for  Clickstream behavior: Transaction log for consumer from search engine to purchase Slide 6-49 Model of Online Consumer Behavior Figure 6. 4 Slide 6-50 Model of Online Consumer Behavior Clickstream factors include: Number of days since last visit Number of days since last visit Speed of clickstream behavior Number of products viewed during last visit b f d i dd i l ii Number of pages viewed Supplying personal information Number of days since last purchase Number of past purchases

Clickstream marketing Clickstream marketing Slide 6-51 Shoppers: Browsers & Buyers Shoppers: 87% of Internet users 72% buyers 72% buyers 16% browsers (purchase offline) One? third offline retail purchases influenced by  O thi d ffli t il h i fl db online activities Online traffic also influenced by offline brands and  shopping pp g E? commerce and traditional commerce are coupled: part of a continuum of consuming behavior part of a continuum of consuming behavior Slide 6-52 Online Shoppers & Buyers Figure 6. 5 Slide 6-53

What Consumers Shop & Buy Online Big ticket items ($500 plus) Travel, computer hardware, consumer electronics Expanding  Consumers more confident in purchasing costlier items Small ticket items ($100 or less) ($ ) Apparel, books, office supplies, software, etc. Sold by first movers on Web Sold by first movers on Web Physically small items High margin items  Broad selection of products available Slide 6-54 What Consumers Buy Online Figure 6. 6 Slide 6-55 Intentional Acts: How Shoppers Find Vendors Online pp Search engines (59%) S h i (59%) Coupon Web sites (29%) Coupon Web sites (29%) Comparison shopping sites (27%) E? ail newsletters (25%) Online shoppers are highly intentional,  looking for specific products, companies,  services Slide 6-56 Table 6. 6 Slide 6-57 Trust, Utility, Opportunism in Online Markets Two most important factors shaping decision  Two most important factors shaping decision to purchase online: Utility:  U ili Better prices, convenience, speed Trust: Asymmetry of information can lead to opportunistic  behavior by sellers Sellers can develop trust by building strong reputations  for honesty, fairness, delivery  Slide 6-58 Basic Marketing Concepts Marketing

Strategies and actions to establish relationship  Strategies and actions to establish relationship with consumer and encourage purchases of  p products and services Addresses competitive situation of industries and  firms Seeks to create unique, highly differentiated  products or services that are produced or supplied  by one trusted firm Unmatchable feature set Avoidance of becoming commodity Slide 6-59 Feature Sets Three levels of product or service 1. Core product e. g. cell phone g p 2. Actual product Characteristics that deliver core benefits Ch t i ti th t d li b fit e. g. wide screen that connects to Internet 3. Augmented product

Additional benefits Basis for building the product’s brand e. g. product warranty Slide 6-60 Feature Set Figure 6. 7 Slide 6-61 Products, Brands & Branding Process Brand: Expectations consumers have when consuming, or  thinking about consuming, a specific product Most important expectations: Quality, reliability,  Most important expectations: Quality reliability consistency, trust, affection, loyalty, reputation Branding: Process of brand creation Branding: Process of brand creation Closed loop marketing Brand strategy Brand equity Brand eq it Slide 6-62 Marketing A ti iti M k ti Activities: From Products to Brands Figure 6. 8

Slide 6-63 STP: Segmenting, Targeting, Positioning Major ways used to segment, target customers 1. 2. 3. 4. 5. 6. Behavioral B h i l Demographic Psychographic h hi Technical Contextual Search Within segment, product is positioned and branded as  a unique, high? value product, especially suited to  q g p p y needs of segment customers Slide 6-64 Are Brands Rational? For consumers, a qualified yes: Brands introduce market efficiency by reducing search and  decision? making costs For business firms, a definite yes: A major source of revenue Lower customer acquisition cost Increased customer retention Successful brand constitutes a long? asting (though not  necessarily permanent) unfair competitive advantage Slide 6-65 Can Brands Survive Internet? Brands & Price Dispersion p Early postulation:  Law of One Price ; end of brands Early postulation: “ Law of One Price”; end of brands Instead: Consumers still pay premium prices for differentiated  products E? commerce firms rely heavily on brands to attract  customers and charge premium prices Substantial price dispersion Large differences in price sensitivity for same product Large differences in price sensitivity for same product “ Library effect” Slide 6-66

