

# E-Marketing

MBA Mark.-404

**DIRECTORATE OF DISTANCE EDUCATION**

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# SYLLABUS

## E-MARKETING

<b>Course Code: MBA MK 404</b>		
<b>Course Credit: 03</b>	<b>Lecture: 03</b>	
<b>Course Type:</b>	<b>Discipline Elective</b>	
<b>Lectures delivered:</b>	<b>30</b>	

### End Semester Examination System

<b>Maximum Marks Allotted</b>	<b>Minimum Pass Marks</b>	<b>Time Allowed</b>
<b>70</b>	<b>28</b>	<b>3 Hours</b>

### Continuous Comprehensive Assessment (CCA) Pattern

<b>Tests</b>	<b>Assignment/ Tutorial/ Presentation/class test</b>	<b>Attendance</b>	<b>Total</b>
<b>15</b>	<b>5</b>	<b>10</b>	<b>30</b>

### Course Objective:

1. To make the students understand the concept and techniques of international marketing.
2. To train the students to develop plans and marketing strategies for entering into international markets and managing overseas operations.

<b>UNIT</b>	<b>Course Content</b>	<b>Hours</b>
I	<b>E-Marketing:</b> Concept & scope, E-Marketing and E-Business interrelationship, Marketing implications of Internet technologies and convergence, Convergence and M commerce. <b>E-Marketing 7 Step Plan:</b> Situation Analysis, E – Marketing Strategic Planning, Objectives, E- Marketing Strategies, Implementation Plan, Budget, Evaluation Plan	4
II	<b>E-Marketing Environment:</b> Global markets, Emerging Economies, Technological readiness, Ethical & Legal issues: Privacy and Security Concerns, Electronic Payment System - Different types of payment modes, ecash, e-check, e-money - E-Security Firewalls <b>The Virtual Value Chain:</b> Marketplace vs. Market space - Visibility, Mirroring capability, The network economy - "Moore's Law" and "Gilder's Law" , E-Marketplaces and Economic Impacts	8
III	<b>Consumer Behavior:</b> Social & cultural context, Individual characteristics and Resources, Motivations for shopping on the net, attributes of online shopping. Segmenting and Targeting Online Customers: Business – Government and Customer Markets, Important geographic segments for E-Marketing, Demographic segments, Psychographic segments, Behavior segments, Targeting online customers.	6
IV	<b>Differentiation and Positioning Strategies:</b> Product – Service – Personnel – Channel and Image differentiation. Differentiation Strategies – site atmospherics, making the intangible tangible, building trust, efficient and timely order processing, pricing, CRM, Enhancing the customer experience.	8
V	<b>Marketing Strategies for BOP Markets:</b> Four elements of BOP strategy - creating buying power, shaping aspirations, improving access, and tailoring local solutions. C K Prahalad's 12 principles, BOP Protocol Criticism of Marketing to BOP & Alternate Perspectives	6

### **Text and Reference Books**

1. The Fortune at the Bottom of the Pyramid, Prahalad, C.K., Pearson –Singapore.
2. We are like that only, Bijapurkar, R. (2007), New Delhi: Penguin Portfolio.
3. Internet Marketing: Strategy. Implementation and Practice, 3/e, Dave Chaffey, Pearson
4. Marketing Analytics: A Practical Guide to Improving Consumer Insights Using Data Techniques by Mike Grigsby, Kogan page, 2018
5. Business Analytics: Applications To Consumer Marketing by Sandhya Kuruganti and Hindol Basu, TMH, 2015

**INTRODUCTION TO E-MARKETING**

Notes

**(Structure)**

- 1.1 Learning Objectives
- 1.2 Introduction
- 1.3 Meaning and History of e-Marketing
- 1.4 Features of e-Marketing
- 1.5 Scope of e-Marketing
- 1.6 e-Marketing Vs. Traditional marketing
- 1.7 Benefits of e-Marketing
- 1.8 Limitations of e-Marketing
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- 1.16 e-Business Models
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- 1.18 Marketing Mix
- 1.19 Determining the 4 P's in e-Marketing Mix
- 1.20 Additional P's to Support e-Marketing
- 1.21 Marketing Mix Vs. e-Marketing Mix
- 1.22 Designing an Effective e-Marketing Mix
- 1.23 Implementing e-Marketing Plans and Strategies
- 1.24 Creating and Managing a Website
- 1.25 Determining Organisational Structure in e-Marketing
- 1.26 Monitoring e-Marketing Activities
- 1.27 Evaluating the Performance of e-Marketing Activities
- 1.28 Summary
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## 1.1 Learning Objectives

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After studying the chapter, students will be able to:

- Explain the features of e-marketing;
  - Explain the relationship between e-marketing, e-business and e-commerce;
  - Characterise e-business models and e-functional models;
  - Examine the 4 P's of an e-marketing mix;
  - Explain the process of designing an effective e-marketing mix;
  - Interpret the process of determining the organisational structure in e-marketing;
  - Evaluate the performance of e-marketing activities;
  - List the types of data applicable in e-marketing;
  - Explain knowledge management, information and intelligence systems;
  - Describe various data base systems;
  - Explain the role of web analytics.
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## 1.2 Introduction

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You must be aware how Marketing has been around for centuries in one form or another. American Marketing Association defines 'Marketing' as "an organisational function and a set of processes for creating, communicating and delivering value to customers and for managing customer relationships in ways that benefit the organisation and its stakeholders". If you remove all the verbosity and look at it, marketing means "selling" a product. This is the main purpose behind any kind of marketing. The acceleration of "selling" is achieved with the help of properly chalked out plans called marketing strategies. Marketing has improved a lot over the past centuries. Even marketing methods have changed and improved, and today, people are much more efficient at telling stories and presenting marketing messages.

In this unit, you will be introduced to e-marketing concepts, its scope, benefits and limitations apart from the relationship it has with e-business and e-commerce. e-Marketing or electronic marketing refers to the application of marketing principles and techniques via electronic media, and more specifically the Internet. The terms e-marketing, Internet marketing and online marketing is frequently interchanged and is often considered synonymous.

e-Marketing has made everything very easy from purchasing to selling. Electronic media are the mode of functioning for e-marketing. SEO, e-mails Marketing Strategy, Online Advertising, Online Newsletters and Media News Rooms are the components of e-marketing. When compared to traditional marketing, e-marketing is less expensive and less time consuming.

An excellent e-marketing plan definitely has a clear executive summary. A clear set of recommendations which can be easily understood and implemented are the characteristics of a good e-marketing plan. To achieve these goals, e-marketers should be familiar with the basic principles of e-marketing and the tools which help in such activities.

After studying the previous units, you must be now familiar with the plans and principles of e-marketing. You must also be familiar with the concepts of e-business and e-functional models.

In this unit you will study the concept of marketing mix in the perspective of e-marketing and factors to be considered when determining the 4 P's in an e-marketing mix. These will be related with product factors, pricing factors, distribution factors and promotion factors. You will also learn the significance of additional P's in an e-marketing mix, namely people, physical evidence, process and a few others. This unit will also explain the process of designing an effective e-marketing mix.

It is a fact that the internet has changed the entire scenario of marketing. You must be aware how internet is used for searching information or when connecting with people. But apart from these, internet is also used for research on products, purchasing and selling them online.

e-Marketing mix is more or less similar to marketing mix. It is nothing but adaptation of price, place, product and promotion to the e-marketing context

In the previous units you learnt about e-marketing mix, its features and how it differs from traditional marketing mix features. You have also learnt role of 4 Ps in e-marketing and how the product factors, pricing factors, distribution factors and promotion factors are taken into consideration while determining an effective e-marketing mix.

