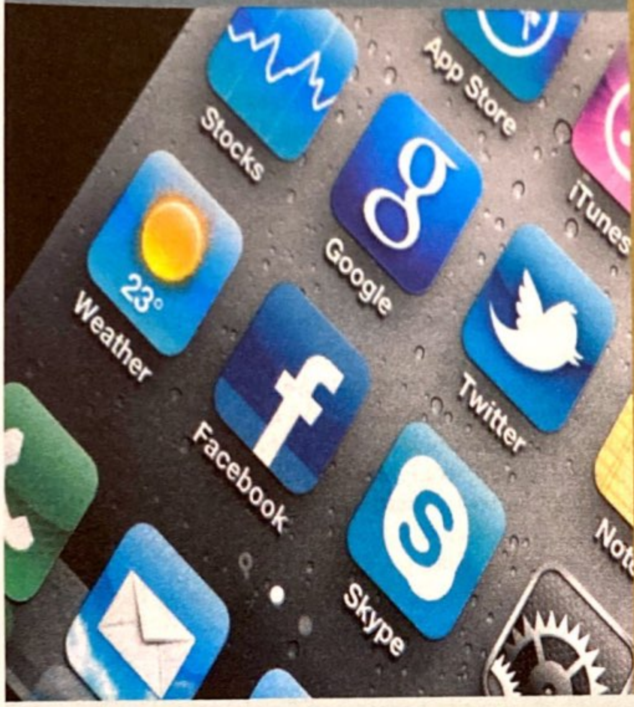
CHAPTER 17

ENGAGING CONSUMERS THROUGH ONLINE MARKETING



OBJECTIVES *After studying this chapter, you will be able to ...*

1 Define Internet marketing and identify benefits of this type of marketing.

2 Explain e-tailing and how it differs from bricks-and-mortar retailing.

3 Understand the characteristics of online shopping through websites and e-tailers.

4 Define search engine marketing and explain its two major types.

5 Explain the role of Internet advertising in Internet marketing.

6 Discuss the various types of social media marketing.

7 Understand the implications of reduced search costs for consumer behavior.

Pinterest Has Captured the Imagination of Millions

For Pinterest users, life is about the "board." Maybe the board is about a woman's dream wedding, favorite recipes, interests in fashion, or just a montage of everything interesting. Pinterest is a social photo-sharing website, organized in a pinboard style. Users browse, sort, save, and upload images, known as pins to themed pinboards. Others' boards can also be viewed and favorite content can be re-pinned across boards. And, the "Pin It" icon is becoming commonplace next to the Facebook and Twitter share buttons that now reside on most websites.

Pinterest has captured the imagination of millions of users, the majority of whom in the United States are women. Launched in 2010, the website has been growing at a tremendous rate. Nine months after the initial launch, the site had over nine thousand users, and *Time* magazine listed it as one of the fifty best websites of the year. By 2013,

Vinod Kurien/Alamy

the site had over forty-eight million unique users, breaking the record of the fastest-growing website by ten million. Today, Pinterest is one of the largest social network services.

How do businesses cash in on Pinterest? Companies take advantage of Pinterest by creating their own themed pinboards, where users can easily search for and see new products displayed for sale, see different uses for products to enhance usage and customer loyalty, and read reviews from other users. Companies also use Pinterest for online referrals, often finding potential customers who show interest in the company. Interestingly, a recent research survey found that Pinterest users are 79% more likely than Facebook users to purchase an item they saw pinned.

For over 11 million users, Pinterest has become a unique way to share visual representations of life. Sharing life is at the heart of social media, and in this chapter we explore how marketers are trying to incorporate this new cultural reality into marketing strategy.[1]

OBJECTIVE 1

The Age of Interactivity and Internet Marketing

As the Pinterest vignette illustrates, the Internet is changing the way firms do business. Companies can communicate with and market to consumers in personal, customized, interactive, and entertaining ways. Further, social digital environments enable marketers to learn more about satisfying consumers' diverse needs and wants more effectively. Search engines such as Google and Yahoo! give consumers access to staggering amounts of information and help people navigate that information effectively. Interactive shopping environments allow consumers to have access to a larger variety of products at reasonable prices. As the number of choice options increases, the potential for making better decisions increases. However, too much information can be overwhelming and confusing. In this chapter, we examine some of the ways in which companies engage consumers in the online environment.

Traditional mass marketing uses tools like television, radio, newspapers, traditional mail, billboards, and magazines to deliver a one-way message to consumers about product benefits. **Internet marketing**, also known as *online marketing*, *web marketing*, and *e-marketing*, is any type of marketing activity that is done via the Internet and/or email. It can include any type of traditional marketing and consumer engagement, such as product design, marketing research, advertising, public relations, buzz marketing, sales, and customer service.