Revolution in Internet Marketing Technology Three broad impacts: Scope of marketing communications broadened  Richness of marketing communications increased g Information intensity of marketplace expanded Internet marketing technologies: Internet marketing technologies: Web transaction logs Cookies and Web bugs Cookies and Web bugs Databases, data warehouses, data mining Advertising networks Customer relationship management systems Slide 6-67 Web Transaction Logs

Built into Web server software Record user activity at Web site y Webtrends: Leading log analysis tool Provides much marketing data, especially   Provides much marketing data especially combined with: Registration forms R i i f Shopping cart database Answers questions such as: What are major patterns of interest and purchase? After home page, where do users go first? Second? Slide 6-68 Cookies & Web Bugs Cookies: Small text file Web sites place on visitor’s PC every time  they visit, as specific pages are accessed Provide Web marketers with very quick means of  identifying customer and understanding prior behavior Flash cookies

Web bugs: Tiny (1 pixel) graphics embedded in e mail and Web sites Tiny (1 pixel) graphics embedded in e? mail and Web sites Used to automatically transmit information about user and  page being viewed to monitoring server page being viewed to monitoring server Slide 6-69 Insight on Society g y Every Move You Make, Every Click You Make, We’ll Be Tracking You , g Class Discussion Slide 6-70 Databases Database:  Stores records and attributes Database management system (DBMS):  Software used to create, maintain, and access databases

SQL (Structured Query Language): Industry? standard database query and manipulation language used in  y q y p g g a relational database Relational database: Represents data as two? dimensional tables with records organized in  rows and attributes in columns; data within different tables can be  flexibly related as long as the tables share a common data element flexibly related as long as the tables share a common data element Slide 6-71 Relational Database View of E-commerce Customers Figure 6. 12 Slide 6-72 Data Warehouses & Data Mining Data warehouse:

Collects firm s transactional and customer data in single  Collects firm’s transactional and customer data in single location for offline analysis by marketers and site  managers Data mining: Analytical techniques to find patterns in data, model  Analytical techniques to find patterns in data model behavior of customers, develop customer profiles Query? driven data mining Query driven data mining Model? driven data mining Rule? based data mining l b dd Collaborative filtering Slide 6-73 Data Mining & Personalization Figure 6. 13 Slide 6-74 Insight on Technology

The Long T il Big Hits and Big Misses Th L Tail: Bi Hi d Bi Mi Class Discussion Slide 6-75 Customer Relationship Management ( (CRM) Systems ) y Record all contact that customer has with firm Generates customer profile available to everyone in firm with need to “ know the customer” fi ith d t “ k th t ” Customer profiles can contain: ustomer profiles can contain: Map of the customer’s relationship with the firm Product and usage summary data Demographic and psychographic data Profitability measures Contact history  Contact history Marketing and sales information Slide 6-76

Customer Relationship Management System Figure 6. 14 Slide 6-77 Market Entry Strategies Figure 6. 15 Slide 6-78 Establishing Customer Relationship Advertising Networks Banner advertisements Ad server selects appropriate banner ad based on  Ad server selects appropriate banner ad based on cookies, Web bugs, backend user profile  databases Permission marketing Permission marketing Affiliate marketing g Slide 6-79 How Advertising Network Works e. g. , DoubleClick Figure 6. 16 Slide 6-80 Establishing Customer Relationship (cont’d) Viral marketing

Getting customers to pass along company’s marketing  message to friends, family, and colleagues Blog marketing Using blogs to market goods through commentary and  U i bl k d h h d advertising Social network marketing, social shopping  Mobile marketing Mobile marketing Slide 6-81 Insight on Business Social Network Marketing: Let’s Buy Together Class Discussion Slide 6-82 Establishing Customer Relationship (cont’d) Wisdom of crowds (Surowiecki, 2004) ( , ) Large aggregates produce better estimates and judgments Examples:  E l Prediction markets Folksonomies Social tagging Social tagging

Brand leveraging Slide 6-83 Customer Retention: Strengthening Customer Relationship p Mass marketing Mass marketing Direct marketing Micromarketing  Micromarketing Personalized, one? to? one marketing   Segmenting market on precise and timely understanding of  Segmenting market on precise and timely understanding of individual’s needs Targeting specific marketing messages to these individuals Positioning product vis? a? vis competitors to be truly unique Personalization Can increase consumers sense of control, freedom Can also result in unwanted offers or reduced anonymity Slide 6-84