This unit analyses the process of implementing e-marketing plans and strategies specifically related to creating and managing a corporate Website. The process of determining the organisational structure in e-marketing and monitoring e-marketing activities are also discussed in this unit, besides covering the process of evaluating the performance of e-marketing activities.

Planning is very important in e-marketing. An overall plan in a traditional business consists of all the processes like structuring procedures and systems and marketing is another section which simultaneously takes care of sales, distribution, delivery and communication. But the e-marketing process blends all these functions. Each and every activity has to be taken care of in e-marketing.

After studying the previous units you must be familiar with the plans and strategies adopted in e-marketing and how they are implemented.

This unit takes you to the next step and helps you to understand how to manage information in e-marketing, the types of data that are available, the intelligence systems and information systems for e-marketing and also database systems, which include data ware house and data mining. It also explains the knowledge management metrics, Web analytics and online experimental research and survey.

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### 1.3 Meaning and History of e-Marketing

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e-Marketing can be defined as 'Achieving marketing objectives through use of electronic communications technology'. It can be described as an act of trying to achieve marketing objectives through electronic or digital means. It can also be called as Electronic Marketing. Internet is used for most e-Marketing campaigns, such as e-Newsletters and e-mails. The marketing of products or services over the Internet can be called as i-marketing, web-marketing, online-marketing, search engine marketing (SEM) or e-Marketing.

Similar to many other English words, the term 'e-marketing' was born by adding the prefix "e-" to a term already known and used that is "marketing". The prefix "e-" is the short

form of "electronic" and is quite omnipresent in today's language of many people: "e-marketing", "e-business", "e-mail", "e-learning", and "e-commerce".

## Notes

Specialists of CISCO Company have defined e-marketing as: "a generic term utilised for a wide range of activities – advertising, customer communications, branding, and fidelity programs etc. – using the internet."

In a scientific approach, we could define e-marketing as allowing relational exchanges in digital, networked and interactive environments (acronym: DNI environments).

### What can be marketed?

Goods, services, events, experiences, persons, places, properties, organisations, information, ideas – all these can be marketed through e-marketing.

Figure 1.1 shows the different functions of a business website.

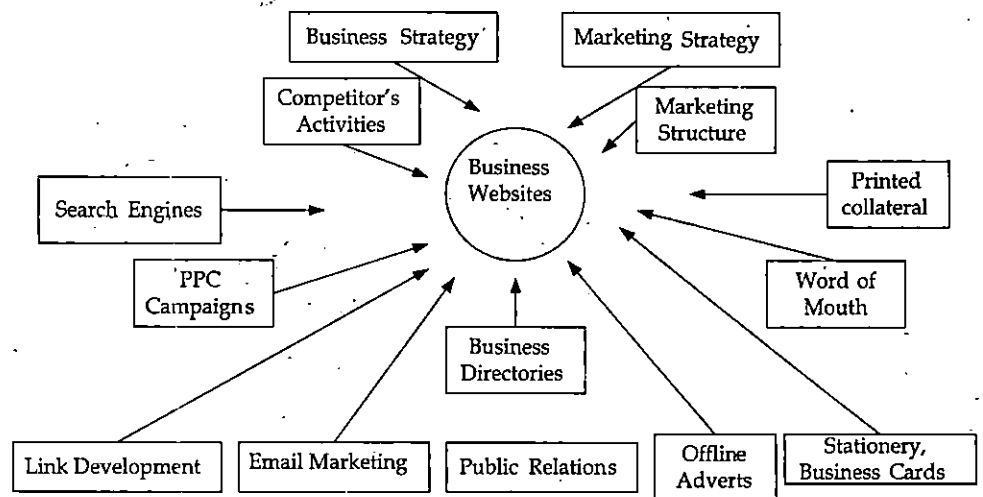


Figure 1.1. Functions of Business Website

### History of e-Marketing

We can trace back the history of e-marketing to 1990's. It came in to use gradually while the internet became popular. The internet, being a great way to communicate with the customers, gained popularity with the business world. Advertising to homes became more expensive than mailing out. It was significant that regular mail started losing its prominence due to e-mail by the end of 1995.

Online shopping has now become a trend and is considered to be very convenient for everyone in the society. It allows you to choose products according to the price and brands with a flash. People from remote areas can also buy all those gadgets which are not available in their region.

### 1.4 Features of e-Marketing

"Marketing is the management process responsible for identifying, anticipating and satisfying customer requirements profitably".

The focus of the above definition is on the customers and marketing with them. According to Smith and Chaffey (2001) Internet technology can be achieved by:

- **Identifying:** The Internet must be used to know the needs and wants of the customers.
- **Anticipating:** With the assistance of the Internet, it has become easy for customers to access any information and purchase. Therefore, by understanding the customer's needs, resources can be allocated to e-marketing.

For example, since the online demand for a standardised product is so high, low-cost airline easyJet has an online revenue contribution of over 90%.

**Satisfying:** Customer satisfaction is the main aim of e-marketing. This can be gained with the help of an electronic channel. This might raise a few questions like:

- How user friendly is the site?
- How well can the site perform transactions?
- How efficiently are physical products dispatched?
- What will be the standard of associated customer service?

In 2001 Smith and Chaffey explained 'the 5S' for how all organisations can use the Internet for different e-marketing tactics. The 5S's are:

- **Sell:** Grow sales. Through online transactions customers can purchase from home. Hence it reduces the pain of travelling to the malls and shopping and allows improving online shopping.
- **Serve:** It also adds value to the service it provides to customers. It also provides the customers with extra online benefits.
- **Speak:** Through e-marketing you can get close to the customer. You can know the customers' preferences by tracing the most preferred content online.
- **Save:** e-Marketing is cost saving. With minimal service charges you can purchase goods without travelling to a shop.
- **Sizzle:** Extend the brand online.

## e-Marketing Plan

There are two different ways for an organisation to consider this:

- To start with some e-marketing as part of their marketing plan.
- To trade only on the internet and concentrate on e-marketing only.

The following points are to be taken into consideration while planning:

- **A - Audit** - of internal weakness and internal strengths, and external opportunities and threats.
- **O - Objectives** - SMART e-marketing objectives.
- **S - Strategy** - e-marketing strategies.
- **T - Tactics** - an e-marketing mix.
- **C - Controls** - measuring the performance of the marketing plan.

## Notes

Let's see the three steps for planning now:

### **Step 1: Determine your target market**

Identifying market is the first crucial step in planning. You should prioritise them according to your resources. The expectations, requirements, needs and wants should also be recognised simultaneously. These help you in planning sales and determining the cost also. It also gives you an idea of the benefits you are going to attain. Even studying the market environment and the competitors' strategies are also essential to survive in the market.

### **Step 2: Set e-Marketing plan objectives and e-Marketing methods**

Objectives should be defined immediately. Few questions should be answered like:

- Are you aiming to increase business or product awareness?
- Are you aiming for higher website traffic?
- Would you like to rank high in search engine results?

Your objectives can be – establishing your e-presence and increasing your business and sales leads generation.

e-Marketing methods should be established after framing the objectives. Using one method only is not advised. Multiple e-marketing methods are always the best options. There are three easy steps towards an e-marketing plan.