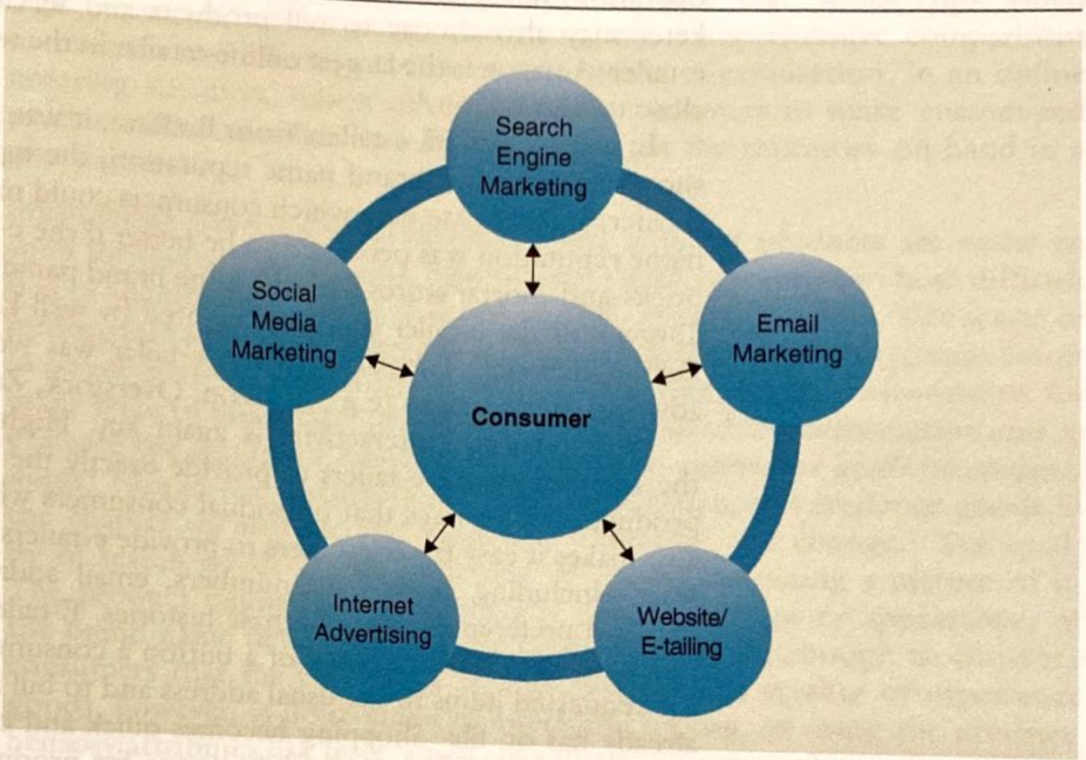
Internet Marketing Provides a Unique Consumer Behavior Environment

At the heart of this type of marketing is interactivity. Internet marketing relies on interactive two-way communications between marketers and consumers with fast response times between communications and high levels of response contingency.[2] This means that one party's response depends on the other party's response, and this helps both parties get the information they need *when* they need it. This creates a unique consumer behavior environment because the consumer has active control over the interaction, rather than being a passive recipient of information. In addition, the marketer can respond quickly to consumer requests (see Figure 17.1).

In addition to the interactive nature of Internet marketing, there are other benefits to engaging consumers through this type of marketing. Companies can approach and engage consumers one-on-one with personal, customized information. This allows the marketer to appeal to an individual's specific interests or behaviors, taking segmentation, targeting, and positioning down to the individual level.

Furthermore, Internet marketing may be less expensive than a traditional mass marketing campaign, on a per contact basis, because it is often reaching the consumer *when* they are interested, such as when they are doing a keyword search on a search engine or seeking out information on a company website. Thus, a company can reach a large Internet audience with a smaller overall budget. In addition, with organic word-of-mouth, online referral, and social

FIGURE 17.1 | **Types of Interactive Internet Marketing**



networking, a marketer may even reach consumers at no cost. One Facebook or Twitter post about a brand can reach hundreds or even thousands of people. (Recall the advantages of word-of-mouth discussed in the previous chapter.)

Finally, Internet marketing provides the advantage of easy and quick feedback analytics. Most Internet marketing efforts can be measured, traced, and tracked—often more easily than traditional marketing campaigns—due to the inherent technology in place. For example, a company can easily track the number of times an Internet ad is clicked on or count the number of visitors to a website.

There is a multitude of ways that Internet marketers are engaging consumers today. While we don't have space to discuss every Internet marketing tactic, broad types of Internet marketing include website marketing and e-tailing, search engine marketing, Internet advertising, and social media marketing. First, we will discuss website marketing and e-tailing.

OBJECTIVE 2

Website Marketing and E-tailing

E-tailing (electronic retailing) is a form of commerce where consumers buy products and services directly over the Internet. A company may operate its own proprietary website where all sales are made, or which supplements and complements a physical bricks-and-mortar retail operation. For example, on Target.com customers can purchase merchandise directly, but can also search for store locations, see if a product is available at a local store, and arrange for in-store pickup of merchandise purchased online. When a retailer's website and online retailing efforts seamlessly complement its bricks-and-mortar operation, this is sometimes called *360-degree retailing.* Alternatively, a marketer may also choose to sell products and services through a third-party e-tailer. Amazon is the largest online retailer in the world, with annual revenues close to $50 billion.[3]

In a study of 755 e-tailers from BizRate, it was found that online business success depends on brand name reputation, the type of products sold by the e-tailer, and the ease with which consumers could navigate the website.[4] Brand name reputation was perceived to be better if the e-tailer also had well-known bricks-and-mortar stores with the same brand name (e.g., JCPenney, Walmart, Target), or the e-tailer sites were created by well-known manufacturers (e.g., Dell, Whirlpool, Timex), or if the e-tailer was well-known due to national advertising campaigns (e.g., Amazon, Overstock, Zappos).

With e-tailing, interactivity is again key. High levels of interactivity on the Internet enable e-tailers to provide exactly the type of information about products and services that individual consumers wish to receive. Interactivity also makes it easy for consumers to provide e-tailers with the information they want—including credit card numbers, email addresses, shipping addresses, personal preferences, and purchase histories. E-tailers also try to make repeat purchase easy. With the click of a button a consumer can tell e-tailers to ship the requested items to the usual address and to bill a credit card that he or she already has on file. Shopping becomes quick and easy. A consumer can shop from his or her home or mobile device for products from anywhere in the world without driving to a traditional bricks-and-mortar retail store, struggling to find a parking spot, or waiting in line.

In addition to making shopping easy, the online environment makes shopping fun, at least for some consumers. People are having the most fun when they are in a state of **flow**.[5] Flow is experienced when people perform an activity skillfully with little thought or effort. Golfers and other athletes often talk about being in the "zone," or performing extremely well without thinking. Birdies, touchdowns, and home runs just seem to come naturally, without a great deal of effort. Athletes sometimes say that golf balls, footballs, or baseballs seem to pop right out at them when they're in a state of flow, and targets look huge when they're in the "zone." Similarly, when consumers navigate through a well-designed website, shopping becomes automatic, effortless, and fun.