Mass Market-Personalization Continuum Figure 6. 17 Slide 6-85 Other Customer Retention Marketing Technics Customization Customer co? production Transactive content:  Combine traditional content with dynamic information  tailored to each user’s profile Customer service FAQs Q Real? time customer service chat systems Automated response systems Automated response systems Slide 6-86 Net Pricing Strategies Pricing Integral part of marketing strategy I t l t f k ti t t Traditionally based on:  Fixed cost  Variable costs  Demand curve Price discrimination Price discrimination

Selling products to different people and groups  based on willingness to pay Slide 6-87 Net Pricing Strategies (cont’d) Free and freemium Can be used to build market awareness Versioning Creating multiple versions of product and selling  essentially same product to different market segments  at different prices at different prices Bundling Offers consumers two or more goods for one price Off t d f i Dynamic pricing: Auctions Yield management Slide 6-88 Channel Management Strategies Channels: Different methods by which goods can be distributed and  sold

Channel conflict: When new venue for selling products or services threatens  gp or destroys existing sales venues E. g. online airline/travel services and  traditional offline  travel agencies Some manufacturers are using partnership  gp p model to avoid channel conflict  Slide 6-89 Chapter 7: E-commerce Marketing Communications Chapter 7 E-commerce Advertising Copyright © 2010 Pearson Education, Ltd. 2011 Pearson Education, Inc. Slide 7-90 Video Ads: Shoot, Click, Buy Class Discussion Slide 7-91 Marketing Communications Two main purposes:

Sales – promotional sales communications  Branding – b di B di branding communications i i Online marketing communications Online marketing communications Takes many forms Online ads, e? mail, public relations, Web  sites Slide 7-92 Online Advertising li d i i $25 billion, 15% of all advertising Advantages: Internet is where audience is moving g Ad targeting Greater opportunities for interactivity Greater opportunities for interactivity Disadvantages: Cost versus benefit How to adequately measure results Supply of good venues to display ads Slide 7-93 Online Advertising from 2002-2014 Figure 7. Slide 7-94 Forms of Online Advertisements Display ads Rich media Video ads Search engine advertising Social network, blog, and game advertising Social network blog and game advertising Sponsorships Referrals (affiliate relationship marketing) E? mail marketing g Online catalogs Slide 7-95 Display Ads Banner ads Rectangular box linking to advertiser’s Web site IAB guidelines e. g. Full banner is 468 x 60 pixels, 13K e g Full banner is 468 x 60 pixels 13K Pop? up ads Appear without user calling for them Provoke negative consumer sentiment g Twice as effective as normal banner ads Pop? nder ads: Open beneath browser window Pop under ads: Open beneath browser window Slide 7-96 Rich Media Ads Use Flash, DHTML, Java, JavaScript About 7% of all online advertising expenditures Tend to be more about branding d b b b di Boost brand awareness by 10% Boost brand awareness by 10% IAB standards limit length Interstitials Superstitials Slide 7-97 Video Ads Fastest growing form of online advertisement IAB standards Linear video ad Non? linear video ad In? banner video ad In? text video ad Ad placement Advertising networks Advertising exchanges Banner swapping

Slide 7-98 Search Engine Advertising h i d i i Almost 50% of online ad spending in 2010 Types: Paid inclusion or rank Paid inclusion or rank Inclusion in search results Sponsored link areas p Keyword advertising e. g. Google AdWords e g Google AdWords Network keyword advertising (context  advertising) d ii ) e. g. Google AdSense Slide 7-99 Search Engine Advertising (cont’d) Nearly ideal targeted marketing Nearly ideal targeted marketing Issues:  Disclosure of paid inclusion and placement  practices Click fraud  Ad nonsense  Slide 7-100 Mobile Advertising Half of U. S.