### **Step 3: Set a budget and determine your strategies**

The techniques that might be used to launch your e-marketing campaign should be identified in the last step. Tactics are very important to determine the implementation of marketing methods. Strategies which would attract the targeted market should be employed and priorities established.

Careful economical planning is also very important while planning an e-marketing strategy. Control over your costs is an art you must master. Cost/benefit analysis can be used in order to determine an acceptable budget.

## **Marketing Activities Concepts**

Let's now discuss the marketing activities concepts:

- **Production concept:** Inexpensive and commonly available products are preferred. The focus of managers in a production based organisation will definitely be on high production and mass distribution within less time.
- **Product concept:** Quality new features and performance of the product are preferred. Manufacturing superior products is the aim of the managers.
- **Selling concept:** The organisations have to organise a mass campaign to sell and promote their products. The organisation's goal is to sell what they manufacture, but not what the market demands.
- **Marketing concept:** Unlike organisations with the selling concept, organisations with the marketing concept satisfy the need of the market. The primary goal of such organisations will be to compete in the market by producing high quality goods.

- **Holistic concept:** This concept deals with every process – develop, create, manufacture and implement- as a whole to achieve the best solution. There are four different themes of the holistic concept. They are:
  - ❖ **Relationship marketing:** Relationship marketing focuses on the value of long term customer relationships and extends communication beyond intrusive advertising and sales promotional messages.
  - ❖ **Integrated marketing:** Integrated marketing (IM) is a management strategy and meta-discipline focused on the organisation-wide optimisation of unique value for stakeholders.
  - ❖ **Internal marketing:** Internal marketing is an ongoing process that occurs strictly within a company or organization, whereby the functional process aligns, motivates and empowers employees at all management levels to consistently deliver a satisfying customer experience.
  - ❖ **Socially responsible marketing:** Socially responsible marketing is a marketing philosophy that states that a company should take into consideration, what is in the best interest of society in the present and long term.
  - ❖ **Societal concept:** The customer's needs and long-term interests of the society are taken into consideration while marketing.

## Notes

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## 1.5 Scope of e-Marketing

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The beginning of the Internet era has made every impossible thing possible. The Internet has helped in introducing the media to a global audience. Internet marketing provides instant response and is interactive in nature. Internet marketing has a broader scope as it includes electronic customer relationship management (ECRM) systems and management of digital customer data and electronic customer relationship management (ECRM) systems are also often grouped together under it.

Internet marketing also deals with customer engagement cycles through search engine marketing (SEM), search engine optimization (SEO), banner ads on specific websites, e-mail marketing, and Web 2.0 strategies.

Some features like internet, email, database and mobile phones are added in electronic communications technology.

Some technical and creative aspects of the Internet are tied together with the help of Internet marketing, including: design, development, advertising, and sales.

For example: India has joined the bandwagon and the numbers themselves do all the talking. According to the latest survey, more than 400 million people access the internet regularly in India and it is a jump of 700% in the last six years. The best part is that as of now, internet users in India comprise only 3.6% of the population. The scope of internet marketing in India is unimaginable!

If you want to start your online business, the first thing is to develop your own website. Later, you can employ some of the internet marketing techniques discussed below.

## Internet Marketing Techniques

Now, let us see some of the Internet techniques that are used in the modern marketing world:

### Search Engine Marketing (SEM)

#### Notes

SEM has become one of the major tools in the e-market. This clearly shows that search engines like Google, Yahoo etc. are being used by many people for searching relevant information. Therefore you can sell your products through them if your website is visible on these search engines. The principle techniques employed in SEM are:

- **Search Engine Optimization (SEO):** SEO is defined as 'A set of practices employed to get ranking-for WebPages on relevant keywords (search queries).' SEO improves a websites structure and content.
- **Pay per Click (PPC):** PPC sends the relevant information or customer to a website through a particular route. A competitive bidding path determines the positioning of Ads.
- **Paid Inclusion:** You have to pay in order to appear on the natural listings of search engines. Google used to charge for inclusion program.
- **e-Mail Marketing:** Marketing through e-mails is e-mail marketing. Each penny which you use is worthy if you use e-marketing effectively. It helps in acquiring new customers and enhancing the relationship with the existing ones.
- **Banner Advertising:** Placing your advertisement on any other third party website is called as Banner marketing. If any customer clicks on your banner the Ad will direct them towards your website.
- **Interactive Advertising:** Interactive media applications can be used to promote online products. In interactive advertising personalised message are sent to readers. With the help of online or offline interactive media it communicates with customers in order to promote products, brands, services and many more. The main aim is to sell products.
- **Blog/Article marketing:** Blogs and articles can be used effectively to propagate a marketing campaign.

### Scope of e-Marketing in India

The Indian market is one of the fast growing markets in the world. The magic of e-marketing has attracted Indian marketers also. Even in India, the ordinary customer is choosing internet marketing over traditional marketing because there is no limit for brands and models which can be purchased at a very convenient price.

In a heavily populated country like India, the real action in a few years of time would lie in localisation. Local languages, if used, will do a better job than the other international sites. This is so because English is still an alien language for many people in India. This is the main reason why the scope of e-marketing is confined to only local websites. Interacting in the native language will provide that personal touch, which will have a good impact on the customers.

**Activity:** List some examples of tools used in interactive advertising.

You can use these links for guidance:

[www.en.wikipedia.org/wiki/Interactive\\_advertising](http://www.en.wikipedia.org/wiki/Interactive_advertising)

[www.ezinearticles.com](http://www.ezinearticles.com)

## 1.6 e-Marketing Vs. Traditional marketing

Marketing is present since many centuries in one or the other form in this world. The birth of trade is the birth of marketing also. The major differences between e-marketing and traditional marketing are explained in Table 1.1.

**Table 1.1. Differences between e-Marketing and Traditional marketing**

e-Marketing	Traditional marketing
No immediate delivery of goods.	Immediate delivery of goods.
Helps promoting product globally.	Takes longer to promote globally.
Can work with fewer employees.	Needs more employees.
Can sell or buy product 24 × 7, round the year without employing any person.	That is not possible in traditional marketing.
Customer loyalty could suffer from high price.	Customer has the choice to choose according to the price.
Fast and economical in promoting products.	Expensive and slow in promoting products.
Paying an experienced Internet Marketing Company is very economical.	Paying a well known advertising and Marketing company is very costly.
Plenty of brands will be displayed in case of lack of a particular product.	Lack of stock can change the decision of purchasing.

**Activity:** List the advantages and disadvantages of purchasing a branded shirt in a mall and purchasing the same online.

## 1.7 Benefits of e-Marketing

Let's now discuss the benefits of e-marketing:

### Benefits to Business

There are many benefits of e-marketing to customer business. A few of them are discussed below.

- **Global reach:** With the help of the internet, customers can access the website or online resources irrespective of their location. Hence, e-marketing allows customers to access global markets in an economical way.
- **Lower cost:** An e-marketing campaign can reach the right customers at a very low cost, if planned effectively. It is cheaper when compared to traditional marketing. Internet marketing is less expensive in terms of reaching the audience.
- **Better conversion rate:** In other media, people have to make a call, post a letter or go to a shop, but in e-marketing, it's just a click away from completing a purchase.



