CHAPTER 4

MARKETING ON THE WEB

LEARNING OBJECTIVES

In this chapter, you will learn about:

- When to use product-based and customer-based marketing strategies
- Communicating with different market segments
- Customer relationship intensity and the customer relationship life cycle
- Using advertising on the Web
- E-mail marketing
- Technology-enabled customer relationship management
- Creating and maintaining brands on the Web
- Search engine positioning and domain name selection

INTRODUCTION

In September 1997, a new gift shop opened for business on the Web. There were already many gift shops on the Web at that time; however, this store, named 911Gifts.com, carried items that were chosen specifically to meet the needs of last-minute gift shoppers. Using 911—the emergency telephone number used in most parts of the United States—in the store's name was intended to convey the impression of crisis-solving urgency. The company's two major strengths were its promise of next-day delivery on all items and its site layout, in which gift selections were organized by holiday rather than by product type. Thus, a harried shopper could simply click the Mother's Day gifts link and view a set of gift choices appropriate for that holiday that were ready for immediate delivery. The site also included a reminder service, called GiftAlert, to help its customers avoid another emergency gift situation on the next holiday.

By 1999, the company had 90,000 customers signed up for GiftAlert and was doing about $1 million in annual sales. It carried about 500 products, and each of the products was chosen to yield a gross margin of at least 40 percent. 911Gifts.com was a successful business, but the company's founders realized they would need to build wider awareness of their brand. They also realized that building a brand would require a substantial investment of funds. The company hired Hilary Billings, a retail marketing executive whose experience included building the Pottery Barn catalog business at Williams-Sonoma to create a brand-building strategy and obtain financing to implement that strategy. Billings undertook a complete reevaluation of the 911Gifts.com marketing plan and, after revising it, took it to investors who committed more than $30 million for a rebranding and complete overhaul of the company's Web site. In October 1999, the new brand was born as **RedEnvelope**. In many Asian countries, gifts of money are enclosed in a simple red envelope. The new brand was designed to create a sense of elegant simplicity to replace the sense of panic and emergency solutions conveyed by the old brand name.

The product line was revamped to fit the new image as well. About 300 products were dropped and replaced with different products that focus groups had judged to be more appealing. The new product line had an even higher average gross margin than the old line. Billings launched a massive brand-awareness campaign that included online advertising, buses in seven major cities painted red and festooned with large red bows, and print advertising in upscale publications. The most important change in advertising strategy was the launch of a print catalog. RedEnvelope catalogs are mailed to customers to coincide with major gift-giving holidays and serve as additional reminders. Because RedEnvelope sells a small set of products that are chosen for their visual appeal and for the status they are intended to convey, the full-color, lushly-illustrated print catalogs are a powerful selling tool.

One year later, the results of this extensive makeover and substantial monetary investment were clear. RedEnvelope had tripled its number of customers and had increased sales by more than 400 percent. The company chose a specific part of the gifts market and targeted its offerings to meet the needs and desires of those customers. The company created a brand, a marketing plan, and a set of advertising and promotion strategies that would expose the company to the largest portion of that market it could afford to reach. The most important point is that RedEnvelope matched its inventory selection, delivery methods, and marketing efforts to each other and to the needs of its customers. Today, the company continues to use print catalogs and a focus on upscale product lines to keep its sales increasing each year.

WEB MARKETING STRATEGIES

In this chapter, you will learn how companies are using the Web in their marketing strategies to advertise their products and services and promote their reputations. Increasingly, companies are classifying customers into groups and creating targeted messages for each group. The sizes of these targeted groups can be smaller when companies are using the Web—in some cases, just one customer at a time can be targeted. New research into the behavior of Web site visitors has even suggested ways in which Web sites can respond to visitors who arrive at a site with different needs at different times. This chapter will also introduce you to some of the ways companies are making money by selling advertising on their Web sites.

Most companies use the term **marketing mix** to describe the combination of elements that they use to achieve their goals for selling and promoting their products and services. When a company decides which elements it will use, it calls that particular marketing mix its **marketing strategy**. As you learned in Chapter 3, companies—even those in the same industry—try to create unique presences in their markets. A company's marketing strategy is an important tool that works with its Web presence to get the company's message across to both its current and prospective customers.

Most marketing classes organize the essential issues of marketing into the **four Ps of marketing**: product, price, promotion, and place. **Product** is the physical item or service that a company is selling. The intrinsic characteristics of the product are important, but customers' perceptions of the product, called the product's **brand**, can be as important as the actual characteristics of the product.

The **price** element of the marketing mix is the amount the customer pays for the product. In recent years, marketing experts have argued that companies should think of price in a broader sense, that is, the total of all financial costs that the customer pays (including transaction costs) to obtain the product. This total cost is subtracted from the benefits that a customer derives from the product to yield an estimate of the **customer value** obtained in the transaction. Later in this book, you will learn how the Web can create new opportunities for creative pricing and price negotiations through online auctions, reverse auctions, and group buying strategies. These Web-based opportunities are helping companies find new ways to create increased customer value.

Promotion includes any means of spreading the word about the product. On the Internet, new possibilities abound for communicating with existing and potential customers. In Chapter 2, you learned how companies are using the Internet to engage in meaningful dialogs with their customers using e-mail and other means. In this chapter, you will learn even more communication techniques that companies are using to promote their products.

For years, marketing managers dreamed of a world in which instant deliveries would give all customers exactly what they wanted when they wanted it. The issue of **place** (also called **distribution**) is the need to have products or services available in many different locations. The problem of getting the right products to the right places at the best time to sell them has plagued companies since commerce began. Although the Internet does not solve all of these logistics and distribution problems, it can certainly help. For example, digital products (such as information, news, software, music, video, and e-books) can be delivered almost instantly on demand through the Internet. Companies that sell products that must be shipped have found that the Internet gives them much better shipment tracking and control than did previous information technologies.

Product-Based Marketing Strategies

In Chapter 3, you learned about the importance of a company's Web presence and how this presence must integrate with the brand or other established images the company uses in its promotional activities. Most companies offer a variety of products that appeal to different groups. When creating a marketing strategy, managers must consider both the nature of their products and the nature of their potential customers.

Managers at many companies think of their businesses in terms of the products and services they sell. This is a logical way to think of a business because companies spend a great deal of effort, time, and money to design and create those products and services. If you ask managers to describe what their companies are selling, they usually provide you with a detailed list of the physical objects they sell or use to create a service. When customers are likely to buy items from particular product categories, or are likely to think of their needs in terms of product categories, this type of product-based organization makes sense. Most office supplies stores on the Web believe their customers organize their needs into product categories. The **Staples** home page, shown in Figure 4-1 (on the next page), uses product categories as a very strong organizing theme.

The Staples page has tabbed headings near the top of the page that are links to product categories. More detailed product category links fill the center of the page. Staples designed its page to meet the needs of the customer who has a specific product category in mind. Even the search box near the top of the page includes a drop-down list of categories so that customers can narrow their searches within categories.

A company that sells to a different market, but that uses a similar product-based marketing strategy, is **Sears**. Sears sold its products through catalogs and later in physical stores for many years before opening its Web site. Most companies that used print catalogs in the past organized them by product category. As you can see in Figure 4-2 (on page 171), Sears has carried over its product-focused marketing strategy to its Web site.

FIGURE 4-1 Staples home page

Both of these companies are using a product-based strategy. They organized their Web sites from an internal viewpoint, that is, according to the way that they arranged their product design and manufacturing processes. If customers arrive at these Web sites looking for a specific type of product, this approach works well. Alternatively, customers who are looking to fulfill a specific need, such as outfitting a new sales office or choosing a graduation gift, might not find these Web sites as useful. Many marketing researchers and consultants advise companies to think as if they were their own customers and to design their Web sites so that customers find them to be enabling experiences that can help customers meet their individual needs.

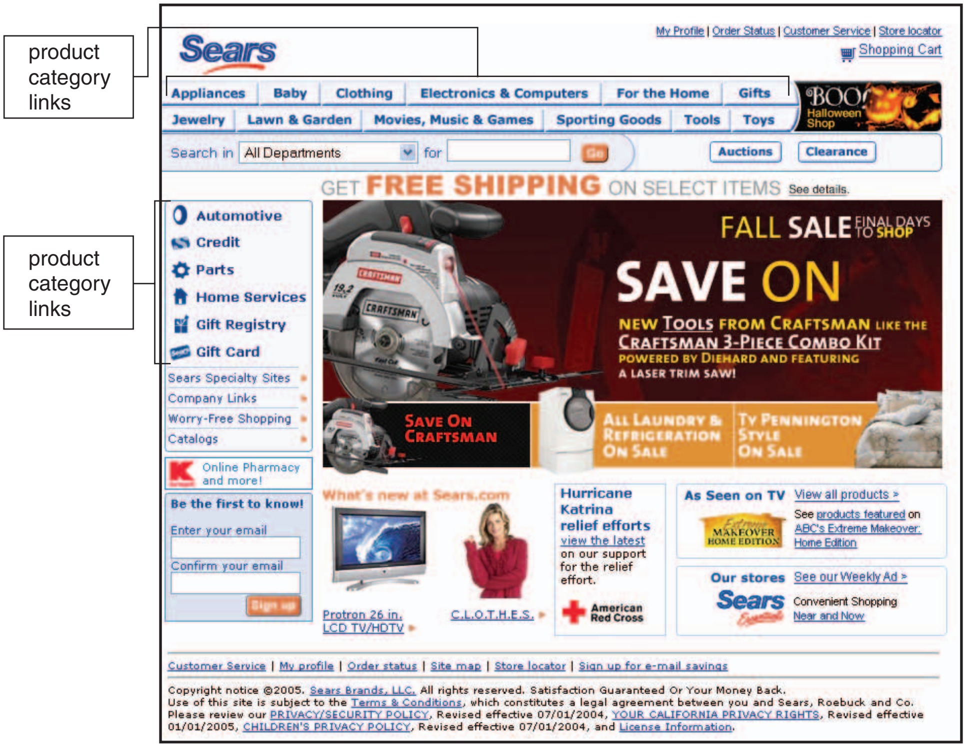

FIGURE 4-2 Sears home page

Customer-Based Marketing Strategies

In Chapter 3, you learned that the Web creates an environment that allows buyers and sellers to engage in complex communications modes. The communication structures on the Web can become much more complex than those in traditional mass media outlets such as broadcast and print advertising. When a company takes its business to the Web, it can create a Web site that is flexible enough to meet the needs of many different users. Instead of thinking of their Web sites as collections of products, companies can build their sites to meet the specific needs of various types of customers.

A good first step in building a customer-based marketing strategy is to identify groups of customers who share common characteristics. **Sabre Holdings** is a company that sells marketing services and technology to support those services to the travel industry. Its customers include travel agencies, airlines, large companies that have in-house travel departments, and travel consolidators (companies that buy blocks of airline seats and hotel rooms, then resell them as vacation packages). Sabre also operates the Travelocity B2C travel site that you learned about in Chapter 3. The Sabre Holdings home page, which appears in Figure 4-3 (on the next page), includes links to separate sections of its site that are designed to meet the needs of each of its major customer groups. By following these links, Sabre's different customers can find specific products and services targeted to each of their needs.

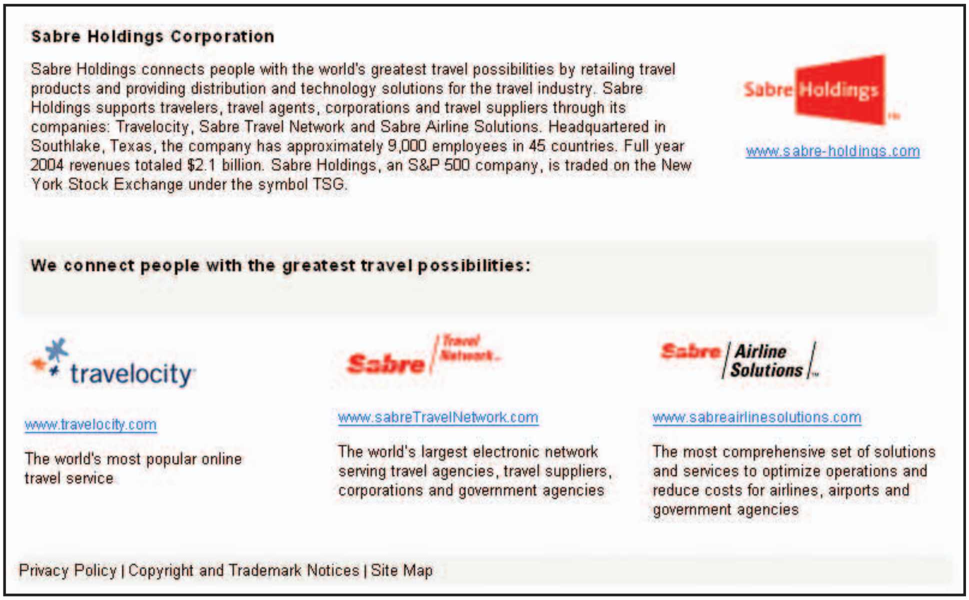

FIGURE 4-3 Sabre home page

Although Sabre's approach of breaking customers into four main groups is a good first step, subgroups probably exist within each of those groups. Marketers can use their experience with selling in their industries to identify those subgroups and then develop marketing strategies and tactics that will effectively reach customers in each subgroup. The use of customer-based marketing approaches was pioneered on B2B sites. B2B sellers were more aware of the need to customize product and service offerings to match their customers' needs than were the operators of B2C Web sites. In recent years, B2C sites have increasingly added customer-based marketing elements to their Web sites. One of the most noticeable trends in this direction is in university Web sites. In the early days of the Web, university sites were usually organized around the internal elements of the school (such as departments, colleges, and programs). Today, most university home pages include links to separate sections of the Web site designed for specific stakeholders, such as current students, prospective students, parents of students, potential donors, and faculty.

COMMUNICATING WITH DIFFERENT MARKET SEGMENTS

Identifying groups of potential customers is just the first step in selling to those customers. An equally important component of any marketing strategy is the selection of communication media to carry the marketing message.

In the physical world, companies can convey large parts of their messages by the way they construct buildings and design their floor spaces. For example, banks have traditionally been housed in large, solid-looking buildings that provide passersby an ample view of the main safe and its thick, sturdy door. Banks use these physical manifestations of reliability and strength to convey an important part of their service offerings—that a customer's money is safe and secure with the bank.

Media selection can be critical for an online firm because it does not have a physical presence. The only contact a potential customer might have with an online firm could well be the image it projects through the media and through its Web site. The challenge for online businesses is to convince customers to trust them even though they do not have an immediate physical presence.