OBJECTIVE 3

Characteristics of Shopping Through E-tailers

Choice and Customization The biggest difference between online stores (electronic stores on the Internet) and bricks-and-mortar stores (physical stores found in shopping plazas, shopping malls, etc.) is that online stores often offer greater choice and greater information customization and product customization.[6] Online stores have virtually unlimited inventory because they enable consumers to shop for products across stores, across state lines, and even across international borders. Online stores also permit greater customization of sales information because sellers can provide as much information as they wish, including product samples (e.g., music clips, video clips), comments from other customers, and comprehensive comparisons to competitors' offerings. In terms of product customization, in an online ordering situation, sellers can often allow customers to make customized product choices, rather than having to rely on the inventory on-hand in a physical store.

Information Search and Navigation Some types of products are easier to shop for online than others. *Information search costs* refers to how difficult it is to acquire information in terms of time, money, or effort. The scope of information search is greater and information search costs are typically lower in online environments than in offline, bricks-and-mortar environments for many types of products. Specifically, it is easier to obtain information and to evaluate the quality of *search goods*, relative to *experience goods* or *credence goods*.[7] (Recall our discussion of search, experience, and credence goods in the chapter on attitude and judgment formation and change.) The quality of search goods can be examined by simply examining a picture of it. The product might have a particularly effective design or appearance, or the brand name or the price of the product might be enough to convince consumers that the product is of high quality. The quality of experience goods, however, is determined by touching, feeling, or using the product. Sensory attributes like taste, smell, and touch determine the quality of experience goods. The quality of credence goods is even more difficult to judge, because quality depends on years of experience and use. Attributes like reliability and durability determine the quality of credence goods. E-tailers are more successful if they primarily sell search goods, rather than experience goods or credence goods.

Some creative e-tailers, like Lands' End, have tried to make it easier to shop online for experience goods (in this case, clothes) by providing detailed descriptions of experience and credence attributes, and by showing color pictures accompanied by information about stitching and construction

Courtesy of Lands' End

E-tailers try to make it easier to shop for experience goods by providing detailed descriptions and pictures.

materials. Lands' End also uses a risk-free return policy to build trust and to assure consumers that its products are of high quality.

Navigation ease depends on ease of ordering, ease of payment, delivery methods, security, and the ease with which consumers can contact service representatives. Consumers prefer many different ordering methods (e.g., online, email, phone, fax), many different payment methods (e.g., credit and debit cards, personal check, PayPal), and many different delivery methods (e.g., USPS, UPS, overnight shipping, two-day shipping).

Organization of Information The design of a website also influences whether consumers are more likely to use a ***compensatory decision-making strategy*** or a ***non-compensatory decision-making strategy.*** (Recall our discussion of these strategies in the chapter on the decision-making process.) When consumers use a compensatory strategy, they make trade-offs between attributes—this enables a good attribute to compensate for, or at least reduce concerns about, a bad attribute. When consumers use a non-compensatory strategy, they do not make trade-offs across attributes, and a bad attribute usually leads to the rejection of an alternative. Unfortunately, even an alternative that is very good overall can be rejected if that alternative has one bad attribute. Consumers often make better decisions if they use a compensatory strategy rather than a non-compensatory strategy, and consumers are more likely to use a compensatory strategy if a website is organized by options rather than by attributes.[8]

When a website is organized by options, consumers are also likely to click on more options and consider a broader range of alternatives, and this also increases the quality of a decision. Consumers also click on more options when the attributes are negatively correlated, because negatively correlated attributes encourage consumers to attempt to make trade-offs between attributes. For example, e-tailers like Dell provide laptop shoppers with a "customize and buy" option. Consumers click a series of options, beginning with components (processor, memory, hard-drive, graphics card, and display) and ending with accessories (e.g., mouse, keyboard, carrying case). Consumers can easily see the trade-offs between two, negatively correlated attributes such as processing speed and price; a consumer can get a faster computer but will pay more. Thus, organizing the product by customized options encourages trade-offs and a compensatory strategy. In contrast, if Dell organized its laptop offerings by attribute only (e.g., by processor), consumers would be forced to evaluate models across this attribute. This presentation would discourage consumers from making trade-offs within each alternative and encourage non-compensatory decision-making. Consumers would tend to look at each brand in isolation and reject those brands that failed to satisfy a specific criterion.

As noted earlier, e-tailers are more successful if they have bricks-and-mortar or offline stores as well as online stores (e.g., Sears.com and Sears). If an e-tailer does not have an offline store, managers should consider building an alliance or a partnership with an offline store. Research on online–offline brand alliances shows that such alliances encourage consumers to form assimilation effects between online and offline brands.[9] This means that as online brand quality increases, consumers' perceptions of the

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Courtesy of Target.com

E-tailers are more successful if they have bricks-and-mortar or offline stores as well as online stores.

quality of offline brands also increase, and vice versa. Similarly, if online brand quality decreases, consumers' perceptions of the quality of offline brands decrease, and vice versa. Hence, if an alliance or a partnership is formed, it is important to choose a partner that is well known for selling high-quality brands.

A large part of website marketing and e-tailing is driving business to the site. One major way in which this is done is with search engines, which we will examine next.

Ethics

From fake purses and shoes to imitation drugs, counterfeit products sold over the Internet are a persistent and growing problem. Product counterfeits and piracy cost U.S. businesses over $200 billion a year, and some research suggests that approximately 25% of all products sold on the Internet are counterfeit.