## Notes

- **Trackable, measurable results:** e-mail marketing and banner advertising are easy ways to know how effective the campaign was. Customer's response is obtained in detail regarding your advertisements. With the help of 24- hours marketing, customers can drop in at any time even if your office is closed. Almost every aspect of the Internet marketing campaign can be traced, measured, and tested.
- **Personalisation:** You can greet your customers at any time with offers, if your customer database is linked to your website. The more transactions happen, the more you can refine your customer profile and market effectively to them.
- **One-to-one marketing:** With the help of e-marketing, people can reach you and your products and services instantly. For example, people take mobile phones wherever they go. This can be compared to the personalised aspect of e-marketing, and you can create targeted campaigns.
- **More interesting campaigns:** With the help of e-marketing, you can send a game or a quiz which will interest your customer. It lets you create campaigns which are interactive using music, graphics and videos. You could send your customers a game or a quiz - whatever you think will interest them.
- Any company with a website can reach a wide range of audience.
- In internet marketing, customers have the option of doing an extensive research before purchasing a product.
- Another advantage the Internet marketers have is the advantage of measuring statistics easily and inexpensively.
- Pay per impression, pay per click, pay per play, and pay per action are the various methods used in advertising.
- All these aspects of e-marketing have the capacity to promote more sales.

### Benefits to Customer

As a customer also, you receive many benefits through e-marketing. Few of them are listed here:

- Internet marketing is inexpensive because a customer can reach the product from home itself.
- Internet marketing allows customers to know about the product and its services first and then attempt to purchase.
- Customers can purchase according to their convenience rather than compromising on what is available.
- Online shopping gives plenty of choices while purchasing, because many brands are available online for purchase. Even international brands which are not available in the stores can be viewed and ordered.
- Delivery to the door step is a unique feature of internet marketing.
- Customers can place an order and demand for door delivery service. This will also reduce the travelling expenses of the customers.

- Customers will be acquainted with new technology as the transactions for e-marketing are done online.
- A few businesses provide 24 x 7 services. Customers can use this service in case of any emergency.

## Notes

## 1.8 Limitations of e-Marketing

Though e-marketing is beneficial in many ways to both the seller and the customer, it also has its own limitations. Let us see what they are:

- To be able to buy a product through e-marketing, customers need to have an access to the internet - which may not be possible for everyone. Learning to use the internet is also another challenge - the illiterate/less educated population may find it hard to learn the technology.
- **The internet speed is another barrier:** Low-speed internet connections also create problems and sometimes may abruptly stop the process of purchasing.
- The efficiency of e-marketing depends on the electronic goods. If the electronic goods fail during business, every activity related to it comes to a halt. For example: If any marketer faces problem with the internet connection during business it will delay in financial transactions and connecting to the customers in e-marketing.
- If companies have complicated websites like getting connected to the internet via dial-up or mobile services then the content delivery will be delayed.
- From the buyer's perspective, the real experience of feeling and choosing the product will not be present. Customers have to rely on what the website showcases about the product.
- **Lack of personal approach:** Many customers do not trust e-marketing because it does not give the personal touch that traditional marketing gives. The real experience of touching and feeling the product before purchasing it is also very important. The real time salesmen giving a demonstration is also missing in e-marketing. These factors also raise many questions regarding the quality of product delivered.
- **Security, privacy issues:** The best way to make customers trust is to develop privacy policy on the website. If you take personal information make sure you will keep it confidential. Explain to the customer how the information will be preserved. Be specific while explaining the intentions behind collecting the personal information. Proper and correct contact numbers, e-mail address and contact address should be given to customers.
- **Worldwide competition through globalisation.** Internet is a globalised service. Hence, competition will be at global level. Any product which competes at that level should have the potential to attract more customers. Local brands will find it difficult to compete with international brands. Because of world wide competition increase in prices is a must. These in turn will discourage customers from buying the product.

## Notes

**e-Business**

"E-business is a term used to describe businesses run on the Internet, or utilizing Internet technologies to improve the productivity or profitability of a business. In a more general sense, the term may be used to describe any form of electronic business – that is to say, any business which utilizes a computer. This usage is somewhat archaic, however, and in most contexts e-business refers exclusively to Internet businesses."

But e-business also makes the existing business process more efficient. In e-business, companies should be able to unlock the data in their back-end computer systems to share information and conduct electronic transactions with customers, partners, and suppliers over the internet. Some companies in e-business adopt new web based business models – auction the surplus goods, sell products directly to customers, or join in online purchasing cooperatives with their competitors. Starting an e-business requires equal potential in business strategy as well as in technology. Immediate solutions and the advantages in using electronic products have made it easy for e-business to sail through the market. Hence, it is obvious that e-business has set a trend and will continue up to some time.

There are usually four different types of e-business. They are:

- **B2B commerce:** It is that business activity in which two business units make electronic transactions in which; one is a producer unit and the other raw material supplier unit.
- **B2C commerce:** In B2C commerce, one is a business unit and the other is a customer unit. The customer can seek information as well as place an order. The customer can make payment and purchase. The business unit can conduct a survey to know the customers' interests and maintain a record of the transactions.
- **Intra B commerce:** In this type, two business units are involved. With the help of the computer network, it is possible to interact with the production team. Electronic catalogue and ordering forms can be used.
- **C to C commerce:** C to C means customer to customer. This type of e-business helps in selling and buying those goods for which there is no established market.

**e-Commerce**

'Ecommerce (e-commerce) or electronic commerce, a subset of ebusiness, is the purchasing, selling, and exchanging of goods and services over computer networks (such as the Internet) through which transactions or terms of sale are performed electronically.' A simple diagram, figure 1.2 shows what e-commerce is:

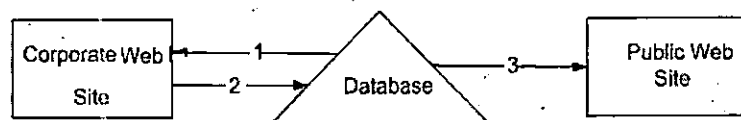


Figure 1.2. e-Commerce

In figure 1.2 above, Step 1 exhibits the arrow flowing out of the database into the corporate web site. In other words, all of the information about your products, prices, manufacturers, etc will be displayed in easy to read lists inside your web browser. The next step exhibits the flow of data from corporate web site to database. Each and every item can be edited. You can change, add and delete from anywhere in the world. All updates will be saved in the database. The step 3 shows the flow of information from database to public web sites. With this step you come to know that all information that public reads is accurate.

It is a misconception that e-commerce is done just on the Web. In fact, e-commerce was present in the 70s via EDI (Electronic Data Interchange) through VANs (Value-Added Networks). e-Commerce can be divided into four main categories: B2B, B2C, C2B, and C2C.

- **B2B (Business-to-Business):** Companies doing business with each other. For example, manufacturers selling to distributors and wholesalers selling to retailers. Prices are negotiable and are based on quantity of order.
- **B2C (Business-to-Consumer):** Businesses selling to the consumer or customer. Generally done through catalogs using shopping cart software.
- **C2B (Consumer-to-Business):** A consumer or customer publishes the project with a set budget online and companies review the customer's requirements and bid on the project within hours. The company to complete the project will be selected based on the bid reviews.
- **C2C (Consumer-to-Consumer):** With the help of sites like PayPal, people are able to perform online money transactions very easily.

There are a number of sites which offer free classifieds, auctions, and forums where individuals can buy and sell. For example: eBay's auction service is used for person-to-person transactions which take place everyday since 1995.

### Common Characteristics of e-commerce and e-marketing

Let's see some common characteristics of e-commerce and e-marketing: Some basic theories like computer science, management science, information system, economics, marketing, financial accounting, as well as sociology, robotics, operation research/management science, statistics, public policy etc are common to each other.