Trust and Media Choice

The Web is an intermediate step between mass media and personal contact, but it is a very broad step. Using the Web to communicate with potential customers offers many of the advantages of personal contact selling and many of the cost savings of mass media. Figure 4-4 shows how these three information dissemination models compare on another important dimension: trust.

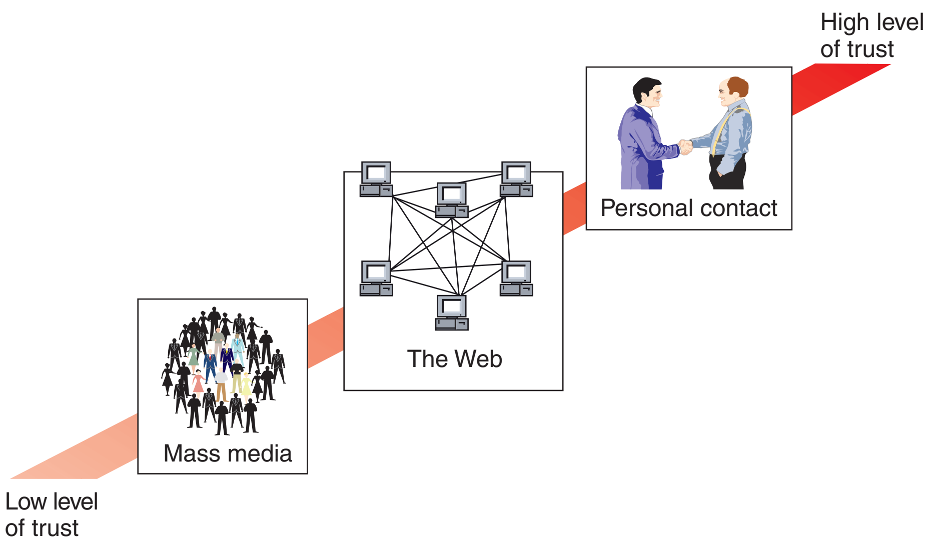

FIGURE 4-4 Trust in three information dissemination models

Although mass media offers the lowest level of trust, many companies continue to use it successfully. The cost of mass media advertising can be spread over the many people in its large audiences. For example, the cost of creating a television ad can be several hundred thousand dollars, but that ad will be viewed by millions of people. Thus, the cost of advertising per viewer is very low. Its low cost makes mass media advertising attractive to many companies.

After years of being barraged by television and radio commercials, many people have developed a resistance to the messages conveyed in the mass media. The impact on an audience of the shouted expression "New and improved!" is very low. The overuse of superlatives has caused many people to distrust or ignore much mass media. Television remote controls have mute buttons and make channel surfing easy for a reason. Attempts to re-create mass media advertising on the Web are likely to fail for the same reasons—many people ignore or resist messages that lack content of any specific personal interest to them.

Mass media advertising campaigns that are successful often rely on the passive nature of the media consumption experience. People watching television or listening to radio are usually in a passive and receptive state of mind. Thus, advertisers can include messages in mass media advertising that recipients might not consider valid or convincing if they were actively evaluating those statements. The messages are accepted by recipients because they are in a nonquestioning and passive state of mind. In contrast, Web users are actively engaged in the medium, with hands on the keyboard and mouse, as they view Web pages. This active state of mind makes Web users far more likely to actively evaluate advertising messages they see and less likely to accept the content of those messages.

Companies can use the Web to capture some of the benefits of personal contact, yet avoid some of the costs inherent in that approach. Most experts agree that it is better to make the trust-based model of personal contact selling work on the Web than to adopt the mass marketing approach on the Web. In 1996, when companies were beginning to do business online, rising consumer expectations and reduced product differentiation led to increased competition and a splintering of mass markets. Both of these results were reducing the effectiveness of mass media advertising. Thus, the Internet provided a new vehicle for achieving high levels of customer-focused marketing strategies.

The Internet has created new communications modalities for individuals and companies. People can post their thoughts on a Web site and invite others to add commentary. This type of Web site, known as a **Web log** or **blog**, has provided an outlet for political, religious, and other statements of strongly felt beliefs. In recent years, some retailers have experimented with blogs as an adjunct communication device. These retailers hope that blogs will give their online stores a personality and provide customers with a reason to visit their Web sites even if they are not shopping. For example, clothing retailer **Bluefly** operates a blog called **Flypaper** that is written and edited by employees in their spare time. Customers and other Web site visitors are invited to add commentary, ask questions, and state opinions, but Bluefly edits and controls what gets posted to the site. Bluefly hopes that the Flypaper blog will reinforce the company's image as a place to shop for customers who care more about current fashion than about getting a good price on clothing that might no longer be fashionable.

Blogs are examples of how companies can use the Web to engage in communications that more closely resemble the high-trust personal contact mode of communication than the low-trust mass media mode. And they allow companies to achieve some of these benefits without incurring the high cost of traditional personal contact techniques.

Market Segmentation

Advertisers' response to this decrease in effectiveness was to identify specific portions of their markets and target them with specific advertising messages. This practice, called **market segmentation**, divides the pool of potential customers into **segments**. Segments are usually defined in terms of demographic characteristics such as age, gender, marital status, income level, and geographic location. Thus, for example, unmarried men between the ages of 19 and 25 might be one market segment.

In the early 1990s, firms began identifying smaller and smaller market segments for specific advertising and promotion efforts. This practice of targeting very small market segments is called **micromarketing**. However, the low cost per viewer of traditional mass media advertising campaigns becomes much higher when those methods are used to target very small market segments. This cost increase hampered the success of micromarketing strategies. Even though micromarketing was an improvement over mass media advertising, it still used the same basic approach and suffered from the weaknesses of that model.

Marketers have traditionally used three categories of variables to identify market segments. One variable is location. Firms divide their customers into groups by where they live or work. In this type of segmentation, called **geographic segmentation**, companies create different combinations of marketing efforts for each geographical group of customers. The grouping can be by nation, state (or province), city, or even by neighborhood. Alternatively, companies can develop one marketing strategy for urban customers, another for suburban customers, and yet a third for rural customers.

The second category uses information about age, gender, family size, income, education, religion, or ethnicity to group customers. This type of segmentation is called **demographic segmentation**. Demographic variables are frequently used by traditional marketers because research has shown that customers' need for and usage of products are strongly related to these types of variables. Demographic segmentation also exists on the Web. For example, a number of sites are devoted to women's issues or directed at specific age groups (such as teenagers) whose members tend to purchase music CDs and trendy clothing. Often, demographic and geographic segmenting strategies are combined. For example, an airline might target middle-income families living in Wisconsin and Michigan with mid-winter advertising for vacation trips to Florida.

In **psychographic segmentation**, marketers try to group customers by variables such as social class, personality, or their approach to life. For example, an auto company might direct advertising for a sports car to customers who are gregarious and have a high need for achievement. The use of psychographic segmentation has increased dramatically in recent years as marketers attempt to identify characteristic lifestyles and then design advertising to reach people who see themselves as having a particular lifestyle.

Companies that advertise on television often create messages designed to reach the likely audiences of various types of programs. These audiences represent one or more market segments. The market segments can be geographic, demographic, psychographic, or a combination of these. Figure 4-5 (on the next page) presents some examples from the television medium that show how companies do this.

Children's television shows are likely to feature advertising for products that appeal to children. Ads on daytime dramas are directed at people who are home during the day and who thus might be interested in household and laundry care products. These people are more likely than others to own pets, so they also will see ads for pet foods. Advertisers on late-night talk shows often direct their ads at people who might have trouble falling asleep. Advertisers also believe that this late-night audience is receptive to promotions for snack foods to eat while watching these programs or for nonprescription medications for ailments that might be keeping them up so late.

Type of television program	Type of advertising
Children's cartoons	Children's toys and games
Daytime dramas	Household and laundry goods, pet foods
Late-night talk shows	Snack foods and nonprescription drugs
Golf tournaments	Golf equipment, investment services, and life insurance
Baseball and football games	Snack foods, beer, autos
Documentary films	Books, CDs, educational videotapes

FIGURE 4-5 Television advertising messages tailored to program audience

Advertisers use sports programming as a vehicle for two different market segments. Some sports shows, such as golf tournaments or tennis matches, appeal to higher-income viewers. Other sports shows, such as baseball or football game broadcasts, appeal to viewers with more moderate incomes. As a result, programs that cover golf or tennis are more likely to include ads for investment and insurance products and luxury automobiles than are baseball or football programs. Also, because viewers of golf tournaments and tennis matches are likely to play the sport, these programs often include ads for game equipment. Baseball or football games rarely include ads for game equipment because few viewers of these games are participants in the sport themselves.

Programs that feature documentaries (such as those on the History Channel or the Discovery Channel) often carry ads for books, book clubs, CDs, and educational videos. Advertisers have found that these types of products appeal to the intellectual, arts-loving audiences of these programs.

Companies do much more than just match advertising messages to market segments. They also build a sales environment for their product or service that corresponds to the market segment they are trying to reach. In the physical world, store design and layout are often directed at specific market segments. If you walk through a shopping mall, you can observe that colors, displays, lighting, background music, and even the clothes worn by sales clerks vary with the targeted segment. For example, a clothing store for young women presents a completely different experience to its customers than a clothing store that sells expensive, conservative attire targeted toward more mature women with larger incomes.

Market Segmentation on the Web

The Web gives companies an opportunity to present different store environments online. For example, if you visit the home pages of **Steve Madden** and **Talbots**, you will find that both pages are well designed and functional. However, they are each directed to different market segments. The Steve Madden site is targeted at young, fashion-conscious buyers. The site uses a wide variety of typefaces, bold graphics, and photos of brightly colored products to convey its tone. The emphasis is to make a bold fashion statement and, presumably, become the envy of your friends. In contrast, the Talbots site is rendered in a more muted, conservative style. The site is designed for older, more established buyers. The messages emphasized are stability, home life, and the trademark Talbots red doors. These images appeal to a market segment of people looking for classics instead of the latest trends.

In the physical world, retail stores have limited floor and display space. These limitations often force physical stores to decide on one particular message to convey. Exceptions do exist, such as a music store that has a separate room for classical recordings (with different background music than the rest of the store) or a large department store that can use lighting and display space differently in each department; however, smaller retail stores usually choose the one image that appeals to most of their customers. On the Web, retailers can provide separate virtual spaces for different market segments. Some Web retailers provide the ultimate in targeted marketing—they allow their customers to create their own stores, as you will learn in the next section.

Offering Customers a Choice on the Web

Dell has done many things well in its online business. Its Web site offers customers a number of different ways to do business with the company. Its USA home page includes links for each major group of customers it has identified, including home, small business, medium and large business, government, education, and health care. Once the site visitor has selected a customer category, specific products and product categories are available as links.

Dell Premier accounts give users a high level of customer-based market segmentation. In these accounts, Dell offers each customer its own Dell Web site. Dell can customize a company's Premier account pages to show product selections for which price and terms have already been negotiated. Dell even allows individual employees of its customers to create their own personalized pages within their companies' Premier pages. This highly customized approach to offering products and services that match the needs of a particular customer is called **one-to-one marketing**. The Internet gives marketers the best opportunity for highly customized interactions with customers that they have had since the heyday of the door-to-door salesperson in the 1940s and 1950s.

BEYOND MARKET SEGMENTATION: CUSTOMER BEHAVIOR AND RELATIONSHIP INTENSITY

In the previous sections, you learned how companies can target groups of customers that are similar to each other as market segments. You also learned how one-to-one marketing gives companies a chance to create Web experiences that are unique to each individual customer. The next step—beyond market segmentation, even beyond one-to-one marketing—is when companies use the Web to target specific customers in different ways at different times.

Segmentation Using Customer Behavior

In the physical world, businesses can sometimes create different experiences for customers in response to their needs. For example, a company might decide that its mission is to sell prepared meals to hungry customers. A given potential customer responds to hunger in different ways at different times. If a person is hungry in the morning, but late for work, that person might drive through a fast food restaurant or grab a quick cup of coffee at the train station.

Lunch might be a sandwich ordered and delivered to the office, or it could require a nice restaurant if a client needs to be entertained. Dinner could be at a restaurant with friends, take-out food from a neighborhood Chinese restaurant, or a delivered pizza.

The point is that the same person requires different combinations of products and services depending on the occasion. In general, the creation of separate experiences for customers based on their behavior is called **behavioral segmentation**. When based on things that happen at a specific time or occasion, behavioral segmentation is sometimes called **occasion segmentation**.

Usually, businesses that operate in the physical world can meet only one or a few of a customer's differing behavioral needs. For example, the Chinese restaurant mentioned earlier might offer dining room service and take-out service, but it probably would not offer a drive-through window or a morning coffee kiosk. Very few restaurants are able to offer everything from fast food through a five-course dinner. In the online world, it is much easier to design a single Web site that meets the needs of visitors who arrive in different behavioral modes. Thus, a Web site design can include elements that appeal to different behavioral segments.

Marketing researchers are just beginning to study how and why people prefer different combinations of products, services, and Web site features and how these preferences are affected by their modes of interaction with the site. Market researchers are finding that people want Web sites that offer a range of interaction possibilities from which they can select to meet their needs. Remember that a particular person might visit a particular Web site at different times and might search for different interactions each time. Customizing visitor experiences to match the site usage behavior patterns of each visitor or type of visitor is called **usage-based market segmentation**. Researchers have begun to identify common patterns of behavior and to categorize those behavior patterns. One set of categories that marketers use today includes browsers, buyers, and shoppers.

Browsers

Some visitors to a company's Web site are just surfing or browsing. Web sites intended to appeal to potential customers in this mode must offer them something that piques their interest. The site should include words that are likely to jog the memories of visitors and remind them of something they want to buy on the site.

These key words are often called **trigger words** because they prompt a visitor to stay and investigate the products or services offered on the site. Links to explanations about the site or instructions for using the site can be particularly helpful to this type of customer. A site should include extra content related to the product or service the site sells. For example, a Web site that sells camping gear might offer reviews of popular camping destinations with photos and online maps. Such content can keep a visitor who is in browser mode interested long enough to stay at the site and develop a favorable impression of the company. Once visitors have developed this favorable impression, they are more likely to buy on this visit or bookmark the site for a return visit.

Buyers

Visitors who arrive in buyer mode are ready to make a purchase right away. The best thing a site can offer a buyer is certainty that nothing will get in the way of the purchase transaction. For visitors who first choose a product from a printed catalog, many Web sites include a text box on their home pages that allows visitors to enter the catalog item number. This places that item in the site's shopping cart and takes the buyer directly to the shopping cart page. A **shopping cart** is the part of a Web site that keeps track of selected items for purchase and automates the purchasing process.