While counterfeit designer purses and watches are costly, counterfeit pharmaceuticals are dangerous. Fake medicines have drastically increased over the last few years, and some research shows that 90% of fake drugs are sold over the Internet at some point in time. These illegal drug sellers often don't have physical addresses, which makes them more difficult to track down. This illegal trade costs pharmaceutical companies millions of dollars each year and potentially endangers the lives of consumers. Some of the most commonly copied drugs include Pfizer's Viagra, Eli Lilly's Cialis, and Adderall. And unfortunately, it has become increasingly difficult to tell real drugs from counterfeits.[10]

OBJECTIVE 4

Search Engine Marketing (SEM)

Search engine marketing (SEM) is a type of Internet marketing that is designed to promote a website and drive consumers to the site by having the website link appear in search engine results pages. As the Web grew in the 1990s, online search engines started appearing to help people locate and navigate information. With the emergence of search engines such as Google, Yahoo!, Bing, and Ask, search engine marketing has become an integral part of most Internet marketing strategies. Thus, this industry is large and growing. According to industry experts, search engine marketing is close to being a $20 billion yearly industry and is growing over 10% per year. And, not surprisingly, Google dominates this market with the majority of marketers, both in business-to-business and business-to-consumer markets.[11] Yahoo! and Bing (both powered by Microsoft through an alliance) are also very large players in this market.

There are two broad types of search engine marketing, *search engine optimization* (SEO; also known as natural or organic search) and *paid search marketing*, and research generally shows that companies tend to engage more in the former than the latter.[12] Social media marketing and Internet advertising are also closely tied to this type of marketing and are often included in discussions of search engine marketing. We will discuss these topics later in the chapter.

Search engine optimization is the practice of making adjustments, modifications, and rewrites to a website in order to achieve a higher natural ranking in organic search engine results pages. To understand search engine optimization, it is important to understand how search engines work. When a person does a search, let's say in Google, a results page is shown. On this page, there are results that come up naturally or organically that relate to the person's search. This information is generally available on the Web and is accessed by Google to help a person find what they are looking for. There are also search results that appear on the page for which a sponsoring company has paid. Finally, there are also usually paid advertisements that appear on the results page. Search engine optimization influences only organic search results, not paid results. In order to improve search engine optimization, a company might

Search engine marketing includes both search engine optimization to improve natural search results and paid inclusion in search results.

Courtesy of Google

give its website a unique, descriptive title, improve description tags within the website, make the website easier to navigate by adding categories, and add images and quality content to the website. All of these factors can influence organic search engine results.

Paid search marketing is where a company will pay to be included in the results page of a search engine. (Specific variations or types of paid search strategies depend on the proprietary search engine and may include *pay-per-click*, *cost-per-click*, *contextual ads*, or *sponsored listings*.) Under a pay search marketing arrangement, a company may pay a fee to be included in the search results page and/or pay to appear near the top of the results list. The company might pay a sponsoring fee for a determined period of time or a flat fee for an *x*-number of appearances in the results list. Alternatively, a company may pay-per-click where the fee is paid when the searcher clicks the link or advertisement and is directed to a website. Similar to an advertisement in a traditional newspaper, these types of search ads often, although not always, appear alongside, but separate from the organic search content. Notably, Google requires that paid search results are labeled and separated from organic search content.

Generally, search engine marketing is beneficial to both marketers and consumers. It allows for more customized and targeted marketing efforts because the marketer can reach consumers with specific information they are seeking, and consumers get information that is highly relevant to them. And, as technology evolves, this customized targeting will continue to refine. For instance, Google now offers behavioral targeting to its AdWords clients, which involves customizing search engine results pages based on a searcher's previous browsing and web activity.

Finally, search engine marketing is tied closely to the emergence of mobile device Internet capabilities. (See the discussion of mobile marketing in the previous chapter on contemporary strategies.) Many search engine marketers see this trend as having a large future impact on the effectiveness of search marketing tactics as consumers can make their searches mobile and even more convenient.

OBJECTIVE 5

Internet Advertising

A natural complement to search engine marketing in driving consumers to a marketer's website is Internet advertising. Internet advertising is one of the oldest forms of Internet marketing. Just as with search engines, in the mid-1990s as the Web really began to grow, **content websites**—websites that function to collect stories, helpful information, commentary, video, and images for people to view (as opposed to e-tailing websites)—began running banner advertisements in order to generate revenue.

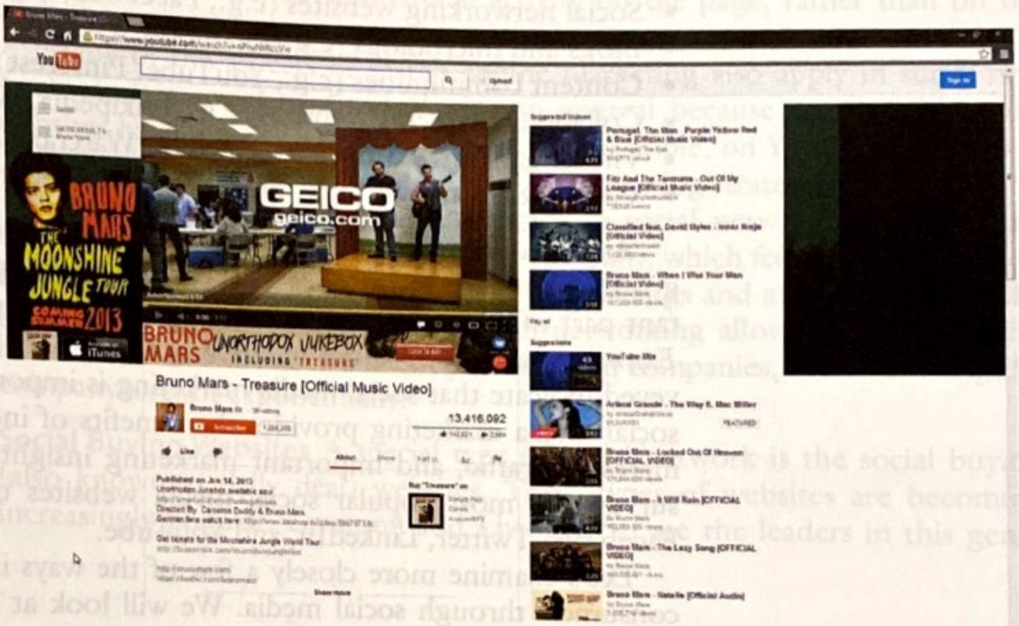
As most people know, *banner ads* are the strip-like ads that run across the top of a website page. Back when these types of advertisements were new, websites could charge fees of $30–$100 per 1,000 impressions for these ads. In fact, this lucrative model helped fuel the growth of the Internet boom of the early 2000s.[13] However, marketers eventually realized that most people ignored these advertisements; there were too many of them across the Web, and they weren't effective in driving people to click through to a website. As a result, prices dropped significantly. Today, typical costs for a generic banner ad range from around ten cents to one dollar per thousand impressions, unless the website is extremely popular or serves a very specific niche market. For example, Facebook charges around fifty cents per thousand impressions for a banner ad. Furthermore, the typical click-through rate on banner ads is quite low, with .1% (1 click-through per 1,000) serving as the industry standard. Of course, adding a smart targeting strategy for a banner ad, such as putting a golf shoe ad on a golfing website like PGA.com, can help improve the click-through rate.