Some basic technologies such as modern communication technology, computer network technology, especially the internet technology, Web technology, wireless network technology, database technology; electronic payment technology, security technology etc are common to each other.

They have similar content of business activities because of having same function of promotion, such as displaying of e-commerce products, web site promotion, product marketing information, transporting etc.

They have same invisible characteristics since both of them do the activities of data expression and transmission electronically.

## Notes

They have same across temporal and spatial characteristics. Scale of operation is not restricted by time and geographical.

Both of them can achieve low cost, as both of them have a "no inventory" feature and a very low cost advertising and operating.

## Notes

Both can change the operation mode of enterprise, and promote the enterprises to reform the model of business and management.

Both can well reflect the thinking of SCM, CRM, ERP and other modern management science. They can enhance integration of multi-services such as product, supply, marketing, close customer relationship, understanding and predicting customer's demand and promoting innovation.

**The intrinsic relationship between e-Commerce and e-marketing:** The integral part of e-commerce is e-marketing. e-Marketing is the entry point of small and medium enterprises to carry out the e-commerce when the overall environment of e-commerce is not yet mature. An important means of implementing e-commerce is e-marketing, and the advanced stage of e-marketing is e-commerce. Therefore, e-marketing and e-commerce cannot be separated.

### **Difference between e-Business and e-Marketing**

The original process of doing business on the Internet is called as e-business. Example for e-business is buying CD from Amazon instead of going and buying it from a shop.

If a company tries to promote itself or its brands it is called as e-marketing. A banner or tower ad on a web page is an example for e-marketing.

### **Difference between e-Business, e-Commerce and e-Marketing**

e-Business deals with the entire system of all businesses which use electronic media to carry out its activities. It is a broader entity than the other two.

e-Commerce is used in a transactional context. For example, it can be used in electronic transactions of funds, information or entertainment. e-Commerce is a part of e-business.

A branch of e-business which uses electronic medium to achieve marketing objectives is called as e-marketing. In addition to the traditional marketing and business strategies, e-marketing follows its own operating strategies.

The terms e-business and e-commerce can be interchanged at some places. But some experts state that e-commerce can be limited to online transactions only, whereas the term e-business covers all including online transactions, that is, online exchange of information, or a financial institution letting its customers review their banking, credit card, and mortgage accounts with the help of single web interface. In this manner, e-business overlaps with the business-technology disciplines of customer relationship management.

### **Difference between e-Marketing and Interactive Marketing**

Any marketing done with the use of electronic medium is called e-marketing. A certain section of e-marketing which uses some particular methods of interaction while marketing is called interactive marketing.

### CASE-LET: Marketing Strategy at Q-Fashions

Q-Fashions is a children's clothing company with outlets throughout Bangalore and international presence in 12 countries worldwide. Brook Ltd. has developed a cutting-edge e-commerce website to sell Q-Fashions' clothing range online throughout India.

Brook Ltd. and Q-Fashions began working together in 1999 and were tremendously proud of their involvement in Q-Fashions' on-going success. Over the years, Brook Ltd. has provided a host of services including WebPR, Email Marketing, Search Engine Optimisation as well as ecommerce Website Development.

As part of the launch of Q-Fashions' spring range, a number of site updates were made including image and content optimisation, which focused on maximising eCommerce conversions. The email campaign was focused on driving awareness about the new range as was agreed in the eMarketing strategy.

As a result of Brook Ltd. and Q-Fashions' hard work, the clothing company earned immense popularity. For as long as Brook Ltd. and Q-Fashions have been working together, Brook Ltd. has executed their Email Marketing campaign with increasing success. During a reporting cycle, the results recorded included a massive spike in website traffic of 480% for the days following the release of newsletter. Furthermore, Brook Ltd. achieved a very comfortable 305% increase in onsite conversions for that month.

The ability of Brook Ltd.'s various tactics to strategically integrate and openly share their individual learning has meant that Q-Fashions is able to keep their overall costs down while maximising on their website as a direct revenue stream.

#### Questions

1. What was the result of the joint efforts of Brook Ltd. and Q-Fashions?
2. Suggest some e-marketing techniques that the companies can adopt.

### 1.10 Need for an e-Marketing Plan

An e-marketing plan can be developed by research and analysis. Its aim is to reach marketing objectives with the help of electronic goods. Every good e-marketing plan is developed according to the overall marketing plan of the organisation.

e-Marketers analyse the present micro and macro-economic situation of a firm before planning. Both internal and external factors should be taken into consideration while planning. The planning process has an impact on the ability to carry on the business activities. Pricing, suppliers and customers are some of the examples of micro environment elements. Socio economic, political, demographic and legal factors are some of the examples of macro environment elements. Understanding the present scenario of the company is essential to produce a possible e-marketing solution. In order to produce a feasible e-marketing solution, e-marketers must first understand the company's:

- Current situation
- Environment
- Profile/Industry

### Notes

They should also know target segments and then accordingly position their products which should enable optimal response from the target market. To enhance an organisation's bottom line, an e-marketing strategy can be prepared by SWOT analysis:

- Examining the strengths and weaknesses of the firm
- Looking at the current opportunities and threats

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### 1.11 Developing an e-Marketing Plan

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Before deciding on an e-marketing plan, you have to remember that e-marketing does not mean beginning from scratch. Almost every online e-communication should be constant in nature with the overall marketing aims and contemporary marketing efforts of any business.

The important features of an e-marketing plan generally have the following stages:

1. **Identify the target audience:** When multiple targets are identified, targets should be ranked in an order as per their importance. This is important for the proper allocation of resources. Each target group should be profiled. Their requirements and expectations must be understood, so that one can pitch the costs and benefits at the right time and level.
2. **Set the objectives:** Some of the probable objectives are:
  - Raising awareness (of your business or disseminating information about your products or services)
  - Entering new markets
  - New product launching
  - Focusing on sales (preparing a particular product's internet sales or increasing the sales frequency from regular customers)
  - Internal efficiency (reducing marketing costs, decreasing order-taking, fulfilment costs or improving customer retention rates)
3. **Decide upon the marketing mix:** A mix of marketing activities should be chosen that help in attaining the objectives. These also help in fitting into any existing traditional marketing activities that are already planned.
4. **Agree a budget:** To control costs, careful budgeting is necessary. In order to create a cost/benefit analysis, a marketer should identify the returns anticipated from the investment in e-marketing activities. Later marketers can tally these returns with the costs.
5. **Plan your action:** In order to implement the selected e-marketing activities, the tactics should be recognised. Other non-internet marketing activities should also come under the scope of the plan.
6. **Measure your success:** Regular reviews and feedback mechanism will help the marketers in assessing the e-marketing activities.
7. **Importance of brand and image:** In business success, the brand and image play a very important role. To gain customer trust strong brands can be used. When security and privacy are the major concerns, branding plays a crucial role. Generate customer trust, which is particularly important in e-commerce where there are often concerns over privacy and security.