Internet users access Internet  Half of U. S. Internet users access Internet with mobile devices Currently small market, but fastest  growing platform (35%) growing platform (35%) Google and Apple in race to develop  Google and Apple in race to develop mobile advertising platform AdMob, iAd Slide 7-101 Sponsorships & Referrals Sponsorships Paid effort to tie advertiser s name to  Paid effort to tie advertiser’s name to particular information, event, venue in a way  that reinforces brand in positive yet not overtly  that reinforces brand in positive yet not overtly commercial manner Referrals

Affiliate relationship marketing p g Permits firm to put logo or banner ad on  another firm’s Web site from which users of  th fi ’ W b it f hi h f that site can click through to affiliate’s site Slide 7-102 E-mail Marketing & Spam Explosion Direct e? mail marketing  Low cost, primary cost is purchasing addresses Spam: Unsolicited commercial e? mail Spam: Unsolicited commercial e mail Approx. 90% of all e? mail Efforts to control spam: Technology (filtering software)  Government regulation (CAN? SPAM and state laws) Voluntary self? regulation by industries (DMA ) y g y Volunteer efforts Slide 7-103

Percentage of E-mail That Is Spam Figure 7. 6 Slide 7-104 Online Catalogs Equivalent of paper? based catalogs Graphics? intense; use increasing with increase  in broadband use in broadband use Two types: 1. 2. 2 Full? page spreads, e. g. Landsend. com Grid displays, e. g. Amazon Grid displays e g Amazon In general, online and offline catalogs  complement each other Slide 7-105 Social Marketing “ Many? to? many” model Uses digitally enabled networks to spread ads Blog advertising  Blog advertising Online ads related to content of blogs Social network advertising:  Social network advertising:

Ads on MySpace, Facebook, YouTube, etc. Game advertising:  G d ti i Downloadable “ advergames” Placing brand? name products within games Slide 7-106 Insight on Society g y Marketing to Children of the Web in the Age of Social Networks g Class Discussion Slide 7-107 Behavioral Targeting Interest? based advertising Data aggregators develop profiles Data aggregators develop profiles Search engine queries Online browsing history O li b i hi Offline data (income, education, etc. ) d Information sold to 3rd party advertisers, who deliver  ads based on profile Ad exchanges Privacy concerns acy co ce s Consumer resistance Slide 7-108

Mixing Off-line & Online Marketing Communications g Most successful marketing campaigns  M t f l k ti i incorporate both online and offline tactics Offline marketing Drive traffic to Web sites Drive traffic to Web sites Increase awareness and build brand equity Consumer behavior increasingly multi? channel 60% consumers research online before buying offline % y g Slide 7-109 Insight on Business g Are the Very Rich Different From You and Me? Class Discussion Slide 7-110 Online Marketing Metrics: Lexicon Measuring audience size or market share Impressions I i Click? through rate (CTR) View? hrough rate (VTR) Vi th h t (VTR) Hits Page views P i Stickiness (duration) Unique visitors Loyalty Reach Recency Slide 7-111 Online Marketing Metrics (cont’d) Conversion of visitor  Conversion of visitor to customer Acquisition rate q Conversion rate Browse? to? buy? ratio View? to? cart ratio Vi t t ti Cart conversion rate Checkout conversion rate  Checkout conversion rate Abandonment rate Retention rate Attrition rate E mail metrics E? mail metrics Open rate Delivery rate Delivery rate Click? through rate  (e mail) (e? mail) Bounce? back rate Slide 7-112 Online Consumer Purchasing Model

Figure 7. 8 Slide 7-113 How Well Does Online Adv. Work? Ultimately measured by ROI on ad campaign Highest click? through rates: Search engine ads,  Permission e mail campaigns Permission e? mail campaigns Rich media, video interaction rates high Online channels compare favorably with traditional Most powerful marketing campaigns use multiple  Most powerful marketing campaigns use multiple channels, including online, catalog, TV, radio,  newspapers, stores newspapers, stores Slide 7-114 Comparative Returns on Investment Figure 7. 9 Slide 7-115 Costs of Online Advertising Pricing models

Barter Cost per thousand (CPM) Cost per click (CPC)  Cost per action (CPA)  Cost per action (CPA) Online revenues only Sales can be directly correlated Sales can be directly correlated Both  online/offline revenues Offline purchases cannot always be directly related to online  Offli h t l b di tl l t dt li campaign In general, online marketing more expensive on CPM  In general online marketing more expensive on CPM basis, but more effective Slide 7-116 Web Site Activity Analysis b i i i l i Figure 7. 10 Slide 7-117 Insight on Technology It’s 10 P. M. Do You Know Who Is On Your Web Site? Class Discussion Slide 7-118

Web Site … as Marketing Communications Tool g Web site as extended online advertisement W b i d d li d i Domain name: An important role  Domain name: An important role Search engine optimization:  Search engine optimization: Search engines registration Keywords in Web site description K d i W b it d i ti Metatag and page title keywords Links to other sites k h Slide 7-119 Web Site Functionality b i i li Main factors in effectiveness of interface Utility Ease of use Top factors in credibility of Web sites: Top factors in credibility of Web sites: Design look Information design/structure g / Information focus