In addition to banner ads, several other types of advertising formats are used on the Internet. Here are some examples of the most common types:

- **Skyscraper Ads:** A *skyscraper ad* (also known as a sidebar ad) is like a banner ad but runs vertically down the side of a website page, rather than across the top. These ads actually tend to be more effective than traditional banner ads because they are larger and harder to ignore with scrolling. Skyscraper ads have a click-through rate of about 1% (10 clicks per 1,000 impressions), and thus are also more expensive than regular banner ads.[14]
- **Pop-ups, Pop-Unders, and Floating Ads:** A *pop-up ad* appears in its own window when a website page is opened, obscuring the overall website. A *pop-under ad* appears under the website content and is seen when the user closes a window. A *floating ad* appears when the user loads a website and then it flies over the page. These ads are actually quite effective at grabbing consumers' attention, and often have higher click-through rates than banner ads because they are animated, cover up content, and cannot be ignored. However, these types of ads tend to significantly annoy users because they cover up content and must be moved or closed to proceed. As a result, users often implement ad-blocking software to avoid these types of ads. Thus, the use of these types of ads has decreased over the last few years.
- **Interstitial and Superstitial Ads:** An *interstitial ad* is a full-page or pop-up, graphic, animated, or video ad that appears on the screen before a user proceeds on to the intended web page. They run between website pages as

pages load. A ***superstitial ad*** is the same except it uses a "polite" delivery system, which means it loads in the background and then plays as the user moves to the next web page.

- **Video and In-stream Ads:** A ***video ad*** is any type of ad that uses moving video. ***In-stream ads*** display a television-like video advertisement before, during, or after other video content, as is typical on websites like YouTube.



Internet ads can be targeted toward a more direct customer base.

Courtesy of YouTube

Generally, Internet advertising is attractive to marketers because it can be done with a relatively small overall budget. It also transcends geographic and time barriers that restrict traditional mass media advertising. The main benefit to consumers is that a person can control whether they view, read, and/or click on the ads.

Search engine marketing and Internet advertising are well established genres in the Internet marketing areas. Now we will discuss the most diverse and fast-growing area of Internet marketing: social media marketing.

OBJECTIVE 6

Social Media Marketing

Social media marketing is a type of Internet marketing that uses social media to achieve some marketing goal. This type of marketing is closely tied to word-of-mouth, as the goal of social media marketing is often to attract consumer attention, initiate conversations with consumers, better understand consumer preferences, and generate positive buzz. Before delving into how marketers engage in social media, it is helpful to define what social media is and its scope.

What Is Social Media?

Social media is any online media environment that allows for the creation and exchange of user generated content. At the heart of social media are engagement, sharing, and collaboration among users.

There are many forms of social media, and there really are no "rules" for what classifies as social media. Users who engage in social media might interact with online technologies such as wall-posting, emailing, instant messaging, music-sharing, video-sharing, photo-sharing, pinning, liking, blogging, and crowd sourcing. Generally, the following types of online media are considered classifications or forms of social media:

- Social networking websites (e.g., Facebook, MySpace, LinkedIn)
- Blogs and microblogs (e.g., Gizmodo, Twitter)
- Content communities (e.g., YouTube, Pinterest)
- Collaborative media websites (e.g., Wikipedia, Wikia)
- Virtual gaming worlds (e.g., World of Warcraft, Minecraft)
- Virtual social worlds (e.g., Planet Calypso, Second Life, IMVU[15])

As stated, social media marketing uses social media to achieve marketing goals. This genre of Internet marketing is growing and becoming an important part of marketing strategy. According to a survey done by *Social Media Examiner*, an online social media magazine, over 80% of the marketers surveyed indicate that social media marketing is important to their business, and social media marketing provides the benefits of increased business exposure, increased traffic, and important marketing insights.[16] Also according to the survey, the most popular social media websites used by marketers include Facebook, Twitter, LinkedIn, and YouTube.

Let's examine more closely a few of the ways in which marketers engage consumers through social media. We will look at social networks and social buying websites, blogging and microblogging, and viral marketing on the Internet through content communities.

Social Networks

Social media, and social networking specifically, has a longer history than one might expect, dating back to the late 1970s when university professors at Duke and University of North Carolina exchanged information over an electronic bulletin board called Usenet.[17] Like most of the Web, social networking took off in the 1990s with the launch of Geocities, one of the first social networking websites. AOL's instant messaging system was also launched in 1997. Friendster, an example of today's typical social networking website where friends connect and communicate online, was launched in 2002, followed by MySpace in 2003, and Facebook in 2004. In just a few years, in 2008, Facebook surpassed MySpace as the most popular social networking website on the planet.[18]

So how does a marketer actually use social networking websites to market products and services? That's a difficult question, of course, because it depends on the website itself. Generally, however, companies engage in social networking in the same ways in which individuals do. For example, many companies and brands have Facebook pages, and they work hard to put interesting content on their page in order to attract fans and generate consumers' "liking" their page. Companies also engage users with advertising within the social networking websites. Interestingly, Facebook, which claims to have about 40% of all online banner ads, has click-through rates that are actually well below industry standards at .051%—despite the sites' huge popularity.[19] Nevertheless, advertisers are still attracted to Facebook because of the website's ability to specifically segment and target key audiences. On a site like Facebook, marketers are often more concerned about making sure the right audiences are seeing the ads, and with driving the "likes" and overall activity on the page, rather than on the click-through rate.