8. **Using existing brand names:** If the brand name is popular, then using its name makes sense. Using an existing brand name can make sense if the brand is well known and has a strong reputation. However, the risk of bad reputation exists if it the venture is a failure.
9. **Creating a new brand:** A good name is extremely important when a new e-commerce brand is created. If you want to create a new e-commerce brand, then a good name is extremely important. Factors considered should help in selecting a name that must:
- suggest something about the product
  - be short and memorable
  - be easily pronounced
  - be easy to translate
  - have an available domain name
10. **Co-branding:** When two different businesses come together and put their respective brand names on the same product, and then it is called as co-branding. Co-branding is very common in internet business. It is also proved that co-branding is one of the best ways to create brand recognition.
11. **Domain names:** Always ensure that the domain name is present to support the e-commerce brand name chosen. Customers will find easy to reach the website if the domain name is strong. The domain name can be bought from the registered user if the name is already been taken by someone else. If this is violated, then legal advice is necessary.
12. **Providing engaging content:** The information provided about the product and business should be engaging. Make the information that you provide about you and your business as engaging as possible
- Information that can benefit the customers should be added on the web site. For example: Online offers, discounts and blogs about the business that the customers can contribute to. To make the customer visit the website again, the interest and value of the website should be increased.
13. **Answering common queries :** In the form of FAQs (Frequently Asked Questions), common queries of customers can be answered. This shows readiness to help at any time. It may also save time and money because it reduces the pain of telephonic enquiries. Answering through email and customer feedbacks are some of the best ways to answer their queries. However it will be successful only if someone is present to answer those queries immediately. Customers appreciate these kinds of services only if attended immediately. This process can be automated. Phone numbers and full contact address should be given in the website to avoid unnecessary search.
14. **Asking visitors to register:** A number of business sites request first- time users to register to their site for continued services. These kinds of registrations are useful in gathering information on the traffic to the website. This also helps in gathering email addresses in order to mail the customers directly.
- Asking customers to register might lead to the visitor's loss of interest in the website. Many customers will sign up only if there is any incentive to do so. Examples for such offers are e-newsletters, special offers to non-subscribers and special offers to access further information and tell them how further information is useful to them.



Notes

- **Customer relationship management** – In order to improve their customer services, sales, and profitability, many businesses spend money on customer relationship management (CRM). A CRM system provides information on:
  - Customer data
  - Sales patterns
  - Marketing data and future trends together with the goal of recognising new sales opportunities
  - Delivering improved customer service
  - Offering personalised services and deals

15. **Getting the technology right** : An email, online advertising, SMS messaging or setting up a website are a few of the elements that could be included in e-marketing mix. The elements employed will decide which technology is needed to deliver e-marketing messages. For example: If email is the element chosen, then the marketers should be careful that the right technology is chosen for customers as well as for messages.

**Activity:** Develop an e-marketing plan assuming that you are starting a website for your home appliances division. List the various stages that are involved in planning, like finding out the market opportunities by getting to know the type of appliances/brands preferred, the reason for the preference and so on.

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### 1.12 Setting e-Marketing Objectives

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Let us now outline the five main objectives of e-marketing:

- **Sell - Grow sales:** Customers have an opportunity to buy sitting at their home through online. It decreases the strain of traveling. For example, buying a greeting card, any home appliances products.
- **Serve:** Service provided to the customers has its value added service. Extra online benefits are also offered in e-marketing. For example, free after sales service for household appliances.
- **Speak :** Intimacy between customers and marketers increases. Customer's preferences can be traced. For example, by using web analytic tools, a customer's brand preference can be known.
- **Save:** e-marketing is cost saving, wherein one can purchase products with minimal service charge. For example, you can purchase products of your preference without spending money on travelling to a shop.
- **Sizzle:** Extend the brand online. For example, an e-marketer can gain presence on the web, which is a sort of international forum.

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### 1.13 Building e-Marketing Strategy

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"A marketing strategy is essentially a pattern or plan that integrates your organisation's major goals, policies, and action sequences in a cohesive whole to achieve customer success."

## e-Marketing Strategy

An e-marketing Strategy is generally based upon the principles that rule the traditional, offline Marketing - that is- 4 P's (Product - Price - Promotion - Positioning) that form classic marketing mix. If you add 3 P's more to the existing four (People - Processes - Proof) you get the extended marketing mix.

The marketing mix is built around the theory of "transaction." These are explained by the exchange of paradigm. The series of particular functions brings uniqueness to e-marketing. These can be synthesised in the 2P + 2C+ 3S formula: personalisation, privacy, customer service, community, site, security, sales promotion.

These seven functions form the base for e-marketing strategy:

### Personalisation

Identifying the customer and their needs are the fundamental concepts of personalisation. These concepts form a part of the e-marketing mix. It is challenging to know the right customer. Even more challenging is to collect their details in order to know the market. This will be helpful to develop customised and personalised products and services.

For example, with the help of a cookie that is placed on the customer's computer one can know the access speed. In result, if you come to know that the speed is low, you can offer a low volume variation of your website. This website will include fewer graphic and no multimedia or flash applications. With this the customer will not leave the page by complaining that it takes too long to load.

### Privacy

Privacy and personalisation are inter-connected. A few important issues arise while gathering information regarding the customers and potential customers. Some issues related to information like who will utilise the information and in which way are to be considered. Producing and enhancing a policy upon access procedures to the gathered data is an important task to do while implementing an e-marketing strategy.

As long as information is gathered regarding individuals, it is mandatory for the marketers to take care of all privacy issues. Privacy is essential when establishing an e-marketing mix. There are many legal aspects to be considered related to gathering information and utilising it.

### Customer Service

In a transactional scenario, customer service plays an important role. In business transactions, customer service processes are linked to the inclusion of the "time" parameter. e-Marketing is based mainly on the rational perspective while switching from a situational perspective to a relational one. Any marketer will be interested to find support and assistance on a non-temporal level and permanent over time.

### Community

e-Marketing as every one agrees, is conditioned by the presence of this impressive network that the internet is. The presence of such a network shows that human beings will interact mutually. Community is a group of individuals which interact for a common reason.

## Notes

The Metcalf law (named after Robert Metcalf) states that the value of the community grows with the number of its participants. Therefore, it is very important to be a part of it.

Customers and marketers also communicate with each other for a common reason. Therefore it can be also called as a community.

### Site

It is a well known fact that e-marketing interactions are conducted with the assistance of digital media - the internet. But even these kinds of interactions require certain location. A digital location for digital interaction is mandatory for getting connected from anywhere and anytime.

"Site" is the place for such interactions. A Website is one of the types of sites. Similar example of such a site is a Palm Pilot.

### Security

As online transactions started, the functions have become very important for e-marketing. Marketers should keep in mind two important issues regarding security:

- Precautionary methods should be implemented during online transactions so that no third person can access the transactions.
- Customers' personal information should be kept confidential.

A marketer should consider the above facts to avoid further complications. Marketers should assist the IT department to forward convincing messages to the customers, assuring privacy to their personal data.

### Sales Promotion

While building an e-marketing strategy sales promotions must be taken into consideration. Sales promotion is used in traditional marketing to increase the sales in terms of volume.

The marketers' creativity is counted in this function. In order to find new approaches and possibilities for developing an effective promotional plan, a lot of hard work is needed. Simultaneously, marketers have to learn the latest internet technologies and applications in order to utilise them thoroughly.