Organization is important for first time users, but  Organization is important for first? time users but declines in importance Information content becomes major factor attracting Information content becomes major factor attracting  further visits Slide 7-120 Factors in Credibility of Web Sites Figure 7. 11 Slide 7-121 Table 7. 9 Slide 7-122 Chapter 8: Ethical, Social, and Political Issues in E-commerce E commerce Chapter 8 Ethics, Law, E-commerce Copyright © 2010 Pearson Education, Ltd. 2011 Pearson Education, Inc. Slide 8-123 Ethical, Social, Political Issues in E-commerce

Internet, like other technologies, can: Internet like other technologies can: Enable new crimes Affect environment Threaten social values Costs and benefits must be carefully  considered, especially when there are no  id d i ll h h g g clear? cut legal or cultural guidelines Slide 8-124 Model for Organizing Issues Issues raised by Internet and e? commerce can be viewed at individual,  social, and political levels social and political levels Four major categories of issues: Four major categories of issues: Information rights Property rights Property rights Governance Public safety and welfare Slide 8-125

Moral Dimensions of Internet Society M l Di i f I S i Figure 8. 1 Slide 8-126 Basic Ethical Concepts i hi l Ethics Study of principles used to determine right and wrong courses of  action Responsibility p y Accountability Liability Laws permitting individuals to recover damages Due process Laws are known, understood Laws are known understood Ability to appeal to higher authorities to ensure laws applied correctly Slide 8-127 Analyzing Ethical Dilemmas l i hi l il Process for analyzing ethical dilemmas: 1. 2. 3. 3 4. 5. Identify and clearly describe the facts Define the conflict or dilemma and identify the  y higher? rder values involved Identify the stakeholders Identify the stakeholders Identify the options that you can reasonably  take t k Identify the potential consequences of your  options Slide 8-128 Candidate Ethical Principles Golden Rule Universalism Slippery Slope Collective Utilitarian Principle Risk Aversion Ri k A i No Free Lunch The New York Times Test The Social Contract Rule Slide 8-129 Privacy & Information Rights Privacy: Moral right of individuals to be left alone, free  from surveillance or interference from other  individuals or organizations Information privacy p y Subset of privacy Includes:

The claim that certain information should not be  collected at all The claim of individuals to control the use of whatever  h l i f i di id l l h f h information is collected about them Slide 8-130 Privacy & Information Rights (cont. ) Major ethical issue related to e? commerce  and privacy:  d i Under what conditions should we invade the  privacy of others? Major social issue:  j Development of “ expectations of privacy” and  privacy norms privacy norms Major political issue: Development of statutes that govern relations  D l t f t t t th t l ti between recordkeepers and individuals Slide 8-131 Information Collected at E-commerce Sites

Data collected includes Personally identifiable information (PII) Anonymous information Anonymous information Types of data collected yp Name, address, phone, e? mail, social security Bank and credit accounts, gender, age, occupation,  B k d di d i education Preference data, transaction data, clickstream data,  browser type Slide 8-132 Social Networks & Privacy Social networks Encourage sharing personal details Pose unique challenge to maintaining  privacy Facebook s Beacon program Facebook’s Beacon program Facebook s Terms of Service change Facebook’s Terms of Service change Slide 8-133 Profiling & Behavioral Targeting Profiling

Creation of digital images that characterize online individual and  group behavior Anonymous profiles A fil Personal profiles Personal profiles Advertising networks Track consumer and browsing behavior on Web T k db i b h i W b Dynamically adjust what user sees on screen Build and refresh profiles of consumers Google’s AdWords program Slide 8-134 Profiling & Behavioral Targeting (cont’d) Deep packet inspection Business perspective: Web profiling serves consumers and businesses Increases effectiveness of advertising, subsidizing free  content Enables sensing of demand for new products and services Critics perspective:

Undermines expectation of anonymity and privacy Consumers show significant opposition to unregulated  collection of personal information Enables weblining Slide 8-135 Internet & Government Invasions of Privacy Various laws strengthen ability of law enforcement  agencies to monitor Internet users without  i i I ih knowledge and sometimes without judicial oversight CALEA, PATRIOT Act, Cyber Security Enhancement Act,  Homeland Security Act Government agencies are largest users of private  sector commercial data brokers sector commercial data brokers Retention by ISPs of user data a concern Slide 8-136