The shopping cart page should offer a link that takes the visitor back into the shopping area of the site, but the primary goal is to get the buyer to the shopping cart as quickly as possible, even if the buyer is at the site for the first time. The shopping cart should allow the buyer to create an account and log in after placing the item into the cart. To avoid placing barriers in the way of customers who want to buy, the site should not ask visitors to log in until they near the end of the shopping cart procedure. You will learn more about shopping carts in Chapter 9.

Perhaps the ultimate in shopping cart convenience is the 1-Click feature offered by **Amazon.com**, which allows customers to purchase an item with a single click. Any items that a customer purchases using the 1-Click feature within a 90-minute time period are aggregated into one shipment. Amazon.com has a patent on the 1-Click feature. You will learn more about such business process patents and other legal issues in Chapter 7.

Shoppers

Some customers arrive at a Web site knowing that it offers items they are interested in buying. These visitors are motivated to buy, but they are looking for more information before they make a purchase decision. For the visitor who is in shopper mode, a site should offer comparison tools, product reviews, and lists of features. Sites such as **Crutchfield** and **Best Buy** allow customers to specify the level of detail presented for each product, sort products by brand, or price, and compare products with each other side by side.

Remember that a person might visit a Web site one day as a browser, and then return later as a shopper or a buyer. People do not retain behavioral categories from one visit to the next—even for the same Web site.

Although many companies work with these three visitor modes, other researchers are exploring alternative models. Much of Web site visitor behavior is not yet well understood. One study conducted by major consulting firm **McKinsey & Company** examined the online behavior of 50,000 active Internet users and identified six different groups. Following are the six behavior-based categories and their characteristic traits:

- *Simplifiers* are users who like convenience. They are attracted by sites that make doing business easier, faster, or otherwise more efficient than is possible in the physical world.
- *Surfers* use the Web to find information, explore new ideas, and shop. They like to be entertained, and they spend far more time on the Web than other people. To attract surfers, sites must offer a wide variety of content that is attractive, well displayed, and constantly updated.
- *Bargainers* are in search of a good deal. Although they make up less than 10 percent of the online population, they make up more than half of all visitors to the eBay auction site. They enjoy searching for the best price or shipping terms and are willing to visit many sites to do that.
- *Connectors* use the Web to stay in touch with other people. They are intensive users of chat rooms, instant messaging services, electronic greeting card

sites, and Web-based e-mail. Connectors tend to be new to the Web, less likely than other people to purchase on the Web, and actively trying to learn what the Web has to offer them.

- *Routiners* return to the same sites over and over again. They use the Web to obtain news, stock quotes, and other financial information. Routiners like the comfort of working with a user interface that they know well.
- *Sportsters* are similar to routiners, but they tend to spend time on sports and entertainment sites rather than news and financial information sites. Since they view the Web as an entertainment vehicle, sportsters are attracted by sites that are interactive and attractive.

Other research studies have identified similar sets of characteristics and groupings. Companies in different industries or lines of business identify somewhat different sets of characteristics and group their Web site visitors using different names. The challenge for Web businesses is to identify which groups are visiting their sites and formulate ways of generating revenue from each segment. For example, some of these groups (such as simplifiers and bargainers) are ready to buy and would be interested in seeing specific product or service offerings. Other groups (such as surfers, routiners, and sportsters) would be good targets for specific types of advertising messages. As more researchers study Web site visitor behavior, perhaps the industry will learn how to recognize the various modes in which visitors arrive and then channel them into the appropriate sections of the site. Until then, many Web sites use Dell's approach, in which visitors are asked to identify themselves as belonging to a particular category of customer when they enter the sites.

Customer Relationship Intensity and Life-Cycle Segmentation

One goal of marketing is to create strong relationships between a company and its customers. The reason that one-to-one marketing and usage-based segmentation are so valuable is that they help to strengthen companies' relationships with their customers. Good customer experiences can help create an intense feeling of loyalty toward the company and its products or services. Researchers have identified several stages of loyalty as customer relationships develop over time. A five-stage model of customer loyalty that is typical of these models appears in Figure 4-6.

This model shows the increase in intensity of the relationship as the customer moves through the first four stages: awareness, exploration, familiarity, and commitment. In the fifth stage, separation, a decline occurs and the relationship terminates. Not all customers go through the full five stages; some stop at a stage and continue the relationship at that level of intensity or terminate the relationship at that point. Some customers in a particular stage might have contact with the company online while other customers in the same stage encounter the company offline. Companies should strive for a consistent customer experience at a particular life-cycle stage. That is, customers should experience the same level and quality of service whether they encounter the company online or offline. Online and offline customer contact points are often called **touchpoints**, and the goal of providing similar levels and quality of service at all touchpoints is called **touchpoint consistency**.

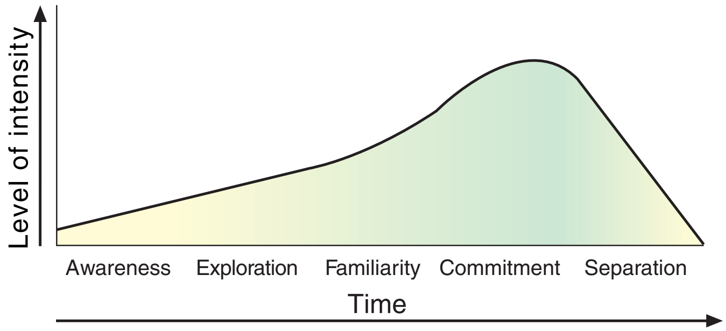

FIGURE 4-6 Five stages of customer loyalty

As the figure shows, changes in the nature of the relationship do not occur suddenly as a customer moves from one stage to the next. Within each stage, the level of intensity changes gradually as the customer moves through that stage. The characteristics of the five stages are outlined in the next sections.

Awareness

Customers who recognize the name of the company or one of its products are in the awareness stage of customer loyalty. They know that the company or product exists, but have not had any interaction with the company. Advertising a brand or a company name is a common way for companies to achieve this level of relationship with potential customers.

Exploration

In the exploration stage, potential customers learn more about the company or its products. The potential customer might visit the company's Web site to learn more, and the two parties will often communicate by telephone or e-mail. A large amount of information interchange can occur between the parties at this stage.

Familiarity

Customers who have completed several transactions and are aware of the company's policies regarding returns, credits, and pricing flexibility are in the familiarity stage of their relationship with the company. In this stage, they are as likely to shop and buy from competitors as they are from the company.

Commitment

After experiencing a considerable number of highly satisfactory encounters with a company, some customers develop a fierce loyalty or strong preference for the products or brands of that company. These customers have reached the commitment stage and are often willing to tell others about how happy they are with their interactions. To lure customers from the familiarity stage to the commitment stage, companies sometimes make concessions on price or terms. Usually, the value of the strong relationship is worth more to the company than the costs of these concessions.

Separation

Over time, the conditions that made the relationship valuable might change. The customer might be severely disappointed by changes in the level of service (either as provided by the company or as perceived by the customer) or product quality. The company can also evaluate the relationship and conclude that the loyal, committed customer is costing too much to maintain. As the intensity of the relationship fades, the parties enter a separation stage.

An important goal of any marketing strategy should be to move customers into the commitment stage as rapidly as possible and keep them there as long as possible. Companies want to see customers move into the separation stage only if they are costing more to serve than they are worth.

Life-Cycle Segmentation

Analyzing how customers' behavior changes as they move through the five stages can yield information about how they interact with the company and its products in each stage. The five stages are sometimes called the **customer life cycle**, and using these stages to create groups of customers that are in each stage is called **life-cycle segmentation**. Two companies that undertake continuing research into market segmentation and how companies can use segment information to develop better relationships with their customers are **Claritas** and **Donnelley Marketing**.

Claritas created one of the first segment marketing databases, named PRIZM, in the early 1970s. Claritas built PRIZM to take advantage of people's tendency to live near other people with similar tastes and preferences. Thus, PRIZM identifies the demographic characteristics of people by neighborhood. Claritas developed a number of other products that offer marketers databases with specific demographic, financial, and psychographic characteristics. Donnelley Marketing offers similar products, such as its Buyer Behavior Indicator and Affluence Models databases. Both Donnelley and Claritas extended their research from traditional direct marketing to help firms sell online. You can learn more about these companies and their products by following their links in the Online Companion for this chapter.

Acquisition, Conversion, and Retention of Customers

One goal of the strategies and tactics you will learn about in the rest of this chapter is to attract new visitors to a Web site. The benefits of acquiring new visitors are different for Web businesses with different revenue models. For example, an advertising-supported site is interested in attracting as many visitors as possible to the site and then keeping those visitors at the site as long as possible. That way, the site can display more advertising messages to more visitors, which is how the site earns a profit. For sites that operate a Web catalog, charge a fee for services, or are supported by subscriptions, attracting visitors to the site is only the first step in the process of turning those visitors into customers. The total amount of money that a site spends, on average, to draw one visitor to the site is called the **acquisition cost**.

The second step that a Web business wants to take is to convert the first-time visitor into a customer. This is called a **conversion**. For advertising-supported sites, the conversion is usually considered to happen when the visitor registers at the site, or, in some cases, when a registered visitor returns to a site several times. For sites with other revenue models, the conversion occurs when the site visitor buys a good or service or subscribes to the site's content. The total amount of money that a site spends, on average, to induce one visitor to make a purchase, sign up for a subscription, or (on an advertising-supported site) register, is called the **conversion cost**. Most managers use a cumulative definition for conversion cost; that is, conversion cost includes acquisition cost.

For many Web businesses, the conversion cost is greater than the profit earned on the average sale (or the average first sale). In such cases, the Web business must induce the customer to return to the site and buy again (or renew the subscription, or view more advertising). Customers who return to the site one or more times after making their first purchases are called **retained customers**. Different businesses use different measures for determining when a customer is a retained customer. Some companies consider a customer retained if he or she returns just once and purchases again. Others use some number of subsequent purchases or some number of subsequent purchases within a specific time frame. The costs of inducing customers to return to a Web site and buy again are called **retention costs**.

Companies have found that measuring acquisition, conversion, and retention costs is important because it gives them an idea of which advertising and promotion strategies are successful. These measurements are more precise than classifying customers into the five stages of loyalty in the customer life-cycle model. It is much easier to determine, for example, whether a customer has been converted or retained than it is to determine whether that customer is in the familiarity stage or the commitment stage. For example, a company that is evaluating its promotion campaign can measure the conversion costs and compare them to the profit generated by the average first-time sale. Most companies are very interested in retaining customers, because the cost of acquiring a new customer is between 3 and 15 times (depending on the type of business) the cost of retaining an existing customer.

In the rest of this chapter, you will learn some specific techniques that can be elements of successful Web marketing strategies. Remember that each of these techniques makes sense only when used in concert with another. Not all techniques work well in all situations. For example, in the chapter's opening case, RedEnvelope found that a print catalog could be an integral part of promoting its online sales. RedEnvelope's success does not mean that printing catalogs is a good idea for all Web businesses (see the Kozmo Learning from Failures feature on the next page). It is only a good idea if it provides customers with recognizable value and augments the rest of the company's marketing strategy.

LEARNING FROM FAILURES

KOZMO

Throughout New York City, people in their homes late at night crave videos and snack foods. Kozmo was launched in 1998 to meet the needs of those New Yorkers. With its orange-jacketed delivery people riding bicycles or motor scooters, Kozmo promised delivery of most items within an hour of ordering. Kozmo did not offer as wide a range of items as most convenience stores, so its main competitive advantage was its delivery service. Kozmo attempted to become profitable by adding high-margin items, such as DVD players and Sony PlayStations, and expanding its delivery areas to include higher-income neighborhoods. In addition to Manhattan, Kozmo operated for a short time in Houston and San Diego. In these cities, the higher average distances between deliveries made it even more difficult to cover costs.

Despite its best efforts, Kozmo was unable to create an image that was much different from that of a convenience store on wheels. Kozmo found it difficult to convince customers that delivered snack food items and videos were significantly more valuable than snack food items and videos on the shelves of nearby convenience stores. Most of Kozmo's product line consisted of items for which most people were accustomed to paying low prices.

In March 2001, just one month before closing operations, Kozmo announced a marketing plan that included spending $2.5 million to print and circulate 400,000 catalogs. The plan was a last-ditch attempt to increase brand awareness, gain new customers, and convince people who did not have an Internet connection to use Kozmo's phone order service. Unlike RedEnvelope, however, the Kozmo catalog was not a part of an integrated business plan and did not provide the same kind of added value that RedEnvelope's catalog provides—a bag of potato chips does not gain much appeal by appearing in a full-color catalog photo.

The lesson from Kozmo's experience is that using one element from a marketing strategy that worked for one company is no guarantee that it will work for every company. Marketing techniques are effective only when implemented as part of an integrated strategy that fits the company's products and gives customers a compelling reason to buy.

Customer Acquisition, Conversion, and Retention: The Funnel Model

Marketing managers need to have a good sense of how their companies acquire and retain customers. They often must evaluate competing marketing strategies to determine which are the most effective ways to attract and retain customers. The funnel model is used as a conceptual tool to understand the overall nature of a marketing strategy, but it also provides a clear structure for evaluating specific strategy elements.

The funnel model is very similar to the customer life-cycle model you learned about earlier in this chapter; however, the funnel model is less abstract and does a better job of showing the effectiveness of two or more specific strategies. The funnel is a good analogy for the operation of a marketing strategy because almost every marketing strategy starts with a large number of prospects and converts fewer and fewer of those prospects into serious prospects, customers, and finally, loyal customers. One example of a funnel model appears in Figure 4-7.

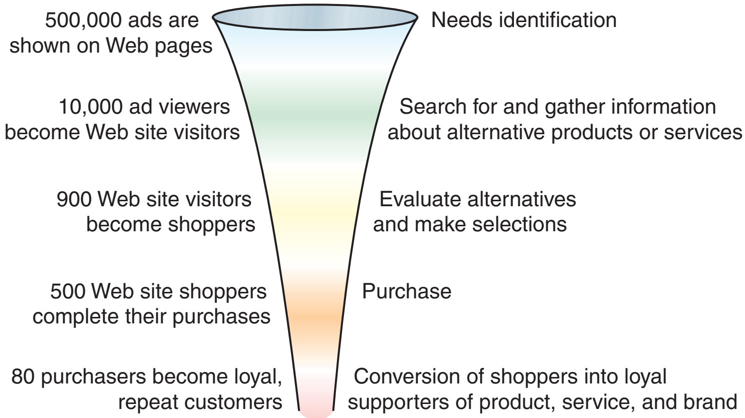

FIGURE 4-7 Funnel model of customer acquisition, conversion, and retention

In this funnel model, the steps that potential customers take as they become loyal, repeat customers are listed on the left side of the figure. The right side of the figure explains the increasing level of commitment that occurs in each step. Using market research and past history as a guide, the marketing manager develops the numbers that show the effectiveness of the planned strategy. The wider the bottom of the funnel, the better the strategy; that is, the more prospects are converted into loyal customers. The funnel model can be used in planning marketing strategies by comparing the projected results shown in the diagram with the results for alternative strategies shown in separate diagrams. The funnel model can also be used to show results that can then be compared with the costs of running the marketing campaign. Either way, the model gives marketing managers a tool for conceptualizing and evaluating alternative strategies.