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## 1.14 Principles in e-Marketing

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Now, let us see the five important e-marketing principles:

1. **Dead-ends:** This principle tells that marketers should provide the customer a reason why they should come to you for purchase. e-Marketers should not be satisfied with building the website only. Setting up a website is like constructing a store at the dead-end of the street. The website should have relevant information, attractive graphics and convincing layouts. But all these will not help if the website is not encouraging the customers to purchase. The website will be of no use when it does not fulfil its purpose of marketing.  
Therefore, marketers, before constructing their websites should decide how to attract traffic. The activities which help in attracting traffic for some action should be clearly determined.
2. **Giving and Selling:** It is human tendency to expect something more than what they actually pay for. This principle highlights that fact that people while shopping online expect

something extra. Hence the best principle for attracting the customers is to offer something free to them but try to sell something else. This process can be explained with an example in a few steps:

## Notes

- With the help of the site, marketers should attract customers.
  - Encourage awareness on product and services.
  - Marketers need not offer a real product freely. It can be any valuable information.
  - Once they are ready to purchase marketers can sell.
2. Trust Web marketing is based on only one critical thing that is "trust". Trust, as many experts express, is the essential principle of web marketing. Customers will not purchase anything from marketers if they don't trust you. Similarly, marketers will have no business if they don't trust the customers. There are number of ways to assure trust. Some of them are:
- Sell popular brands.
  - Display privacy of the organisation.
  - Offer guarantees that can be fulfilled.

In order to have more sales and good customer flow, marketers should have a quality based customer friendly system in place.

3. **Push and Pull:** This principle pulls customers to the web sites with the help of the attractive content. With the help of mails, information can also be pushed to the customer regularly. There are a number of ways to do this. One of the ways is by using opt-in programs like newsletters and updates about sales. It is always advised that marketing campaigns should have an active element since the websites are comparatively inactive. This will assist in attracting the customers towards the product and inspiring them to purchase what the marketers offer.
4. **Niche Marketing:** In the web marketing industry, niche marketing has emerged as a very important part. One important fact in online marketing for marketers is to know their niche. It is not sufficient only to know but they should be in a position to market directly to them. It is a recognised fact that to be successful, especially with an online business, you need to know your niche, and market directly to them. It is an added advantage for a small business if the niche is found. It will give sufficient leverage against competition. A particular corner of any big or small business can be focused by finding the niche. It also limits the competition and helps in identifying the customer. To identify the niche one has to:
- Start business with a business plan to recognise the purpose and define it.
  - Structure the website and marketing strategy based on the vision outlined.

These principles play a major role in developing an e-marketing business and establishing a successful online marketing strategy. Not only it ensures new customers, but also helps in retaining the old and present customers.

**Activity:** Assume that you have a website for your product- home appliances. List all the activities which you will perform to gain the trust of the customers online and do business with them.

You can use this link for reference: [http:// www. pricesbolo. com/ price/ home-appliances. html](http://www.pricessolo.com/price/home-appliances.html)

## 1.15 e-Marketing Deliverables

"A deliverable is a product of work done on a project- the finished result of a step of work."

### Notes

As per the above definition, it is important to present such aspects that help in knowing about how e-marketing plans and strategies are undertaken to achieve the desired outcomes. Deliverables in e-marketing includes the kind of facilities, infrastructure, people, skills, dealing with contingencies and so on.

The process of e-marketing generally begins with the product promotion activity, which is usually done through a Website. Once the Website is launched, the company starts sending promotional e-mails and newsletters to the opted-in visitors.

Even if most of the marketers choose to focus less on the technical side of email marketing and focus more on the content of the messages, it is essential to know how email marketing software works. For conducting an advanced e-marketing campaign, it is very important to utilise professional email list management software. The software generally should be installed on a server with a dedicated Internet connection. The database and website communicate with the software directly. When the company's website is visited by anyone, the software adds the e-mail id automatically. It adds the id to an email recipient list for further mail transactions.

The email list management software must be capable of handling entire subscriptions and sign-offs and also the bounced email messages. It should also have the ability of connecting to the database and highlighting the recipients' details. With the help of many advanced soft wares, a company will have fair chances of improving its marketing skills. The capacity to track email feedbacks is an important part of an email marketing campaign. It permits to state the effectiveness of the campaign. Marketers readily adjust to their campaigns and attain optimal results by being able to quantify results at a faster pace.

The average mail server fails in delivering the volume of email that may be required in a day. The email delivery system's quality determines the delivery rate of emails. To ensure faster and efficient delivery of emails, a company can invest in faster email delivery software.

Variety of goods are transacted and delivered through e-marketing. After the e-marketers receive the payment, they deliver the goods in following ways:

- **Download:** This process is used especially with digital media products like software, music, movies, or images.
- **Shipping:** Customer receives the product which is shipped.
- **Drop shipping:** The third party distributor receives the order. The third party will deliver the product to the customer. This is done in order to save time, money and space.
- **In-store pickup:** Any customer can order the product online and later collect it in the nearby stores. This method is commonly used for online shopping. On purchase, the customer gets a code for admission to any place. The customer takes a printout and produces it at the entrance of the collection centre. It is made sure at the collection centre that this admission ticket is used only once. For example: Railway reservation tickets, online movie tickets, bus tickets and hotel room reservations.

## 1.16 e-Business Models

"An e-marketing business model is an approach to conducting electronic business through which a company can sustain itself and generate profitable revenue growth."

In other words, it describes how a company works. There are certain business models which are very complicated than others. For example, e-businesses also need to have solid models such as brick and mortar stores to generate revenue.

### Brokerage Model

Buyers and sellers are brought together to certain sites in the brokerage model. Brokerage sites are meant to bring buyers and sellers together whether it is in B2B markets or B2C or even C2C markets. Usually to use these sites one needs to pay fee or brokers may even charge commission for each transaction it enables.

They include market place exchange, buy/sell fulfilment, demand collection system, auction or distribution broker, distributor, search agent and even virtual marketplace. Examples of such sites include eBay and Amazon.

### Manufacturer or Direct Model

This refers to the companies or the manufacturers who are directly involved in creating a product or service and marketing or selling it on the net. It is based on efficiency, improved customer service and customer preferences. Services include purchase/sale, lease agreements, license and brand integrated content.

### Advertising Model

Similar to the traditional advertisers, advertising model contributes an association of content and advertisements to those businesses which follow this model. It is an extension of the traditional media broadcast model. The broadcaster mainly the website mostly provides free content that is created by the site or elsewhere and services like email, instant messaging, and blogging and so on. The sole source of revenue for the website is the ad messages displayed in banner ads. This model proves to be highly effective during high flow of traffic or when high level of specialisation is required.

It includes the search engine or the portal, classifieds, user registration to track surfing habits of people, query-based paid placement with sponsored links, contextual advertising, content-targeted advertising, intracommercials that has animated full screen ads placed at the entry of the site and Ultracommercials which are interactive online ads that require the user to respond in order to know more about it. Online news papers are one such example which contributes both content and advertisements. Examples of such sites include Google, Yahoo, Monster.com and many others.

### Merchant Model

Since ages, merchants have been selling wares or materials. The latest demonstration of selling is e-commerce. Sales maybe based on list prices or through auction.

This model includes the services of Virtual merchant or e-tailer who solely operates on the web; catalog merchant who does mail-order business with a web-based catalog. Mail, telephone

## Notes

and online ordering are a part of this. Next is bit vendor who deals strictly in digital products and services, conducts sales and distribution activities over the web. Click and mortar is the modern electronic version of the brick and mortar retail establishments which has a web storefront. Customers, buyers and consumers buy from these merchant websites. Examples for such sites are Barnes and Noble's and Land's End's.