Many of the aspects of search engine marketing also apply in social networks and in social media marketing in general because most social media websites have search engine capabilities. For example, on YouTube, marketers can engage in pay-per-view and priority/first-viewing strategies.

When products and companies engage in social networking, people can more naturally interact with the product company, which feels personal to users and which may increase loyalty and positive feelings and attitudes toward the product or company. In addition, social networking allows users to pass on information and comments about products and companies, thus extending the company's reach exponentially.

Social Buying Websites A special type of social network is the social buying (also known as daily deal) websites. These types of websites are becoming increasingly popular. Groupon and LivingSocial are the leaders in this genre

Global Perspectives

Facebook is Bigger Worldwide

We all know Facebook is huge, with nearly a billion users. The social networking website, which was launched out of a Harvard University dorm room in 2004 by Mark Zuckerberg and his fellow students, is now the standard in what social networking means.

But what isn't so well known about Facebook is that about 80% of Facebook users come from outside the United States and Canada. In addition, Facebook has been translated into over 100 different languages and has a presence in over 200 countries. Brazil, India, and Indonesia are top Facebook countries, with over 40 million users in each country. Mexico, the United Kingdom, and Turkey each have over 30 million users. In India, Facebook has become synonymous with the Internet, and has taken over the social networking market previously held by Orkut, a Google-owned Indian social networking website. Interestingly, Facebook is not in China, possibly due to concerns over governmental restrictions. With the massive penetration Facebook has in global markets, it's not surprising that the social networking site has been credited with playing a central role in political and social uprisings around the world, including uprisings in North Africa, Egypt, Tunisia, and Libya. Facebook's ability to provide instantaneous communication from anywhere by anyone may explain the key role of social media in these world events.[20]

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of social media. Some research shows that 60% of all online shoppers subscribe to a daily deal website.[21] Social buying website users tend to be younger, more educated, and more affluent than typical online users, and these websites tend to be more popular with females.[22] Social buying websites draw on the idea of consumers' desires to purchase locally and be budget conscious.

Blogs and Microblogs

Weblogs, or **blogs** for short, are frequently updated web journals that provide information in the form of "posts" about products, services, politics, or just about anything. Similar to an online diary, entries or posts are typically placed in the blog in reverse chronological order (the newest entries appear at the top of the web page) and may include text, pictures, video, and links to other websites. In addition, most blogs are interactive in some way, allowing viewers to make comments or send messages. Historically, blogs were created and maintained by a single entity, although today multi-authored blogs are quite common.

Although blogs have been around nearly as long as the Web has, they became tremendously popular during the 2004 presidential election, when politicians began using blogs for voter outreach and blogs became a legitimate news source. Today, there are over 150 million blogs worldwide covering a wide range of topics. The collective online community of blogs is called the *blogosphere*. Many companies have learned that blogs are useful tools for reaching consumers, often in unique ways. For example, Starbucks uses its blog as an idea-generating website and to highlight its community outreach programs. Customers post ideas for new food and drink items, new packaging, and new store locations. General Electric's blog has entertaining stories about energy, people, and communities.

Marketing in Action

LivingSocial

LivingSocial is an online social buying network. The online source (www.livingsocial.com) helps consumers find local experiences and deals. For example, in Chicago the website might offer a 50% discount on baseball tickets; in Boston there may be an offer for 90% off a haircut. According to the LivingSocial website, "We inspire our members to find, share, and enjoy the best of their neighborhoods by connecting them with handpicked local businesses."

How does LivingSocial offer discounts? It uses the purchasing power of many consumers—in order to receive a discount, a minimum number of people have to sign up for the deal. Users sign up, pick a deal, and then if it "hits" the minimum number of buyers, you get the deal.

LivingSocial's products include providing members with price deals for local merchants; distinctive travel packages for local, regional, and global travelers; social packages for members to meet one another and socialize; packaged family activities; resource information for take-out delivery from local restaurants; and offers on high-end dining experiences. With millions of customers in more than 22 countries, many consumers have discovered the benefits of LivingSocial.

Many companies have learned that blogs are useful tools for reaching consumers, often in unique ways.

Courtesy of Starbucks

Microblogging A microblog is a special type of blog. **Microblogs** are characterized by shorter posts, sometimes called *microposts.* Twitter is the most famous microblogging social news stream blog today. First started as a way for friends to keep tabs on one another, Twitter has since become a powerful vehicle for marketing. Companies can post up-to-the-minute updates to followers and talk to customers one-on-one.

Viral Marketing on the Internet with Video

Viral marketing involves the Internet in order to facilitate the spread of word-of-mouth and spark buzz. (Recall our previous discussion of buzz marketing.) Marketers can try to spark a "virus" on the Internet in a variety of ways, but one of the most common tactics is the use of video marketing. Videos draw large audiences and spark talk about the brand and the video, thanks to video sharing websites such as YouTube. YouTube uploads about 30,000 hours of footage every day! In addition, research shows that YouTube and other types of video marketing are the fastest-growing form of social media marketing.[23] For example, T-Mobile, as part of their "Life's for Sharing" campaign, placed a viral video link on YouTube called "The T-Mobile Dance," which showed a large group of people doing a seemingly impromptu dance routine in a London train station. At the end of the video, the T-Mobile logo is flashed on the screen; the video also has a link to the T-Mobile website. By midsummer 2013, the video had been viewed more than 38 million times.