ADVERTISING ON THE WEB

Advertising is all about communication. The communication might be between a company and its current customers, potential customers, or even former customers that the company would like to regain. To be effective, firms should send different messages to each of these audiences.

The five-stage customer loyalty model shown in Figure 4-6 (in the previous section) can be helpful in creating the messages to convey to each of these audiences. In the awareness stage, the advertising message should inform. The message could describe a new product, suggest new uses for existing products, or describe specific improvements to a product. Audiences in the exploration stage should receive messages that explain how a product or service works and encourage switching to that brand. In the familiarity stage, the advertising message should be persuasive—convincing customers to purchase specific products or request that a salesperson call. Customers in the commitment stage should be sent reminder messages. These ads should reinforce customers' good feelings about the brand and remind them to buy products or services. Companies generally do not target ads at customers who are in the separation stage.

Most companies that launch electronic commerce initiatives already have advertising programs in place. Online advertising should always be coordinated with existing advertising efforts. For example, print ads should include the company's URL. Banner ads are the dominant advertising format in use on the Web. Other online ad formats include pop-up ads, pop-behind ads, interstitial ads, and active ads.

Banner Ads

Most advertising on the Web uses banner ads. A **banner ad** is a small rectangular object on a Web page that displays a stationary or moving graphic and includes a hyperlink to the advertiser's Web site. Banner ads are versatile advertising vehicles—their graphic images can help increase awareness, and users can click them to open the advertiser's Web site and learn more about the product. Thus, banner ads can serve both informative and persuasive functions.

Early banner ads used a simple graphic, usually in GIF format, that loaded with the Web page and remained on the page until the user moved to another page or closed the browser. Today, a variety of **animated GIFs** and **rich media objects** created using Shockwave, Java, or Flash are used to make attention-grabbing banner ads. These ads can be rotated so that each time the Web page is loaded into a browser, the ad changes.

Although Web sites can create banner ads in any dimensions, advertisers decided early in the life of electronic commerce that it would be easier to standardize the sizes. The standard banner sizes that most Web sites have voluntarily agreed to use are called **interactive marketing unit (IMU) ad formats**. The **Interactive Advertising Bureau (IAB)** is a not-for-profit organization that promotes the use of Internet advertising and encourages effective Internet advertising. (In 2001, the IAB changed its name from the Internet Advertising Bureau.) The IAB has established voluntary standards for IMUs. As the Web grew, so did the creativity of Web advertisers. They were using an increasing number of IMU ad formats. By 2003, advertisers were using more than 15 different IMU ad formats. The IAB decided to encourage its members to agree to use only four standard formats. However, as ad designers became more creative by using pop-up ads, buttons, and ads that filled entire page borders, the IAB created standards for each new type of online format. The result is a large number of standard ad formats, but many advertisers continue to use the four standard formats because they know that almost every Web site will be able to display ads in those formats properly. You can learn more about banner ads, including examples of the latest IAB-approved sizes, by following the Online Companion link to the IAB Web site.

Most advertising agencies that work with online clients can create banner ads as part of their services. Web site design firms also can create banner ads. Charges for creating banner ads range from about \$100 to more than \$1500, depending on the complexity of the ad. Companies can make their own banner ads by using a graphics program or the tools provided by some Web sites. **AdDesigner.com** is an advertising-supported Web site that offers free downloadable graphics.

Banner Ad Placement

Companies have three different ways to arrange for other Web sites to display their banner ads. The first is to use a banner exchange network. A **banner exchange network** coordinates ad sharing so that other sites run one company's ad while that company's site runs other exchange members' ads. Usually, the exchange requires each member site to accept two ads on its site for every one of its ads that appears on another member's site. The exchange then makes its profit by selling the extra ad space to other businesses. Since banner exchanges are free, many Web businesses do use them; however, it is often difficult to find a group of other Web sites that have formed an exchange or that belong to an exchange that are not direct competitors. This limitation prevents many businesses from using banner exchange networks. Not-for-profit information Web sites are more likely to find a banner exchange network suitable.

The second way that businesses can place their banner advertising is to find Web sites that appeal to one of the company's market segments and then pay those sites to carry the ads. This can take considerable time and effort. Smaller sites may not have an established pricing policy for advertising. Larger sites usually have high standard rates that they discount for larger customers. Smaller customers generally pay the standard rates. A company can hire an advertising agency to negotiate lower rates and help with ad placement. A full-service advertising agency can help design the ads, create the banners, and identify appropriate Web sites on which to display them. Agencies that do a lot of Internet work can often negotiate lower advertising rates with sites because the agencies can consolidate their clients' budgets and buy large blocks of advertising space at one time.

A third way to place banner advertising is to use a banner advertising network. A **banner advertising network** acts as a broker between advertisers and Web sites that carry ads. The larger banner advertising networks, such as **DoubleClick**, LinkExchange (now a part of **Microsoft bCentral**), and **ValueClick**, offer many of the same services as comprehensive ad agencies and often broker space primarily on larger Web sites (such as Yahoo!) that have high traffic rates and are, thus, more expensive. The smaller firms, on the other hand, often sell only leftover discounted space. Many of these smaller firms have fallen on hard times with the recent decline in advertising purchases, and many have gone out of business.

Measuring Banner Ad Cost and Effectiveness

As more companies rely on their Web sites to make a favorable impression on potential customers, the issue of measuring Web site effectiveness has become important. Mass media efforts are measured by estimates of audience size, circulation, or number of addressees. When a company purchases mass media advertising, it pays a dollar amount for every thousand people in the estimated audience. This pricing metric is called **cost per thousand** and is often abbreviated **CPM** (the "M" is from the Roman numeral for "thousand").

Measuring Web audiences is more complicated because of the Web's interactivity and because the value of a visitor to an advertiser depends on how much information the site gathers from the visitor (for example, name, address, e-mail address, telephone number, and other demographic data). Because each visitor voluntarily chooses whether to provide these bits of information, all visitors are not of equal value. Internet advertisers have developed some Web-specific metrics for site activity, but these are not generally accepted and are currently the subject of considerable debate.

A **visit** occurs when a visitor requests a page from the Web site. Further page loads from the same site are counted as part of the visit for a specified period of time. This period of time is chosen by the administrators of the site and depends on the type of site. A site that features stock quotes might use a short time period because visitors may load the page to check the price of one stock and reload the page 15 minutes later to check another stock's price. A museum site would expect a visitor to load multiple pages over a longer time period during a visit and would use a longer visit time window. The first time that a particular visitor loads a Web site page is called a **trial visit**; subsequent page loads are called **repeat visits**. Each page loaded by a visitor counts as a **page view**. If the page contains an ad, the page load is called an **ad view**.

Some Web pages have banner ads that continue to load and reload as long as the page is open in the visitor's Web browser. Each time the banner ad loads is an **impression**. If the visitor clicks the banner ad to open the advertiser's page, that action is called a **click** or **click-through**. Banner ads are often sold on a CPM basis where the "thousand" is 1000 impressions. Rates vary greatly and depend on how much demographic information the Web site obtains about its visitors and what kinds of visitors the site attracts, but most rates range between $1 and $50 CPM. As recently as 1999, the range of online advertising rates was much higher, from about $5 to $100. Figure 4-8 shows a comparison of CPM rates for banner ads and other Web advertising media to CPM rates for advertising placed in traditional media outlets.

Medium	Description	Total cost	Audience size	Cost per thousand (CPM)
Network television	30-second commercial	$80,000 – $600,000	10 million – 20 million	$5 – $30
Local television station	30-second commercial	$1000 – $50,000	50,000 – 2 million	$3 – $25
Cable television	30-second commercial	$3000 – $10,000	100,000 – 500,000	$8 – $20
Radio	60-second commercial	$200 – $1000	50,000 – 2 million	$1 – $18
Major metro newspaper	Full-page ad, single insertion	$20,000 – $80,000	100,000 – 600,000	$80 – $130
Regional edition of a national magazine	Full-page ad, single insertion	$5000 – $50,000	50,000 – 900,000	$40 – $80
Local magazine	Full-page ad, single insertion	$2000 – $10,000	3000 – 80,000	$100 – $140
Direct mail – coupon pack	Mailed in letter-sized envelope	$100 – $3000	10,000 – 200,000	$15 – $20
Billboard	Highway billboard (one – three months)	$5000 – $25,000	100,000 – 3 million	$2 – $5
World Wide Web	Banner ad (one month)	$200 – $30,000	10,000 – 50 million	$1 – $50
World Wide Web	Rich media ad (one month)	$200 – $1 million	10,000 – 50 million	$18 – $30
World Wide Web	Site sponsorship (one month)	$300 – $2 million	10,000 – 50 million	$30 – $75
Targeted e-mail	Single mailing	$50 – $150,000	10,000 – 10 million	$5 – $15

FIGURE 4-8 CPM rates for advertising in various media

One of the most difficult things for companies to do as they move onto the Web is gauge the costs and benefits of advertising on the Web. Many companies have developed new metrics to evaluate the number of desired outcomes their advertising yields. For example, instead of comparing the number of click-throughs that companies obtain per dollar of advertising, they measure the number of new visitors to their site who buy for the first time after arriving at the site by way of a click-through. They can then calculate the advertising cost of acquiring one customer on the Web and compare that to how much it costs them to acquire one customer through traditional channels.

ner ads were first introduced, have steadily dropped and now range from .3 percent to .5 percent, depending on the site's content.

To battle this decrease, banner ad designers first introduced animated GIFs with moving elements in the hopes that they might be more attractive to the user's eye than stationary graphics. When animated GIFs failed to halt the decline in click-through rates, designers created ads that displayed rich media effects, such as movie clips. They added interactive effects by writing Java programs that could respond to a user's click with some action (other than simply loading the advertiser's page into the browser). Some of these interactive ads even act like miniature video games. Designers also created banner ads that appear to be dialog boxes in the hope that confused users would click them. Several examples of this type of banner ad are shown in Figure 4-9. These ads are designed to induce users to click a button in the ad to fix the "error," but the banners actually link to Web sites or begin installing a program on the user's computer.

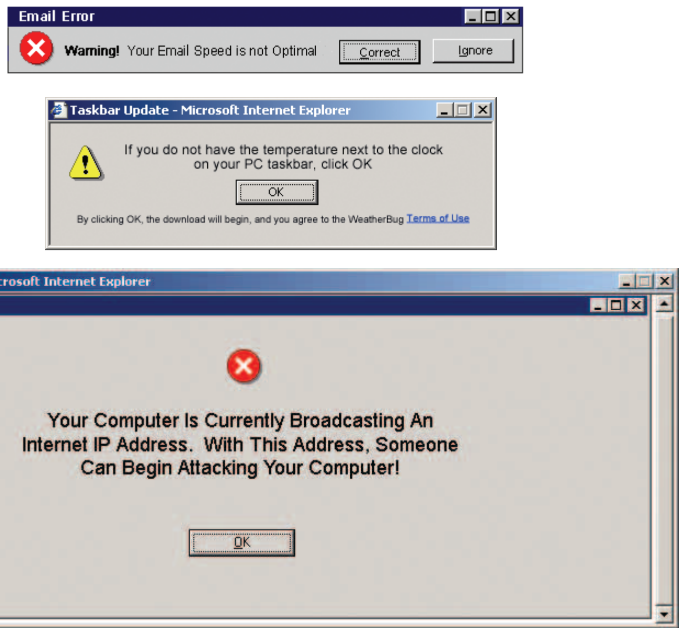

FIGURE 4-9 Disguised banner ads

Periodically, advertisers have tried new banner ad sizes and have placed the ads in page locations other than at the top or bottom. For example, some sites now use a large banner ad called a **skyscraper ad** that is designed to be placed on the side of a Web page and remain visible as the user scrolls down through the page.

Unfortunately for advertisers, none of these efforts has prevented the inexorable decline in click-through rates. In what some observers see as a last-ditch attempt to make advertising work on the Web, banner ad designers have turned to the alternative ad formats described in the next section.

Other Web Ad Formats

The steady decline in the effectiveness of banner ads has prompted advertisers to explore other formats for Web ads. One of these formats is the pop-up ad. A **pop-up ad** is an ad that appears in its own window when the user opens or closes a Web page. The window in which the ad appears does not include the usual browser controls. The only way to dismiss the ad is to click the small close button in the upper-right corner of the window's frame. Many users find pop-up ads extremely annoying. A particularly irritating variation on the pop-up ad technique occurs at Web sites that open more than one pop-up ad when a user leaves the site or closes the browser. If the user does not act quickly enough, the browser spawns multiple windows and can even crash the computer.

Another type of pop-up ad is called the pop-behind ad. A **pop-behind ad** is a pop-up ad that is followed very quickly by a command that returns the focus to the original browser window. The result is an ad that is parked behind the user's browser, waiting to appear when the browser is closed.

Despite user objections to pop-up ads (in all their variations), an increasing number of Web sites are using them as a way of delivering a larger advertising image in a more forceful way. Some users have responded by using **ad-blocking software** that prevents banner ads and pop-up ads from loading (see the Online Companion's Additional Information section for links to Web sites that distribute or sell ad-blocking software). An increasing number of Web browsers can be configured not to display many of these ads; however, any site that uses methods for navigation that are similar to those used to deliver ads (such as pop-up information windows) cannot operate as intended in the reconfigured browser. Research conducted in 2004 by British interactive media consulting firm **Bunnyfoot Universality** found that pop-up ads not only annoy users, they actually create lasting bad will among users toward the company whose products are depicted in the ads. Despite these findings, many advertisers find pop-up ads to be effective tools for drawing customers to their sites and continue to use them.

Another intrusive ad format is the **interstitial ad**. When a user clicks a link to load a page, the interstitial ad opens in its own browser window, instead of the page that the user intended to load (the general meaning of the word "interstitial" is something that comes between two other things). Many interstitial ads close automatically, allowing the intended page to open in the existing browser window. Other interstitials require the user to click a button before they close. Because they open in a full-size browser window, interstitial ads offer the advertiser even more space than the pop-up ad format. These ads also completely cover the Web page that the user was trying to see. Many users find interstitials even more annoying than pop-up ads because they are larger and a more forceful interruption of the Web-browsing experience.