Legal Protections In U. S. , privacy rights explicitly granted or  derived from Constitution  Constitution First Amendment  – freedom of speech and association Fourth Amendment  – unreasonable search and seizure F th A d t bl h d i Fourteenth Amendment  – due process Specific statutes and regulations (federal and  Specific statutes and regulations (federal and state) Common law Slide 8-137 Informed Consent U. S. firms can gather and redistribute  transaction information without individual’s  i i f i ih i di id l’ informed consent Illegal in Europe Informed consent: Opt? in  Opt out Opt? out Many U. S. ? commerce firms merely publish information  p practices as part of privacy policy without providing for  p p yp y p g any form of informed consent Slide 8-138 FTC’s Fair Information Practices Principles Federal Trade Commission: Federal Trade Commission: Conducts research and recommends legislation to Congress Fair Information Practice Principles (1998): Fair Information Practice Principles (1998): Notice/Awareness (Core) Choice/Consent (Core) Choice/Consent (Core) Access/Participation Security Enforcement Guidelines, not laws Guidelines not laws Slide 8-139 FTC’s Fair Information Practice Principles

Notice/Awareness i / Sites must disclose information practices before collecting data. Includes Sit t di l i f ti ti b f ll ti d t I l d identification of collector, uses of data, other recipients of data, nature of  collection (active/inactive), voluntary or required, consequences of refusal, and  steps taken to protect confidentiality, integrity, and quality of the data Choice/Consent There must be a choice regime in place allowing consumers to choose how  their information will be used for secondary purposes other than supporting  the transaction, including internal use and transfer to third parties.

Opt? in/Opt? out must be available. Consumers should be able to review and contest the accuracy and  completeness of data collected about them in a timely, inexpensive process. Access/Participation ccess/ a c pa o Security y Enforcement Data collectors must take reasonable steps to assure that consumer  information is accurate and secure from unauthorized use. There must be in place a mechanism to enforce FIP principles. This can involve self? regulation, legislation giving consumers legal  remedies for violations, or federal statutes and regulation. di f i l ti f d l t t t d l ti Slide 8-140

FTC Recommendations: Online Profiling Principle p Notice Recommendation Complete transparency to user by providing disclosure and choice options  on the host Web site. “ Robust” notice for PII (time/place of collection;  before collection begins). Clear and conspicuous notice for non PII. before collection begins). Clear and conspicuous notice for non? PII. Opt? in for PII, opt? out for non? PII. No conversion of non? PII to PII without  consent. Opt? out from any or all network advertisers from a single page  consent Opt out from any or all network advertisers from a single page provided by the host Web site.

Reasonable provisions to allow inspection and correction. Reasonable efforts to secure information from loss, misuse, or improper  access. Done by independent third parties, such as seal programs and accounting  Done by independent third parties such as seal programs and accounting firms. medical topics, sexual behavior or sexual orientation, or use Social Security  medical topics sexual behavior or sexual orientation or use Social Security numbers for profiling. Slide 8-141 Choice Access Security Enforcement

Restricted Collection Advertising networks will not collect information about sensitive financial or European Data Protection Directive Privacy protection much stronger in Europe than U. S. European approach:  Comprehensive and regulatory in nature p g y European Commission’s Directive on Data Protection  (1998):  (1998): Standardizes and broadens privacy protection in European Union  countries Department of Commerce safe harbor program: For U. S. firms that wish to comply with Directive Slide 8-142 Private Industry Self-Regulation

Safe harbor programs: Private policy mechanism to meet objectives of  Pi t li h i t t bj ti f government regulations without government involvement e. g. Privacy seal programs e g Privacy seal programs Industry associations include: Online Privacy Alliance (OPA) Network Advertising Initiative (NAI) CLEAR Ad Notice Technical Specifications Privacy advocacy groups Emerging privacy protection business Slide 8-143 Insight on Business Chief Privacy Officers hi f i ffi Class Discussion Slide 8-144 Technological Solutions Spyware, pop? p blockers Cookie managers k Anonymous remailers, surfing Anonymous remailers surfing Platform for Privacy Preferences (P3P):  Comprehensive technological privacy protection standard Works through user s Web browser Works through user’s Web browser Communicates a Web site’s privacy policy Compares site policy to user’s preferences or to other standards  such as FTC’s FIP guidelines or EU’s Data Protection Directive Slide 8-145 How P3P Works k Figure 8. 2(A) Slide 8-146 Insight on Technology The Privacy T Th P i Tug of War: fW Advertisers Vs. Consumers Class Discussion Slide 8-147 Intellectual Property Rights Intellectual property:

Encompasses all tangible and intangible products of human mind Major ethical issue: j How should we treat property that belongs to others? Major social issue: Major social issue: Is there continued value in protecting intellectual property in the  Internet age? Major political issue: How can Internet and e? commerce be regulated or governed to  g g protect intellectual property? Slide 8-148 Intellectual Property Protection Three main types of protection: Copyright Patent Trademark law Trademark law Goal of intellectual property law: Balance two competing interests — public and  B l t ti i t t bli d private

Maintaining this balance of interests is always  M i t i i thi b l fi t t i l challenged by the invention of new  technologies Slide 8-149 Copyright Protects original forms of expression (but not  ideas) from being copied by others for a   ideas) from being copied by others for a period of time Look and feel copyright infringement lawsuits Fair use doctrine Fair use doctrine Digital Millennium Copyright Act, 1998 First major effort to adjust copyright laws to Internet age Implements WIPO treaty that makes it illegal to make,  distribute, or use devices that circumvent technology? ased protections of copyrighted materials Slide 8-150 Patents Grant owner 20? year monopoly on ideas behind an  invention Machines Man? made products p Compositions of matter Processing methods Invention must be new, non? obvious, novel Encourages inventors g Promotes dissemination of new techniques through  licensing Stifles competition by raising barriers to entry Slide 8-151 E-commerce Patents 1998 State Street Bank & Trust v. Signature Financial  Group Business method patents Led to explosion in application for e? commerce “ business  L dt l i i li ti f “ b i methods” patents

Most European patent laws do not recognize  M tE t tl d t i business methods unless based on technology Examples Amazon’s One? click purchasing DoubleClick’s dynamic delivery of online advertising Slide 8-152 Trademarks d k Identify, distinguish goods and indicate their  source Purpose p Ensure  consumer gets what is paid for/expected to receive Protect owner against piracy and misappropriation Infringement Market confusion Bad faith Dilution Behavior that weakens connection between trademark  and product Slide 8-153 Trademarks & Internet Cybersquatting

Anticybersquatting Consumer Protection Act (ACPA) Cyberpiracy Typosquatting Metatagging M i Keywording y g Deep linking Framing Slide 8-154 Governance Primary questions Who will control Internet and e? commerce? What elements will be controlled and how? What elements will be controlled and how? Stages of governance and e? commerce g g Government Control Period (1970–1994) Privatization (1995–1998) Privatization (1995 1998) Self? Regulation (1995–present) Government Regulation (1998–present) Slide 8-155 Who Governs E-commerce & Internet? Mixed mode environment

Self? regulation, through variety of Internet policy  and technical bodies, co exists with limited  and technical bodies co? exists with limited government regulation ICANN : Domain Name System Internet could be easily controlled,  I t t ld b il t ll d monitored, and regulated from a central  location Slide 8-156 Taxation E? commerce taxation illustrates complexity of  governance and jurisdiction issues governance and jurisdiction issues U. S. sales taxed by states and local government MOTO retailing E? commerce benefits from tax “ subsidy” y

October 2007: Congress extends tax moratorium for  an additional seven years an additional seven years Unlikely that comprehensive, integrated rational  approach to taxation issue will be determined for  approach to taxation issue will be determined for some time to come Slide 8-157 Net Neutrality Currently, all Internet traffic treated equally – all activities charged the same rate, no  ll i i i h d h preferential assignment of bandwidth Backbone providers would like to charge  differentiated prices and ration bandwidth 2010, U. S. ppeals court ruled that FCC had no  authority to regulate Internet providers Slide 8-158 Public Safety & Welfare Protection of children and strong  g sentiments against pornography Passing legislation that will survive court  P i l i l ti th t ill i t challenges has proved difficult Efforts to control gambling and restrict  sales of drugs and cigarettes sales of drugs and cigarettes Currently mostly regulated by state law Unlawful Internet Gambling Enforcement Act Slide 8-159 Insight on Society Internet Drug Bazaar Class Discussion Slide 8-160