If a company wants to use videos to engage in viral marketing, it can create its own content, such as the T-Mobile dance described above, or it can link promotions to content that already exists. YouTube, which is part of Google, has a sophisticated user marketing program that allows customers to select videos and attach pop-up type ads to them or to run video ads before or after content. With this system, marketers can precisely target the type of viewers most likely to view the content.

Social media marketing is a quickly changing and evolving form of Internet marketing. Like all forms of Internet marketing, companies that engage consumers in this way must deal with the reality that the ways in which consumers search for information and shop are different in online environments than in offline environments. Next, we will examine the implications of reduced search costs for information.

OBJECTIVE 7

The Implications of Reduced Search Costs for Information

Typically, consumers find it is easier to acquire information about products and services by using the click of a button on the Internet than by using phone calls and customer visits to several different bricks-and-mortar stores. Of course, so much information is available on the Internet that consumers can also become confused or overwhelmed. Consumers behave as limited information processors and are only able to consider about seven pieces of information at a time.

One way consumers deal with this problem is by eliminating options that do not meet their requirements in the first stage of the decision-making process, and then by evaluating the remaining options more carefully in the second stage of the decision-making process. In an online environment, consumers can leverage technology to make this easier. Consumers have the option of using interactive decision aids (or smart agents or bots) that make it easier to eliminate options in the first stage and to evaluate options in the second stage.[24] A **recommendation agent** is an interactive decision aid that helps consumers to eliminate options by using information about their personal preferences or about their prior purchase histories. Amazon, for example, uses the latter approach. A **comparison matrix** is an interactive decision aid that helps consumers to evaluate options by providing a brand-by-attribute matrix that makes it easy for consumers to compare options. Research shows that both types of interactive decision aids improve the quality of consumers' decisions by helping them to manage large amounts of information more effectively.

Because it is easier to search for information in online environments than in offline environments, as mentioned earlier in the chapter, search costs are lower in online environments. Accordingly, consumers tend to search for more information in online environments. Consumers also search for more information when the purchase decision is important and consequential[25] or when they feel highly uncertain about which product or brand they should purchase.[26]

Prior knowledge also influences information search.[27] Novices, or consumers who are unfamiliar with a particular product category, tend to search for little information, even in online environments, because they don't know how to interpret or how to use this information. For example, if you don't know anything about a complex product like plasma TVs, learning that a particular model has a resolution of 1080p doesn't help you to evaluate this product. Moderately knowledgeable consumers tend to search for a lot more information because they know how to interpret and how to use this information. Surprisingly, experts or highly knowledgeable consumers tend to search for relatively little information because they often feel confident that they already know everything they need to know to make an informed choice. Hence, there's an inverse-U shaped relationship between prior knowledge and search, with the greatest amount of search occurring for moderately knowledgeable consumers.

As has been previously stated, search costs are much higher in offline environments than in online environments. It takes planning, time, physical energy, and mental energy to visit many different offline stores and to compare many different brands on many different attributes. Consequently, consumers often search for relatively little information, even in a single offline store. For example, the typical grocery shopper spends only 12 seconds per decision, and many shoppers (41%) don't even bother to check the price of the products they purchased.[28] Comparing prices takes time and energy, even when brands are located right next to each other on the same shelf.

Conversely, search costs are much lower on the Internet. With the click of a button, consumers can scan the prices and features of hundreds of products quickly and easily by using interactive decision aids such as those provided by Nextag, Bizrate, Shopzilla, and other websites. When it is easy to compare prices for a product carried by many different retailers, cost transparency increases.[29] That is, a seller's costs become more obvious to buyers, and buyers can use this information to determine if a price is fair. Manufacturers and retailers are concerned about cost transparency because it decreases their ability to charge high prices and earn high margins.

Cost transparency can potentially turn brands into commodities, subsequently reducing brand loyalty. Brokerage firms that rely more on an online presence (e.g., E*TRADE) provide nearly the same products and services as traditional brokers for much lower fees. If a product or service is perceived as pretty much the same no matter who offers it, why not buy the least expensive option? Economists refer to this industry structure as perfect or "pure" competition because there is little to differentiate the brands and firms become "price takers," i.e., they must sell at the going rate.

Of course, price information is not the only type of information available on the Internet. The Internet also offers vast amounts of information about product quality and product reliability. The Internet, particularly social media, is dramatically reducing search costs for many different types of information, as we discussed earlier in the chapter.

Research on traditional advertising has shown that price advertising—or advertising that compares prices across brands—increases price sensitivity and encourages consumers to purchase the less expensive brand.[30] However, differentiating advertising—or advertising that compares specific features and benefits across brands—decreases price sensitivity and encourages consumers to purchase the higher quality brand.[31]

Similar results have been found for Internet advertising.[32] In a highly influential experiment, mock web pages were created by systematically varying the design of a web page similar to the real Wine.com web page. Specifically, price comparability (high or low), quality comparability (high or low), and store comparability (high or low) were manipulated independently, and graduate students and university staff were randomly assigned to conditions. In high-price comparability conditions, price information was presented on the first page and a tool that sorted wines by price was also provided. In low-price comparability conditions, consumers had to click on a brand name to find its price and no sorting tool was provided. In high-quality comparability conditions, wines could be sorted by grape (e.g., Chardonnay, Cabernet Sauvignon) and detailed information about quality was provided (e.g., complexity, acidity, body, dryness). In low-quality comparability conditions, consumers had to click on a brand name to obtain information about the grape and the quality of the wine. In high-store comparability conditions, a split screen was used so that consumers could easily compare two stores (e.g., Dionysus and Jubilee). In low-store comparability conditions, consumers could only visit one store at a time.