A fourth ad format is the rich media ad. **Rich media ads**, also called **active ads**, generate graphical activity that "floats" over the Web page itself instead of opening in a separate window. These ads always contain moving graphics and usually include audio and video elements. One of the first rich media ads featured the figure of a little man who walked into the displayed Web page, unrolled a movie poster, and then pasted the poster onto the Web page (covering up part of the Web page content—content that a user might have been reading!). After about 10 seconds, the figure walked off the page and the poster disappeared. While it was open on the page, the poster was an active link to the movie's Web site. Another early rich media ad showed a Ford Explorer driving into the Web page. The Web page appeared to shake with the vibrations of the Explorer as it drove through. Rich media ads are certainly attention grabbers and are even more intrusive than pop-ups or interstitials because they occur on the Web page itself and offer users no obvious way to dismiss them. Many industry observers believe that advertisers will create new ad formats as users become accustomed to seeing active ads and they lose their effectiveness.

Site Sponsorships

Some Web sites offer advertisers the opportunity to sponsor all or parts of their sites. These **site sponsorships** give advertisers a chance to promote their products, services, or brands in a more subtle way than by placing banner or pop-up ads on the sites (although some sponsorship packages include a certain number of banner and pop-up ads).

Companies that buy Web site sponsorships have goals that are similar to those of sporting event sponsors or television program sponsors; that is, they want to tie the company or product name to an event or a set of information. The idea is that the quality of the event or information set will carry over to the company's products, services, or brands. In general, sponsorships are used to build brand images and develop reputations rather than to generate immediate sales.

In some cases, the sponsor is given the right to create content for the site or to weave its advertising message into the site's content. This practice can raise ethical concerns if not done carefully. Sites that offer content spots to sponsors should always identify the content as an advertisement or as provided by the sponsor. Unfortunately, many sites do not use clear labels for sponsored content. This can confuse site visitors who are unable to distinguish between editorial content and advertising. Sites that offer medical information, for example, should be especially careful to distinguish between information that is generated by the site's reporters or editorial staff and information that is provided by pharmaceutical companies or medical device manufacturers.

Effectiveness of Online Advertising

After years of experimenting with a variety of online advertising formats, the effectiveness of online advertising remains difficult to measure. A major problem is the lack of a single industry standard measuring service, such as the service that the Nielsen ratings provide for television broadcasting or the Audit Bureau of Circulations procedures provide for the print media. In 2003, the Interactive Advertising Bureau (IAB) and the Institute of Practitioners in Advertising (IPA) created a joint task force to review four media measurement systems (Nielsen//NetRatings, ComScore, Hitwise, and RedSheriff) and recommend one as the single standard or devise an alternative measurement system. The task force has announced that it is currently considering only ComScore and Nielsen//NetRatings.

Part of the difficulty in measuring the effectiveness of online advertising arises from the ways in which site visitors change their Web surfing behaviors and habits. For example, as people using the Web gain experience, they change their behavior. An experienced Web user is far less likely than a new Web user to click a banner ad. Declining click-through rates might not be a good indicator of the success of online advertising, however. Many companies are finding that online advertising can be an important element in a comprehensive marketing strategy that uses several different media to deliver messages to potential customers. In 2003, Ad Age reported survey results that showed more potential car purchasers would be influenced by an online ad than by a television ad. Very few people would buy a car based on an online ad, but online ads might prove to be an effective way of building brand recognition and conveying information about cars to potential buyers. You can learn more about current developments in online advertising effectiveness by visiting the **AdAge.com**, **eMarketer**, and **Online Publishers Association** Web sites.

Most marketing analysts do agree that online advertising is much more effective if it is properly targeted. Online ads that reach site visitors who are looking for something specific that is related to the ad's message are much more successful than ads viewed by a general population. Thus, market segmentation is an important element in online advertising success. One useful marketing tool that uses market segmentation successfully is e-mail marketing, the subject of the next section.

E-MAIL MARKETING

Sociologists and cultural anthropologists have proclaimed e-mail to be one of the greatest tools for human communication to be developed in the 20th century. Because advertising is a process of communication, it is easy to see that e-mail can be a very powerful element in any company's advertising strategy. Many businesses would like to send e-mail messages to their customers and potential customers to announce new products, new product features, or sales on existing products. However, industry analysts have severely criticized some companies for sending e-mail messages to customers or potential customers. Some companies have even faced legal action after sending out mass e-mailings. You will learn more about the legal issues surrounding unsolicited commercial e-mail (also called "spam," as you learned in Chapter 2) issues in Chapter 7. However, sending e-mail messages to Web site visitors who expressly request the e-mail messages is a completely different story. A key element in any e-mail marketing strategy is to obtain customers' approvals before sending them any e-mail that includes a marketing or promotional message.

Permission Marketing

Many businesses are finding that they can maintain an effective dialog with their customers by using automated e-mail communications. Sending one e-mail message to a customer can cost less than 1 cent if the company already has the customer's e-mail address. Purchasing the e-mail addresses of people who ask to receive specific kinds of e-mail messages adds between a few cents and a dollar to the cost of each message sent. Another factor to consider is the conversion rate. The **conversion rate** of an advertising method is the percentage of recipients who respond to an ad or promotion. Conversion rates on requested e-mail messages range from 10 percent to more than 30 percent. These are much higher than the click-through rates on banner ads, which are currently under .5 percent and decreasing.

The practice of sending e-mail messages to people who request information on a particular topic or about a specific product is called **opt-in e-mail** and is part of a marketing strategy called **permission marketing**. Seth Godin, the founder of YoYoDyne and later the vice president for direct marketing at Yahoo!, developed this marketing strategy and publicized it in a book he wrote with Don Peppers titled *Permission Marketing*. Godin argues that, as the pace of modern life quickens, time becomes a valuable commodity. Most marketing efforts that traditional businesses use to promote their products or services depend on potential customers having enough time to listen to sales pitches and pay attention to the best ones. As time becomes more precious to everyone, people no longer wish to hear and evaluate advertising and promotional appeals for products and services in which they have no interest.

Thus, a marketing strategy that sends specific information only to people who have indicated an interest in receiving information about the product or service being promoted should be more successful than a marketing strategy that sends general promotional messages through the mass media. Two companies that offer opt-in e-mail services are **PostMasterDirect** and **yesmail.com**. These services provide the e-mail addresses to advertisers at rates that vary depending on the type and price of the product being promoted, but range from a minimum of about $1 to a maximum of 25–30 percent of the selling price of the product.

Combining Content and Advertising

One strategy for getting e-mail accepted by customers and prospects that many companies have found successful is to combine content with an advertising e-mail message. Articles and news stories that would interest specific market segments are good ways to increase acceptance of e-mail.

E-mail messages that include large articles or large attachments (such as graphics, audio, or video files) can fill up recipients' in-boxes very quickly, so many advertisers send content by inserting hyperlinks into e-mail messages. The hyperlinks should take customers to the content, which is stored on the company's Web site. Once customers are viewing pages on the Web site, it is easier to induce them to stay on the site and consider making purchases. Using hyperlinks that lead to a Web page instead of embedding content in e-mail messages is especially important if the content requires a browser plug-in to play (as many audio and video files do). The Web page can provide a link to the needed plug-in software.

An important element in any marketing strategy is coordination across media outlets. If a company is using e-mail to promote its products or services, it should make sure that any other marketing efforts it is undertaking at the same time, such as press releases, print media ads, or broadcast media ads, are delivering a message that is consistent with the e-mail campaign's message.

Outsourcing E-Mail Processing

Many companies find that the number of customers who opt-in to information-laden e-mails can grow rapidly. The job of handling e-mail lists and mass-mailing software can quickly outgrow the capacity of the company's information technology staff. A number of companies offer e-mail management services, and most small or medium-size companies outsource their e-mail-processing operations. The Additional Information section of the Online Companion pages for this chapter includes links to several companies that offer e-mail processing and management services. These companies will manage an e-mail campaign for a cost of between 1 and 2 cents per valid e-mail address. Many of these companies will also help their clients purchase lists of e-mail addresses from companies that compile such lists.

You will learn more about the ethical issues faced by companies that compile and sell e-mail address lists in Chapter 7.

TECHNOLOGY-ENABLED CUSTOMER RELATIONSHIP MANAGEMENT

The nature of the Web, with its two-way communication features and traceable connection technology, allows firms to gather much more information about customer behavior and preferences than they can gather using micromarketing approaches. Now, companies can measure a large number of things that are happening as customers and potential customers gather information and make purchasing decisions. The information that a Web site can gather about its visitors (which pages were viewed, how long each page was viewed, the sequence, and similar data) is called a **clickstream**.

The idea of technology-enabled relationship management has become possible when promoting and selling on the Web. **Technology-enabled relationship management** occurs when a firm obtains detailed information about a customer's behavior, preferences, needs, and buying patterns, *and* uses that information to set prices, negotiate terms, tailor promotions, add product features, and otherwise customize its entire relationship with that customer.

Although companies can use technology-enabled relationship management concepts to help manage relationships with vendors, employees, and other stakeholders, most companies currently use these concepts to manage customer relationships. Thus, technology-enabled relationship management is often called **customer relationship management (CRM)**, **technology-enabled customer relationship management**, or **electronic customer relationship management (eCRM)**. Figure 4-10 lists seven dimensions of the customer interaction experience and shows how technology-enabled customer relationship management differs from traditional seller-customer interactions in each of those dimensions.

CRM as a Source of Value in the Marketspace

Harvard Business School researchers Jeffrey Rayport and John Sviolka observed that firms today do business in both a physical world and a virtual, information world. Rayport and Sviolka distinguish between commerce in the physical world, or marketplace, and commerce in the information world, which they term the **marketspace**. In the information world's marketspace, digital products and services can be delivered through electronic communication channels, such as the Internet.

In Chapter 1, you learned that the value chain model described the primary and support activities that firms use to create value. This value chain model is valid for activities in the physical world and in the marketspace. However, value creation requires different processes in the marketspace. By understanding that value creation in the marketspace is different, firms can identify value opportunities effectively in both the physical and information worlds.

For years, businesses have viewed information as a part of the value chain's supporting activities, but they have not considered how information itself might be a source of value. In the marketspace, firms can use information to create new value for customers. Many electronic commerce Web sites today offer customers the convenience of an online

Dimensions	Technology-enabled customer relationship management	Traditional relationships with customers
Advertising	Provide information in response to specific customer inquiries	"Push and sell" a uniform message to all customers
Targeting	Identify and respond to specific customer behaviors and preferences	Market segmentation
Promotions and discounts offered	Individually tailor to customer	Same for all customers
Distribution channels	Direct or through intermediaries; customer's choice	Through intermediaries chosen by the seller
Pricing of products or services	Negotiated with each customer	Set by the seller for all customers
New product features	Created in response to customer demands	Determined by the seller based on research and development
Measurements used to manage the customer relationship	Customer retention; total value of the individual customer relationship	Market share; profit

FIGURE 4-10 Technology-enabled relationship management and traditional customer relationships

order history, recommendations based on previous purchases, and show current information about products in which the customer might be interested.

Successful Web marketing approaches all involve enabling the potential customer to find information easily and customizing the depth and nature of that information; such approaches should encourage the customer to buy. Firms should track and examine the behaviors of their Web site visitors, and then use that information to provide customized, value-added digital products and services in the marketspace. Companies that use these technology-enabled relationship management tools to improve their contact with customers are more successful on the Web than firms that adapt advertising and promotion strategies that were successful in the physical world, but are less effective in the virtual world.

In the early days of the Web, many companies attempted to create comprehensive CRM systems that captured every bit of information about every customer. Many of these systems failed because they were overly complex and required company staff to spend too much time entering data. In recent years, companies have had more success with CRM systems that are less ambitious in scope. By limiting data collection to key facts that matter to salespeople and customers, these systems provide valuable information, yet they do not overly burden sales and administrative staff with data entry work. More companies are getting better at automating the collection of data, which also increases the likelihood that a CRM implementation will be successful.

You can obtain updates on current developments in CRM at the **IntelligentCRM** Web site. In Chapter 9, you will learn more about the specific software tools and other technologies that companies are using to implement CRM.

CREATING AND MAINTAINING BRANDS ON THE WEB

A known and respected brand name can present to potential customers a powerful statement of quality, value, and other desirable qualities in one recognizable element. Branded products are easier to advertise and promote, because each product carries the reputation of the brand name. Companies have developed and nurtured their branding programs in the physical marketplace for many years. Consumer brands such as Ivory soap, Walt Disney entertainment, Maytag appliances, and Ford automobiles have been developed over many years with the expenditure of tremendous amounts of money. However, the value of these and other trusted major brands far exceeds the cost of creating them.

Elements of Branding

The key elements of a brand, according to researchers at advertising agency Young & Rubicam, are differentiation, relevance, and perceived value. Product differentiation is the first condition that must be met to create a product or service brand. The company must clearly distinguish its product from all others in the market. This makes branding difficult for commodity products such as salt, nails, or plywood—difficult, but not impossible.

A classic example of branding a near-commodity product is Procter & Gamble's creation of the Ivory brand more than 100 years ago. The company was experimenting with manufacturing processes and had accidentally created a bar soap that contained a high percentage of air. When one of the workers noted that the soap floated in water, the company decided to sell the soap using this differentiating characteristic in packaging and advertising by claiming "it floats." Thus was the Ivory soap brand born. **Procter & Gamble** maintains this brand differentiation on its Web site even today by listing the link to its **Ivory Soap** site under the heading "Beauty and Skin Care Products."

The second element of branding—relevance—is the degree to which the product offers utility to a potential customer. The brand only has meaning to customers if they can visualize its place in their lives. Many people understand that **Tiffany & Co.** creates a highly differentiated line of jewelry and gift products, but very few people can see themselves purchasing and using such goods.

The third branding component—perceived value—is a key element in creating a brand that has value. Even if your product is different from others on the market and potential customers can see themselves using this product, they will not buy it unless they perceive value. Some large fast food outlets have well-established brands that actually work against them. People recognize these brands and avoid eating at these restaurants because of negative associations—such as low overall quality and high-fat-content menu items. Figure 4-11 summarizes the elements of a brand.

Element	Meaning to customer
Differentiation	In what significant ways is this product or service unlike its competitors?
Relevance	How does this product or service fit into my life?
Perceived value	Is this product or service good?

FIGURE 4-11 Elements of a brand

If a brand has established that it is different from competing brands and that it is relevant and inspires a perception of value to potential purchasers, those purchasers will buy the product and become familiar with how it provides value. Brands become established only when they reach this level of purchaser understanding and acceptance.

Unfortunately, brands can lose their value if the environment in which they have become successful changes. A dramatic example is Digital Equipment Corporation (DEC). For years, DEC was a leading manufacturer of midrange computers. When the market for computing shifted to personal computers, DEC found that its branding did not transfer to the personal computers that it produced. The consumers in that market did not see the same perceived value or differentiation in DEC's personal computers that the buyers of midrange systems had seen for years. This is an important element of branding for Web-based firms to remember, because the Web is still evolving and changing at a rapid pace.

Emotional Branding vs. Rational Branding

Companies have traditionally used emotional appeals in their advertising and promotion efforts to establish and maintain brands. One branding expert, Ted Leonhardt, has described "brand" as "an emotional shortcut between a company and its customer." These emotional appeals work well on television, radio, billboards, and in print media, because the ad targets are in a passive mode of information acceptance. However, emotional appeals are difficult to convey on the Web because it is an active medium controlled to a great extent by the customer. Many Web users are actively engaged in such activities as finding information, buying airline tickets, making hotel reservations, and obtaining weather forecasts. These users are busy people who will rapidly click away from emotional appeals.

Marketers are attempting to create and maintain brands on the Web by using **rational branding**. Companies that use rational branding offer to help Web users in some way in exchange for their viewing an ad. Rational branding relies on the cognitive appeal of the specific help offered, not on a broad emotional appeal. For example, Web e-mail services such as **Excite Mail**, **HotMail**, or **Yahoo! Mail** give users a valuable service—an e-mail account and storage space for messages. In exchange for this service, users see an ad on each page that provides this e-mail service.

Similarly, **MasterCard** promotes its brand name online through its **Shop Smart!** program. Shop Smart! is a third-party assurance mechanism. MasterCard ensures that any Web site displaying the Shop Smart! emblem (which happens to include a large MasterCard logo) is using what MasterCard defines as a "safe" method of processing transactions. In exchange for this assurance on a Web shopping site, the Web user sees the MasterCard logo.

Brand Leveraging Strategies

Rational branding is not the only way to build brands on the Web. One method that is working for well-established Web sites is to extend their dominant positions to other products and services, a strategy called **brand leveraging**. **Yahoo!** is an excellent example of a company that has used brand-leveraging strategies. Yahoo! was one of the first directories on the Web. It added a search engine function early in its development and has continued to parlay its leading position by acquiring other Web businesses and expanding its existing offerings. Yahoo! acquired GeoCities and Broadcast.com, and entered into an extensive cross-promotion partnership with a number of **Fox** entertainment and media companies. Yahoo! continues to lead its two nearest competitors, **Excite** and **Go.com**, in ad revenue by adding features that Web users find useful and that increase the site's value to advertisers. Amazon.com's expansion from its original book business into CDs, videos, and auctions is another example of a Web site leveraging its dominant position by adding features that are useful to existing customers.

Brand Consolidation Strategies

Another way to leverage the established brands of existing Web sites was pioneered by Della & James, an online bridal registry that is now doing business as part of **WeddingChannel.com**. Although a number of national department store chains, such as **Macy's**, have established online registries for their own stores, Della & James created a single registry that connects to several local and national department and gift stores, including **Crate&Barrel**, **Gump's**, **Neiman Marcus**, **Tiffany & Co.**, and **Williams-Sonoma**. The logo and branding of each participating store are featured prominently on the WeddingChannel.com site. The founders identified an opening for a market intermediary because the average engaged couple registers at three stores. Thus, WeddingChannel.com provides a valuable consolidating activity for registering couples and their wedding guests that no store operating alone could provide. WeddingChannel.com also provides wedding planning services and access to every item that a bride and groom might need—from the bridal gown to the cake—all in one convenient Web location.

Costs of Branding

Transferring existing brands to the Web or using the Web to maintain an existing brand is much easier and less expensive than creating an entirely new brand on the Web. In 1998, a large number of companies began spending significant amounts of money to build new brands on the Web. According to studies by the **Intermarket Group**, the top 100 electronic commerce sites each spent an average of \$8 million that year to create and build their online brands. Two of the top spenders included the battling Web sites **Amazon.com**, which spent \$133 million, and **BarnesandNoble.com**, which spent \$70 million. Most of this spending was for television, radio, and print media—not for online advertising. Online brokerages E*TRADE and Ameritrade Holding were also among the top five in that first year of major brand building on the Web, spending $71 million and $44 million, respectively.

Brand-building activity continued on the Web through 1999 and into the first months of 2000. In March 2000, the supply of money from lenders and venture capitalists began drying up, which resulted in smaller advertising expenditures for most firms. By 2001, the peak of brand-building spending was over for new companies on the Web. Traditional firms realized that an opportunity had opened for them to move their offline brands to the Web.

Promoting any company's Web presence should be an integral part of brand development and maintenance. The company's URL should always be included on product packaging and in mass media advertising on radio, television, and in print. Integrating the URL with the company logo on brochures can also be helpful in getting the word out about the Web site. Ensuring that the site appears in search engine listings is also very important, as you will learn in the next section.

Affiliate Marketing Strategies

Of course, this leveraging approach works only for firms that already have Web sites that dominate a particular market. As the Web matures, it will be increasingly difficult for new entrants to identify unserved market segments and attain dominance. A tool that many new, low-budget Web sites are using to generate revenue is affiliate marketing. In **affiliate marketing**, one firm's Web site—the affiliate firm's—includes descriptions, reviews, ratings, or other information about a product that is linked to another firm's site that offers the item for sale. For every visitor who follows a link from the affiliate's site to the seller's site, the affiliate site receives a commission. The affiliate site also obtains the benefit of the selling site's brand in exchange for the referral.

The affiliate saves the expense of handling inventory, advertising and promoting the product, and processing the transaction. In fact, the affiliate risks no funds whatsoever. CDnow and Amazon.com were two of the first companies to create successful affiliate programs on the Web. CDnow's Web Buy program, which included more than 250,000 affiliates before the company entered into its joint marketing agreement with Amazon.com, was one of CDnow's main sources for new customers. The Amazon.com program (which now includes the CDnow program) has more than 1,000,000 affiliate sites. Most of these affiliate sites are devoted to a specific issue, hobby, or other interest. Affiliate sites choose books or other items that are related to their visitors' interests and include links to the seller's site on their Web pages. Books and CDs are a natural for this type of shared promotional activity, but sellers of other products and services also use affiliate marketing programs to attract new customers to their Web sites.

One of the more interesting marketing tactics made possible by the Web is **cause marketing**, which is an affiliate marketing program that benefits a charitable organization (and, thus, supports a "cause"). In cause marketing, the affiliate site is created to benefit the charitable organization. When visitors click a link on the affiliate's Web page, a donation is made by a sponsoring company. The page that loads after the visitor clicks the donation link carries advertising for the sponsoring companies. Many companies have found that the click-through rates on these ads are much higher than the typical banner ad click-through rates.

Affiliate Commissions

Affiliate commissions can be based on several variables. In the **pay-per-click model**, the affiliate earns a commission each time a site visitor clicks the link and loads the seller's page. This is similar to the click-through model of charging for banner advertising, and the rates paid per thousand click-throughs are similar to those paid for banner ads.

In the **pay-per-conversion model**, the affiliate earns a commission each time a site visitor is converted from a visitor into either a qualified prospect or a customer. An example of a seller that might use the qualified prospect definition is a credit card-issuing bank. The bank might decide that its best strategy is to pay affiliates only when the visitor turns out to be a good credit risk. Alternatively, the bank may decide it wants to pay the affiliate only if the visitor is approved for the card and then accepts the card (completes the sale). A site that pays its affiliates on completed sales usually pays a percentage of the sale amount rather than a fixed amount per conversion. Some sites use a combination of these methods to pay their affiliates. Commissions on completed sales range from 5 percent to 20 percent of the sale amount, depending on variables such as the type of product, the strength of the product's brand, how profitable the product is, and the size of an average order.

You can learn more about affiliate programs offered by different sites by going to each Web site and looking for a link to information about its affiliate program. Figure 4-12 shows the affiliate program information page for **Proflowers.com**, a top-rated online florist that has more than 40,000 affiliates sending business to its site.

Alternatively, you can visit an affiliate program broker site that offers affiliate program opportunities for a number of Web sites. An **affiliate program broker** is a company that serves as a clearinghouse or marketplace for sites that run affiliate programs and sites that want to become affiliates. These brokers also often provide software, management consulting, and brokerage services to affiliate program operators. For example, Proflowers.com uses affiliate program broker **Be Free** to manage its affiliate program. Be Free tracks affiliates' sales, calculates and pays affiliates' commissions, and handles any problems that arise. **Commission Junction** and **LinkShare** are two other popular affiliate program brokers. Other companies, such as **Performics**, offer affiliate program brokering along with other marketing services.

Viral Marketing Strategies

Traditional marketing strategies have always been developed with an assumption that the company would communicate with potential customers directly or through an intermediary acting on behalf of the company, such as a distributor, retailer, or independent sales organization. Because the Web expands the types of communication channels available, including customer-to-customer communication, another marketing approach, viral marketing, has become popular on the Web. **Viral marketing** relies on existing customers to tell other people—the company's prospective customers—about the products or services they have enjoyed using. Much as affiliate marketing uses Web sites to spread the word about a company, viral marketing approaches use individual customers to do the same thing. The number of customers increases the way a virus multiplies, thus the name.

Blue Mountain Arts, an electronic greeting card company, purchased very little advertising but grew rapidly. Electronic greeting cards are e-mail messages that include a link to the greeting card site. When people received Blue Mountain Arts electronic greeting cards in their e-mail, they clicked a link in the e-mail message that opened the Blue Mountain

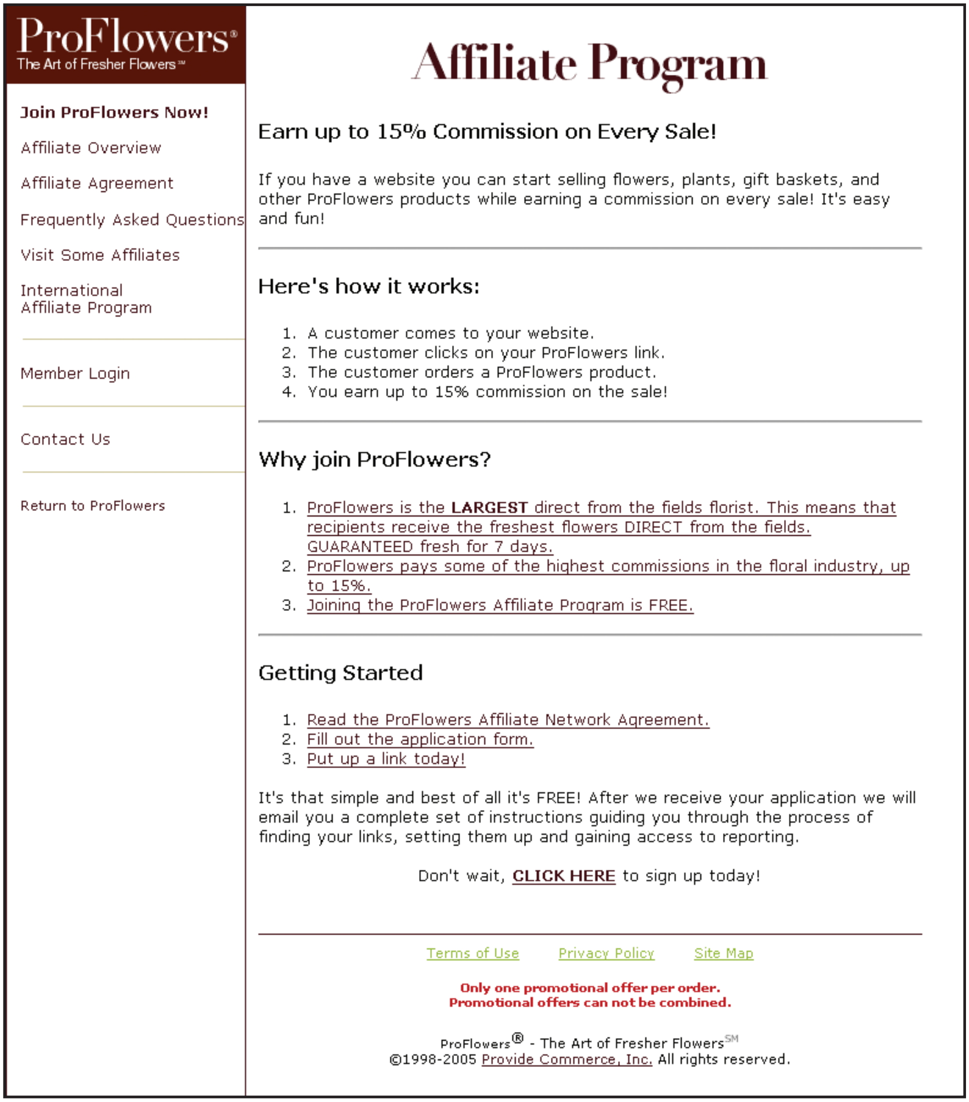

FIGURE 4-12 Proflowers.com affiliate program information page

Arts Web site in their browser. Once at the Blue Mountain Arts site, they were likely to search for cards that they might like to send to other friends. A greeting card recipient might send electronic greeting cards to several friends, who could then send greetings to their friends. Each new visitor to the site could spread the "virus," which in this case was the knowledge of Blue Mountain Arts. By late 1999, when the company was sold to At Home Corporation for $780 million, Blue Mountain had more than 10 million people visiting its site each month. Blue Mountain Arts built a large following using its approach to viral marketing. Today, the site requires visitors to pay for a subscription before they can send electronic greeting cards. However, the site's original strategy of offering free greetings combined with a viral marketing strategy helped it build a large customer base very quickly.

SEARCH ENGINE POSITIONING AND DOMAIN NAMES

Potential customers find Web sites in many different ways. Some site visitors are referred by a friend. Others are referred by an affiliate marketing partner of the site. Some see the site's URL in a print advertisement or on television. Others arrive after typing a URL that is similar to the company's name. But many site visitors are directed to the site by a search engine or directory Web site.

Search Engines and Web Directories

A **search engine** is a Web site that helps people find things on the Web. Search engines contain three major parts. The first part, called a **spider**, a **crawler**, or a **robot** (or simply **bot**), is a program that automatically searches the Web to find Web pages that might be interesting to people. When the spider finds Web pages that might interest search engine site visitors, it collects the URL of the page and information contained on the page. This information might include the page's title, key words included in the page's text, and information about other pages on that Web site. In addition to words that appear on the Web page, Web site designers can specify additional key words in the page that are hidden from the view of Web site visitors, but that are visible to spiders. These key words are enclosed in an HTML tag set called meta tags. The word "meta" is used for this tag set to indicate that the key words describe the content of a Web page and are not themselves part of the content.