The results show that price sensitivity is lower when quality comparability is high rather than low. When it is easy to compare brands in terms of quality, the effects of price on choice decrease. Furthermore, when one store offered brands not offered by the other store, store comparability had no effect on price sensitivity. Store comparability influenced price sensitivity only when both stores offered the same brands. The results also demonstrate that consumers enjoyed navigating through the website the most when all three search costs were low. Not surprisingly, consumers also made better decisions when all three search costs were low. These findings suggest that retailers should cooperate with smart agents and strive to reduce search costs for price, quality, and store information because this increases consumer satisfaction, which subsequently increases repeat purchase rates.

In a follow-up experiment, it was shown that using smart agents to reduce search costs for quality information can increase price sensitivity when price and quality are uncorrelated, especially when consumers are highly preoccupied with price.[33] Otherwise, search costs for quality information have opposite effects on price sensitivity and product differentiation, consistent with the results of the previous experiment. Furthermore, the follow-up experiment shows that these results generalize to several different product categories.

The Internet has reduced consumers' information search costs, reduced transaction costs, increased the number of options available, and increased communication among consumers. As a result, the Internet has increased consumer power. At the same time, Internet marketing is allowing companies to engage consumers in new and exciting ways.

Chapter Summary

The Internet is changing the way firms do business. Companies can communicate with and market to consumers in personal, customized, interactive, and entertaining ways. Internet marketing is any type of marketing activity that is done via the Internet and/or email and includes any type of traditional marketing and consumer engagement, such as product design, marketing research, advertising, public relations, buzz marketing, sales, and customer service. With Internet marketing, companies can approach and engage consumers one-on-one with personal, customized information, often in a less expensive manner. In addition, Internet marketing provides the advantage of easy and quick feedback analytics.

E-tailing is a form of commerce where consumers buy products and services directly over the Internet. The most successful websites are owned by companies with reputable brand names. These successful sites sell goods and are easy to evaluate and navigate. The biggest difference between online stores and bricks-and-mortar stores is that online stores often offer greater choice and greater information customization and product customization.

Search engine marketing is a type of Internet marketing that is designed to promote a website and drive consumers to the site by having the website link appear in search engine results pages. Search engines like Yahoo!, Google, and Ask help consumers to navigate through enormous amounts of information stored on the Web. Reduced search costs have increased consumer power and have encouraged companies to adopt more consumer-friendly policies and services. There are two broad types of search engine marketing, search engine optimization and paid search marketing. Search engine optimization is the practice of making adjustments and modifications to a website in order to achieve a higher natural ranking in organic search engine results pages. Paid search marketing is where a company will pay to be included in the results page of a search engine.

A natural complement to search engine marketing in driving consumers to a marketer's website is Internet advertising. Internet advertising is one of the oldest forms of Internet marketing and includes many types of ads, such as banner ads, skyscraper ads, pop-up ads, and video ads.

Social media marketing is a type of Internet marketing that uses social media to achieve some marketing goal. This type of marketing is closely tied to word-of-mouth, as the goal of social media marketing is often to attract consumer attention and generate positive buzz. Social media marketing utilizes the social media environment, which includes social networks, blogs, content and collaborative communities, and virtual worlds. This genre of Internet marketing is growing and becoming an important part of marketing strategy.

When products and companies engage in social networking, people can more naturally interact with the product company in a personal way. In addition, social networking allows users to pass on information and comments about products and companies, thus extending the company's reach exponentially. A special type of social network is the social buying (also known as daily deal) websites.

In addition to social networks, marketers also engage in blogging—web journaling—and video marketing to engage consumers in social media. Social media marketing is a quickly changing and evolving form of Internet marketing. Like all forms of Internet marketing, companies that engage consumers in this way must deal with the reality that the ways in which consumers search for information and shop are different in online environments than in offline environments. While search costs are lower in online environments, in order to deal with the vast amount of information on the Internet, consumers often turn to recommendation agents and comparison matrices to aid in decision making.

Key Terms

blog
comparison matrix
content website
e-tailing
flow
internet marketing
microblog
paid search marketing
recommendation agent
search engine marketing
search engine optimization
social media
social media marketing

Review and Discussion

1. What is Internet marketing and what are the benefits of this type of marketing?
2. What are the key differences between e-tailors and offline shopping environments?
3. What types of products are particularly easy to shop for on the Web? What types of products have you shopped for on the Web?
4. What are the two types of search engine marketing, and what is the distinguishing difference between them?
5. What are the differences between banner ads, skyscraper ads, and floating ads?
6. Describe the six major forms of social media identified in the chapter.
7. How do companies use Facebook to market products?
8. How do most social buying websites (e.g., LivingSocial) work?
9. What is the difference between a blog and microblog?
10. How do search costs influence amount of search?

Short Application Exercises

1. Discuss your most favorite and least favorite web shopping experiences. What were the key factors that contributed to these experiences?
2. Use a search engine to find information for a product that you have never shopped for and that you know little about. Although you know little about this product, could you use the Web to learn a lot relatively quickly?
3. Visit the Facebook page of a favorite company. Does the company do an effective job in enticing you to "like" the page? Why or why not?
4. Investigate whether your school has a blog. If so, what types of content does it have? Is it effective? Why or why not?

Managerial Application

Deanna Brown, President of Scripps Networks Interactive, says, "Being in tune with the consumer palette allows us to think smartly about what people are thinking about on a day-to-day, week-to-week basis." FoodNetwork.com has grown to over 10 million users, and big events like the Super Bowl encourage many consumers to use FoodNetwork.com recipes and products for home entertaining. Walmart is one of FoodNetwork.com's largest clients, and Stephanie Prager, Associate Digital Director for Walmart at MediaVest, says, "There's a challenge we've seen with other cable networks in that they might have a great program on-air, but their site is not as robust."

Your Challenge:

1. Imagine that you are a manager at FoodNetwork.com and you've been asked to analyze your company's website. What are the most positive features of FoodNetwork.com's website?
2. How could you improve FoodNetwork.com's website?
3. Besides Walmart, what other new clients would you pursue and why?

End Notes

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