The spider returns this information to the second part of the search engine to be stored. The storage element of a search engine is called its **index** or **database**. The index checks to see if information about the Web page is already stored. If it is, it compares the stored information to the new information and determines whether to update the page information. The index is designed to allow fast searches of its very large amount of stored information.

The third part of the search engine is the search utility. Visitors to the search engine site provide search terms, and the **search utility** takes those terms and finds entries for Web pages in its index that match those search terms. The search utility is a program that creates a Web page that is a list of links to URLs that the search engine has found in its index that match the site visitor's search terms. The visitor can then click the links to visit those sites. You will learn more about the technologies used in search engines in later chapters of this book.

Some search engine sites also provide classified hierarchical lists of categories into which they have organized commonly searched URLs. Although these sites are technically called Web directories, most people refer to them as search engines. The most popular of these sites, such as Yahoo!, include a Web directory and a search engine. They give users the option of using the search engine to find categories of URLs as well as the URLs themselves. This combination of Web directory and search engine can be a powerful tool for finding things on the Web. **Nielsen//NetRatings**, the online audience-measurement and analytics consulting firm, frequently issues press releases that list the most frequently visited Web sites. The search engine and Web directory sites **AltaVista**, **AOL**, **Excite**, **Google**, **Lycos**, **MSN**, and **Yahoo!** regularly appear on these lists.

Marketers want to make sure that when a potential customer enters search terms that relate to their products or services, their companies' Web site URLs appear among the first 10 returned listings. The weighting of the factors that search engines use to decide which URLs appear first on searches for a particular search term is called a **search engine ranking**. For example, if a site is near the top of the list of links returned for the search term "auto," that site is said to have a high search engine ranking for "auto." The combined art and science of having a particular URL listed near the top of search engine results is called **search engine positioning**, **search engine optimization**, or **search engine placement**. For sites that obtain most of their visitors from search engines, a high ranking that places their URL near the top of the list of links returned by the search engine is extremely important.

Paid Search Engine Inclusion and Placement

An increasing number of search engine sites have started making the task easier—but for a price. These search engine sites offer companies a **paid placement** (also called a **sponsorship** or a **search term sponsorship**; however, note that these search term sponsorships are not the same thing as the general site sponsorships you learned about earlier in this chapter), which is the option of purchasing a top listing on results pages for a particular set of search terms. The rates charged vary tremendously depending on the desirability of the search terms to potential sponsors.

Another option for companies is to buy banner ad space at the top of search results pages that include certain terms. For example, Chevrolet might want to buy banner ad space at the top of all search results pages that are generated by queries containing the words "new" and "car." Most search engine sites sell banner ad space on this basis. An increasing number sell space on results pages for the most desirable terms only to companies that agree to package deals that include paid placement and banner ad purchases.

Search engine positioning is a complex subject. A number of consulting firms do nothing but advise companies on positioning strategy. Entire books have been written on the subject (one of the best currently available is Frederick Marckini's book, which is referenced in the For Further Study and Research section at the end of this chapter), and several major conferences are devoted to the subject each year.

The large drop in Internet advertising that took place in 2001–2002 is over and online ad spending is up. Spending exceeded $8.5 billion in 2004, and the rate of increase is expected to continue at more than 20 percent per year. Most of this increase is due to a boom in paid placement advertising. In 2002, paid placement ads were 15 percent of all online advertising. Today, they are more than 40 percent of the total. Banner ad spending has dropped steadily in recent years and currently is less than 18 percent of total online advertising.

The business of selling search engine inclusions and placements is complex because many search engines do not sell inclusion and placement rights on their pages directly to advertisers. They use **search engine placement brokers**, which are companies that aggregate inclusion and placement rights on multiple search engines and then sell those combination packages to advertisers. Two large search engine placement brokers are **LookSmart** and **Overture**. Another reason for the complexity in this business is that recent years have brought a flurry of mergers and acquisitions. For example, in 2003, Yahoo! purchased Overture. This put Yahoo! in the business of selling advertising for several of its major competitors (who were using Overture as their search engine placement broker), including AltaVista, InfoSpace, Lycos, and MSN. An excellent resource for keeping up with the rapid changes in this business is Danny Sullivan's **Search Engine Watch** Web site. Although some of the content on the site is limited to paid subscribers, the site does include many free resources and explanations that are useful for learning about search engines, placement brokers, and search engine optimization in general.

The most popular search engine, Google, does not use a placement broker to sell search term inclusion and placement for its site. Google sells these services directly through its **Google AdWords** program. The home page for Google's AdWords program appears in Figure 4-13.

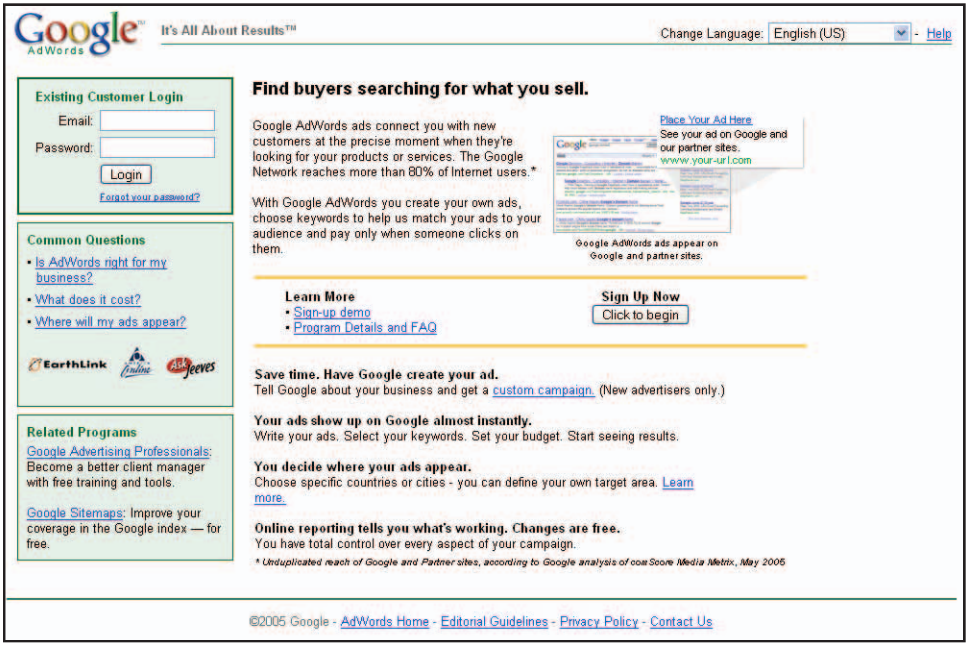

FIGURE 4-13 Google's AdWords program home page

Web sites that offer content can also participate in paid placement. Google offers its **AdSense** program to sites that want to carry ads that match the content offered on the site. Other companies, such as **Kanoodle** and Yahoo!'s **Overture** division, offer similar ad brokerage services, but Google is the leader in this market. The content site receives a placement fee from the broker in exchange for the ad placement and the broker sells the placement slots to interested advertisers. These techniques in which ads are placed in proximity to related content is sometimes called **contextual advertising**.

Of course, this approach is not without its flaws. In 2003, the *New York Post* ran a sensational story that described a gruesome murder. The murder victim's body had been cut into pieces, which the murderer hid in a suitcase. When the newspaper's Web site ran the story, it appeared with a paid placement ad for luggage. The ad broker's software had noted the word "suitcase" in the story and decided that it would be the perfect place for a luggage ad. Today, ad brokers use more sophisticated software and human reviewers to prevent this type of error; however, some industry analysts believe that contextual advertising on content sites will never be as successful as paid placement on search engine pages. They argue that search engine pages are provided to site visitors looking for something specific, often as part of a purchasing process. Content sites are used to explore and learn about more general things. Thus, an ad on a search engine results page will always be more effective than an ad on a content site page.

Another variation of paid placement ads uses search engine results pages that are generated in response to a search for products or services in a specific local area. This technique, called **localized advertising**, places ads related to the location on the search results page. In 2004, Google launched the beta of its **Google Local** search service that lets users search by ZIP code or local address. The local advertising market (in outlets such as the Yellow Pages), is estimated to be more than $14 billion, a very attractive market for online advertisers. This promises to be an interesting area for the expansion of online advertising in the future.

Web Site Naming Issues

Companies that have a well-established brand name or reputation in a particular line of business usually want the URLs for their Web sites to reflect that name or reputation. Obtaining identifiable names to use on the Web can be an important part of establishing a Web presence that is consistent with the company's existing image in the physical world.

Two airlines that started their online businesses with troublesome domain names have both purchased more suitable domain names. Southwest Airlines' domain name was www.iflyswa.com until it purchased www.southwest.com. Delta Air Lines' original domain name was www.delta-air.com. After several years of complaints from confused customers who could never remember to include the hyphen, the company purchased the domain name www.delta.com.

Companies often buy more than one domain name. Some companies buy additional domain names to ensure that potential site visitors who misspell the URL will still be redirected (through the misspelled URL) to the intended site. For example, Yahoo! owns the name Yahow.com. Other companies own many URLs because they have many different names or forms of names associated with them. For example, General Motors' main URL is GM.com, but the company also owns GeneralMotors.com, Chevrolet.com, Chevy.com, GMC.com, and many others. In 1995, Procter & Gamble purchased hundreds of domain names that included the names of its products, such as Crisco.com, Folgers.com, Jif.com, and Pampers.com. It also bought names related to its products such as Flu.com, BadBreath.com, Disinfect.com, and Stains.com. Procter & Gamble hoped that people searching the Web for information about stains, for example, would find the Stains.com site, which featured links to the company's cleaning products. Procter & Gamble even purchased Pimples.com and Underarms.com. (The company has since sold many of these domain names.)

Buying, Selling, and Leasing Domain Names

In 1998, a poster art and framing company named Artuframe opened for business on the Web. With quality products and an appealing site design, the company was doing well, but it was concerned about its domain name, which was www.artuframe.com. After searching for a more appropriate domain name, the company's president found the Web site of Advanced Rotocraft Technology, an aerospace firm, at the URL www.art.com. After finding out that Advanced Rotocraft Technology's site was drawing 150,000 visitors each month who were looking for something art related, Artuframe offered to buy the URL. The aerospace firm agreed to sell the URL to Artuframe for $450,000. Artuframe immediately relaunched as **Art.com** and experienced a 30 percent increase in site traffic the day after implementing the name change.

The newly named site did not rely on the name change alone, however. It entered a joint marketing agreement with Yahoo! that placed ads for Art.com on art-related search results pages. Art.com also created an affiliate program with businesses that sell art-related products and not-for-profit art organizations. Although Art.com was ultimately unsuccessful in building a profitable business on the Web and liquidated in mid-2001, the domain name was snapped up immediately by already profitable Allwall.com for an undisclosed amount. The new Allwall.com site, relaunched with the Art.com domain name, experienced a 100 percent increase in site visitors within the first month.

Another company that invested in an appropriate domain name was **Cars.com**. The firm paid $100,000 to the speculator who had originally purchased the rights to the name. Cars.com is a themed portal site that displays ads for new cars, used cars, financing, leasing, and other car-related products and services. The major investors in this firm are newspaper publishers that wanted to retain an interest in automobile-related advertising as it moved online. As you learned in Chapter 3, classified ads are an important revenue source for many newspapers.

More recently, higher prices have prevailed in the market for domain names. Names such as Fruits.com, Question.com, Speaker.com, Tower.com, and Wisdom.com have each sold for more than $100,000. Other names, including Cinema.com, Drugs.com, and ForSaleByOwner.com, have sold for more than $500,000 each. Not long ago, eCompanies paid $7.5 million for the domain name Business.com. Although most domains that have high value are in the .com top-level domain, the name engineering.org sold at auction to the American Society of Mechanical Engineers, a not-for-profit organization, for just under $200,000. Figure 4-14 lists domain names that sold for more than $1 million each.

Some companies and individuals invested their money in the purchase of highly desirable domain names. Instead of selling these names to the highest bidder, some of these domain name owners decided to retain ownership of the domain names and lease the rights to the names to companies for a fixed time period. Usually, these domain name lessors rent their domain names through URL brokers.

Domain name	Price
Business.com	$ 7.5 million
Altavista.com	$ 3.3 million
Loans.com	$ 3.0 million
Wine.com	$ 3.0 million
Autos.com	$ 2.2 million
Express.com	$ 2.0 million
WallStreet.com	$ 1.0 million

FIGURE 4-14 Domain names that sold for more than $1 million

URL Brokers and Registrars

Several legitimate online businesses, known as **URL brokers**, are in the business of selling, leasing, or auctioning domain names that they believe others will find valuable. Companies selling "good" (short and easily remembered) domain names include **BuyDomains.com**, and **GreatDomains**. The **Domain Notes** Web site provides links to URL brokers along with current information about the domain name market.

Companies can also obtain domain names that have never been issued, or that are currently unused, from a domain name registrar. **ICANN** (the Internet Corporation for Assigned Names and Numbers, about which you learned in Chapter 2) maintains a list of accredited registrars. Many of these registrars offer domain name search tools on their Web sites. A company can use these tools to search for available domain names that might meet their needs. Another service offered by domain name registrars such as **DirectNIC.com** is domain name parking. **Domain name parking**, also called **domain name hosting**, is a service that permits the purchaser of a domain name to maintain a simple Web site (usually one page) so that the domain name remains in use. The fees charged for this service are usually much lower than those for hosting an active Web site.

Summary

In this chapter, you learned how companies can use the principles of marketing strategy and the four Ps of marketing to achieve their goals for selling products and offering services on the Web. Some companies use a product-based marketing strategy and some use a customer-based strategy. The Web enables companies to mix these strategies and give customers a choice about which approach they prefer.

Market segmentation using geographic, demographic, and psychographic information can work as well on the Web as it does in the physical world. The Web gives companies the powerful added ability to segment markets by customer behavior and life-cycle stage, even when the same customer exhibits different behavior during different visits to the company's site.

Online advertising has become more intrusive since it was introduced in the mid-1990s. You learned how companies are using various types of online ads, including banners, pop-ups, pop-behinds, and interstitials to promote their sites to potential customers. Permission marketing and opt-in e-mail show promise as viable alternatives to decreasingly effective Web page ads.

Many companies are using the Web to manage their relationships with customers in new and interesting ways. By understanding the nature of communication on the Web, companies can use it to identify and reach the largest possible number of qualified customers. Technology-enabled customer relationship management can provide better returns for businesses on the Web than the traditional unaided approaches of market segmentation and micromarketing. After many companies experienced CRM system failures in the early years of the Web, companies began to limit the scope of these implementations. These focused CRM efforts have been more successful than the earlier comprehensive attempts to manage customer relationships with technology.

Firms on the Web can use rational branding instead of the emotional branding techniques that work well in mass media advertising. Some businesses on the Web are sharing and transferring brand benefits through affiliate marketing and cooperative efforts among brand owners. Others are using brand leveraging and viral marketing to increase their appeal and their customer bases.

Successful search engine positioning and domain name selection can be critical for many businesses in their quests for new online customers. A growing number of advertisers are paying for inclusion and placement services to guarantee that their sites' URLs appear among the top results provided to potential customers by search engines. They are also paying for placement of advertising messages in those pages and on other sites, such as content sites and local information sites. These paid advertising placements are the most rapidly growing forms of online advertising and are driving the overall increase in online ad spending that has occurred in the past two years. The most important theme in this chapter is that companies must integrate the Web marketing tools they use into a cohesive and customer-sensitive overall marketing strategy.

Key Terms

Acquisition cost
Active ad
Ad view
Ad-blocking software
Affiliate marketing
Affiliate program broker
Animated GIF
Banner ad

Banner advertising network
Banner exchange network
Behavioral segmentation
Blog
Brand
Brand leveraging
Cause marketing
Click
Clickstream
Click-through
Contextual advertising
Conversion
Conversion cost
Conversion rate
Cost per thousand (CPM)
Crawler
Customer life cycle
Customer relationship management (CRM)
Customer value
Database
Demographic segmentation
Domain name hosting
Domain name parking
Electronic customer relationship management (eCRM)
Four Ps of marketing
Geographic segmentation
Impression
Index
Interactive marketing unit (IMU) ad format
Interstitial ad
Life-cycle segmentation
Localized advertising
Market segmentation
Marketing mix
Marketing strategy
Marketspace
Micromarketing
Occasion segmentation
One-to-one marketing
Opt-in e-mail
Page view
Paid placement (sponsorship)
Pay-per-click model
Pay-per-conversion model
Permission marketing
Place (distribution)
Pop-behind ad
Pop-up ad
Price
Product
Promotion
Psychographic segmentation
Rational branding
Repeat visit
Retained customer
Retention cost
Rich media ad
Rich media object
Robot (bot)
Search engine
Search engine optimization
Search engine placement
Search engine placement broker
Search engine positioning
Search engine ranking
Search term sponsorship
Search utility
Segments
Shopping cart
Site sponsorship
Skyscraper ad
Spider
Technology-enabled customer relationship management
Technology-enabled relationship management
Touchpoint
Touchpoint consistency
Trial visit

Trigger words
URL brokers
Usage-based market segmentation
Viral marketing
Visit
Web log (blog)

Review Questions

RQ1. Assume you are a consultant to Fred's Sticks, a golf club manufacturer that sells its clubs directly to customers on the Web. Review Figure 4-5, which describes how advertisers select television programs that would be good hosts for their ads. Present a list of four magazines (other than golf magazines) in which Fred's Sticks should consider placing print advertising to support its Web sales effort. For each magazine, write one paragraph in which you explain why that magazine would be a good advertising outlet to reach potential customers of an online golf club store.

RQ2. In about 600 words, explain the differences between customer acquisition and retention and outline two marketing strategies that would help a company accomplish each of these two objectives. Be sure to present facts and logical arguments that support the use of each strategy for each objective.

RQ3. Select a retail store with which you are familiar that has a Web site on which it sells products or services similar to those it sells in its physical retail stores. Explore the Web site and examine it carefully for features that indicate the level of service it provides. Using your experience in the physical store and your review of the Web site, write a 200-word evaluation of the company's touchpoint consistency.

RQ4. Many people have strong negative reactions to pop-up, pop-behind, interstitial, and rich media ads. Write a 200-word letter to the editor of an Internet industry magazine in which you explain, from the advertiser's viewpoint, why these ads can be effective advertising media.

RQ5. In about 300 words, describe the key elements of technology-enabled customer relationship management and outline the advantages that technology-enabled customer relationship management has over traditional seller-customer interactions.

RQ6. In about 400 words, describe what a search engine inclusion and placement broker does and explain why an advertiser might use such a broker rather than working directly with a search engine site.

Exercises

E1. Visit the **RedEnvelope** Web site to examine how that company implements occasion segmentation. Write a report of approximately 200 words in which you describe two clear examples of occasion segmentation on the site.

E2. You are the new online advertising manager for the *Midland Daily Courier*, a local newspaper. The newspaper wants to sell banner advertising on its site in a variety of sizes to meet the needs of its advertisers. Examine the **IAB** Web site and other online resources of your choosing, then prepare a memo of about 500 words to the newspaper's advertising manager that outlines the current state of standards for banner ads. Include a specific recommendation regarding how many different sizes the newspaper should offer and support your recommendation with factual and logical arguments.

E3. You have been employed by **Switchboard.com** to sell space on its site to advertisers. Create a promotional press release of approximately 300 words in which you describe the advantages of advertising on Switchboard.com. You may decide to promote space on the main page, other specific pages, or all pages. Be prepared to explain why your promotional strategy should work. You may find the **Art of Web Site Promotion**, **Promotion World**, **Sitelaunch**, or Seltzer's **How to Publicize Your Web Site over the Internet** Online Companion links helpful in your task.

E4. Marti Baron operates a small Web business, The Cannonball, that sells parts, repair kits, books, and accessories to hobbyists who restore antique model trains. Many model train hobbyists and collectors have created Web sites on which they share photos and other information about model trains. Marti is interested in creating an affiliate marketing program that would allow those hobbyists to place links on their sites to The Cannonball and be rewarded with commissions on sales that result from visitors following those links. Examine the services offered by **Be Free**, **Commission Junction**, **LinkShare**, and any other affiliate program brokers you can find on the Web. Recommend at least one affiliate program broker that would be a good fit for Marti's business. In about 500 words, explain your recommendation. Be sure to consider the characteristics of Marti's business in your analysis.

Cases

C1. Oxfam

For more than 60 years, Oxfam has worked through and with its donors, staff, project partners, and project participants to overcome poverty and injustice around the world. Early in World War II, Greece was occupied by German Nazis. Allied forces created a naval blockade around Greece to prevent further German expansion; however, the blockade created severe shortages of food and medicine among Greek civilian communities. In 1942, a number of Famine Relief Committees were established in Great Britain to ship emergency supplies through the Allied blockade. Although most of these committees ceased operations after the war ended, the Oxford Committee for Famine Relief saw a continuing need and enlarged its operations to provide aid throughout post-war Europe, and in later years, the rest of the world. The Committee eventually became known by its abbreviated telegraph address, Oxfam, and the name was formally adopted in 1965.

Oxfam's success and growth was due to many dedicated volunteers and donors who continued and expanded their financial support of the organization. In the 1960s, Oxfam began to generate significant revenues from its retail stores. These shops, located throughout Great Britain, accept donations of goods and handcrafted items from overseas for resale. Today, those stores number more than 800 and are staffed by more than 20,000 volunteers.

Oxfam often deals with humanitarian disasters that are beyond the scope of its resources. In these cases, the organization provides aid by mobilizing an international lobbying staff that has contacts with key aid agencies based in other countries, governments in the affected area, and the United Nations.

In 1996, Oxfam opened a Web site to provide information about its efforts to supporters and potential donors. The Web site included detailed reports on Oxfam's work, past and present, and allows site visitors to make donations to the organization. Although Oxfam gladly accepts any donations, it encourages supporters to commit to a continuing relationship by making regular donations. In exchange, it provides regular updates about its activities on the Web site and through an e-mailed monthly newsletter. The Web site includes a sign-up page for the e-mail newsletter, which goes out to more than 200,000 supporters.

Oxfam has been involved in relief work in Sudan since the 1970s, when it provided help to Ugandan refugees in the southern part of the country. More recently, Oxfam was an early responder to the 2004 crisis in that country. Oxfam set up sanitary facilities and provided clean drinking water in camps set up for thousands of displaced people fleeing pro-government Arab militias. The need in Sudan rapidly exceeded Oxfam's capacity and it decided to use e-mail to mobilize support for the project.

Oxfam planned an e-mail campaign that would send three e-mails in HTML format to supporters on its existing e-mail list over a six-week period. The first e-mail included a photo of children in one of the camps. The text of the e-mail message described Oxfam's efforts to provide clean water to the displaced people living in the Sudanese camps. The e-mail included links in two places that took recipients to a Web page that had been created specifically to receive visitors responding to that e-mail message. The Web page allowed visitors to make a donation and asked them to provide their e-mail addresses, which would be used to send updates on the Sudan project. A second e-mail was sent two weeks later to addresses on the list that had not yet responded. This second e-mail included a video file that played automatically when the e-mail was opened. The video conveyed the message that Oxfam had delivered $300,000 in aid to the camps but that more help was urgently needed in the region. This second e-mail included three links that led to the Web page created for the first e-mail. Two weeks later, a final e-mail was sent to addresses on the list that had not responded to either of the first two e-mails. This third e-mail included an audio recording in which Oxfam's executive director made a plea for the cause. The e-mail also included text that provided examples of which aid items could be provided for specific donation amounts.

Oxfam's three-part e-mail campaign was considered a success by direct marketing standards. The first e-mail was opened by 32 percent of recipients and had a click-through rate of 8 percent. The second e-mail had similar, but somewhat higher, results (33 percent opened, 10 percent clicked-through). Ninety percent of those who opened the e-mail watched the video. The third e-mail continued the slightly increasing trends for opening and attention (34 percent opened, and 94 percent listened to the audio), but the click-through rate was much higher than the previous two e-mails (14 percent). Also, the dollar amount of donations increased with each subsequent e-mailing. The e-mail campaign raised more than $450,000 in its six-week period.

Oxfam coordinated this e-mail effort with other awareness activities it was conducting in the same time period. The organization sent letters to supporters who had not provided e-mail addresses and ran ads in two newspapers (*The Independent* and *The Guardian*) that carried messages similar to those in the e-mails.

Required:

1. Oxfam chose not to use online banner ads this campaign. In about 100 words, explain the advantages and disadvantages that Oxfam would have experienced by using banner ads to achieve the objectives of this campaign.
2. Oxfam used only its existing e-mail list for this campaign, it did not purchase (or borrow from other charitable organizations) any additional e-mail addresses. Evaluate this decision. In about 300 words explain the advantages and disadvantages of acquiring other e-mail addresses for a campaign of this nature.

3. For this campaign, Oxfam chose to use e-mails that contained HTML, audio, and video elements rather than using plain-text e-mails. In about 100 words, describe the advantages and disadvantages of using formats other than plain-text in this type of e-mail campaign. Be sure to identify any specific trade-offs that Oxfam faced in deciding not to use plain-text e-mail.

4. Oxfam used HTML in the its first e-mail, video in the second, and audio in the third. Evaluate the use of different e-mail formats for this type of message and consider the sequencing of the formats that Oxfam used in this campaign. In about 300 words, summarize the considerations that would affect a decision to use a particular sequence of e-mail formats in a campaign such as this and evaluate the sequence that Oxfam used.
5. A manager at Oxfam might be tempted to conclude that the sequence of formats used in the e-mail messages was related to the increase in donations over the six weeks of the campaign. In about 100 words, present at least two reasons why this would be an incorrect conclusion.

Note: Your instructor might assign you to a group to complete this case, and might ask you to prepare a formal presentation of your results to your class.

C2. Montana Mountain Biking

Jerry Singleton founded Montana Mountain Biking (MMB) 16 years ago. MMB offers one-week guided mountain biking expeditions based in four Montana locations. Most of MMB's new customers hear about the company and its tours from existing customers. Many of MMB's customers come back every year for a mountain biking expedition; about 80 percent of the riders on any given expedition are repeat customers.

Jerry is happy with this high repeat percentage, but he is worried that MMB is missing a large potential market. He has been reluctant to spend a lot of money on advertising. About 10 years ago, he spent $80,000 on a print advertising campaign that included ads in several outdoor interest and sports magazines, but the ads did not generate enough additional customers to cover the cost of the advertising. Five years ago, a marketing consultant advised Jerry that the ads had not been placed well. The magazines did not reach the serious mountain bike enthusiast, which is MMB's true target market. After all, a casual mountain bike rider would probably not be drawn to a week-long expedition.

Another concern of Jerry's is that more than 90 percent of MMB's customers come from neighboring states. Jerry has always thought that MMB was not reaching the sizable market of serious mountain bike enthusiasts in California. He talked to the marketing consultant about buying an address list and sending out a promotional mailing, but producing and mailing the letters seemed too expensive. The cost of renting the list was $0.10 per name, but the printing and mailing were $4 per letter. There were 60,000 addresses on the list, and the consultant told him to expect a conversion rate of between 1 percent and 3 percent. At best, the mailing would yield 1800 new customers and MMB's profit on the one-week expedition was only about $100 per customer. It looked like the conversion cost would be about $246,000 (60,000 × $4.10) to obtain a profit of $180,000 (1800 × $100). The consultant explained that it was an investment; because MMB had such a high customer retention rate, the profit from the new customers in the second or third years would exceed the one-time cost of the mailing in the first year. Jerry was not convinced.

Six years ago, MMB launched its first Web site. It included information about the company and its tours, but Jerry did not see any need to include an expedition-booking function on the site. He did think about selling caps and jackets with the MMB logo, but that idea never was implemented. The MMB logo is well known in the mountain biking community in the upper Midwest.

The MMB Web site includes an e-mail address so that visitors to the site can send an e-mail requesting more information about the expeditions. Robin Davis, one of MMB's expedition leaders, is an amateur photographer who has taken many photos while on the trails over the years. Last year, she had those photos digitized and put them on the MMB Web site. The number of e-mail inquiries increased dramatically within a month. Many of the inquiries were about MMB's expeditions, but a surprising number asked for permission to use the photos, or asked if MMB had more photos like those for sale. Jerry is not quite sure what to make of the popularity of those photos. He is, after all, in the mountain bike expedition business.

Required:

1. Review the five stages of customer loyalty shown in Figure 4-10 and prepare a report in which you classify MMB's customers. Estimate the percentage of MMB customers who fall into each of the five categories. Support your classification with logic and evidence from the case narrative.
2. Recommend an e-mail marketing strategy for MMB. In your recommendation, consider the results of MMB's earlier print mail advertising campaign, your answer to the first requirement, and the potential offered by permission marketing.
3. Explain how MMB could use viral marketing to gain new customers and cement its relationships with existing customers. In your answer, be sure to discuss features that MMB should include on its Web site to support the viral marketing initiative.
4. Outline an affiliate marketing strategy for MMB. Include a description of the types of Web sites that MMB should attempt to recruit as affiliates, and present at least five examples of specific sites that would be good referral sources.

Note: Your instructor might assign you to a group to complete this case, and might ask you to prepare a formal presentation of your results to your class.

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