### **Community Model**

The advantage of online community is taken in this model. This type of business capitalises on the trend of online communities. Online community members take an active part by:

- Writing content
- Posting photos
- Making new friends

Services include open content developed collaboratively by a global community of contributors who support the site through voluntary donations; public broadcasting which is a user-supported model used by not-for-profit radio and television broadcasting extended to the web; open source- software developed collaboratively by a global community of programmers who share code openly. Instead of licensing code for fee, open source relies on revenue generated from related services like systems integration, product support and user documentation. Advertising revenue, selling products or voluntary donations by members can be a source of income in this model. A few examples for such sites are Flickr, Orkut and Wikipedia.

### **Subscription Model**

Users should pay a fee either daily, monthly or quarterly or annually to use the e-business services under the subscription model. Commonly practiced in these sites is combining free content with "premium content" meant exclusively for subscribed members. Some examples of such sites are Netflix, Classmates and AOL.

Services provided include content services such as audio or video content; trust services such as forming membership associations; person-to-person networking services such as users searching for old friends or classmates; internet service providers who offer network connectivity and related services based on the subscription period and fees.

### **Affiliate Model**

In contrast to the generalized portal, which seeks to drive a high volume of traffic to one site, the affiliate model provides purchase opportunities wherever people may be surfing. It does this by offering financial incentives (in the form of a percentage of revenue) to affiliated partner sites. The affiliates provide purchase-point click-through to the merchant. It is a pay-for-performance model if an affiliate does not generate sales; it represents no cost to the merchant. The affiliate model is inherently well-suited to the web, which explains its popularity. Variations include banner exchange, pay-per-click, and revenue sharing programs. Examples are Barnes & Noble, Amazon.com

### **Utility Model**

Also called as "on-demand" model, it is based on metering usage, or a "pay as you go" approach. Unlike subscriber services, metered services are based on actual usage rates. Traditionally, metering

has been used for essential services (e.g., electricity water, long-distance telephone services). Internet service providers (ISPs) in some parts of the world operate as utilities, charging customers for connection minutes, as opposed to the subscriber model common in the U.S.

Metered Usage measures and bills users based on actual usage of a service while Metered Subscriptions allows subscribers to purchase access to content in metered portions (e.g., numbers of pages viewed).

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### 1.17 e-Functional Models

The functional model is a pictorial representation of an organisation's function within its scope. It can also be called as an activity model or a process model. Depending on the activities of e-marketing, the following are the different e-functional models.

#### B2B (Business-to-Business)

This involves 2 different companies doing business with each other. Prices of goods are generally flexible and based on quantity ordered. For example, distributors buy from manufacturers and retailers buy from distributors.

#### B2C (Business-to-Consumer)

This involves transactions between the marketer and the customer. The general public is the customer who uses shopping cart software to buy products online. Examples for such activities are: With the help of online marketing a customer can perform the following activities - searching for books, booking tickets for a trip and buying a computer in a click without interacting with any human beings.

#### C2B (Consumer-to-Business)

A customer's project is announced online with a certain budget. Companies examine the customer's demands within few hours and call for the project. After the companies review, the customer also reviews the bids. Example for such sites is Elance. It helps the customers by providing a meeting place for similar transactions.

#### C2C (Consumer-to- Consumer)

Many sites provide classifieds, auctions and forums for free. Individuals can purchase and sell from these sites. Online money transactions are an example for this function.

#### Other Business Models

These models are based their functional integration, degree of innovation, applicability and feasibility in either or all B2B, B2C, B2G, C2B, C2C markets. A list of currently most adopted e-business models include:

#### e-Shops

E-shopping is the process consumers go through to purchase products or services over the Internet. An online shop, e-shop, e-store, Internet shop, web shop, online store, or virtual store evokes the physical analogy of buying products or services at a bricks-and-mortar retailer or



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in a shopping mall. The example of an online catalog is also used, by analogy with mail order catalogs. All types of stores have retail web sites, including those that do and do not also have physical storefronts and paper catalogs.

### **e-Procurement**

Electronic Procurement is either the business-to-business or Business-to-Consumer purchase and sale of supplies and services through the Internet as well as other information and networking systems, such as electronic data interchange (EDI) and Enterprise Resource Planning (ERP). An important part of many B2B sites, e-procurement is also sometimes referred to by other terms, such as supplier exchange. Typically, e-procurement Web sites allow qualified and registered users to look for buyers or sellers of goods and services. Depending on the approach, buyers or sellers may specify costs or invite bids. Transactions can be initiated and completed.

Ongoing purchases may qualify customers for volume discounts or special offers. e-procurement software may make it possible to automate some buying and selling.

### **e-Malls**

e-Malls are Web sites that feature links to numerous online shopping sites. Some of these portals offer e-wallet technology, so you only need to enter a credit card number and shipping information once, even if you shop numerous online stores. e-Malls offer links for as many as 500 to 12,000 online stores.

### **e-Auctions**

A reverse auction (also called procurement auction, e-auction, sourcing event, e-sourcing or e-RA) is a tool used in industrial business-to-business procurement. It is a type of auction in which the role of the buyer and seller are reversed, with the primary objective to drive purchase prices downward. In an ordinary auction (also known as a forward auction), buyers compete to obtain a good or service. In a reverse auction, sellers compete to obtain business.

### **Virtual Communities**

A virtual community, e-community or online community is a group of people that primarily interact via communication media such as letters, telephone, email or Usenet rather than face to face. If the mechanism is a computer network, it is called an online community. Virtual and online communities have also become a supplemental form of communication between people who know each other primarily in real life. Many means are used in social software separately or in combination, including text-based chat rooms and forums that use voice, video text or avatars.

### **Collaboration Platforms**

Collaboration platforms offer a set of software components and software services that enable individuals to find each other and the information they need and to be able to communicate and work together to achieve common business goals. The core elements of a collaboration platform are messaging (email, calendaring and scheduling, and contacts), team collaboration (file synchronization, ideas and notes in a wiki, task management, full-text search), and real-time collaboration and communication (e.g., presence, instant messaging, Web conferencing, application

/ desktop sharing, voice, audio and video conferencing), and Social Computing tools (e.g., blog, wiki, tagging, RSS, shared bookmarks). *Introduction to e-Marketing*

### **Third-party Marketplaces**

Third-party Marketplace is a fixed-price online marketplace that allows sellers to survey their goods alongside other offerings. An example is Amazon.com. Buyers can buy new and used items sold directly by a third party through Amazon.com using Amazon Marketplace.

### **Value-chain Integrators**

This model focuses on integrating multiple steps of the value chain, with potential to exploit the information flow between those steps as further added value. Revenues come from consultancy fees or transaction fees.

### **Value-chain Service Providers**

The virtual value chain is a business model for the information services industry. This value chain begins with the content supplied by the provider, which is then distributed and supported by the information infrastructure, and then the context provider supplies actual customer interaction. It differs from the physical value chain of manufacturing/sales of traditional companies.

### **Information Brokerage, Trust & Other services**

These services are a whole range of new information services emerging to add value to the huge amounts of data available on the open networks or coming from integrated business operations, such as information search, consumer profiling, business opportunities brokerage, investment advice, etc. Usually information & consultancy have to be directly paid for, either through subscription or on a 'pay per use' basis, although advertising schemes are also conceivable. A special category is the trust services, as provided by certification authorities & electronic notaries & other trusted third parties. Subscription fees combined with one-off service fees as well as software sales & consultancy are the sources of revenue.

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## **1.18 Marketing Mix**

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Marketing is a very important aspect of any business, since it contributes greatly to the success of the organisation. One way of achieving the maximum benefit from marketing is through planning and implementing an optimum marketing mix.

Neil Borden used the term "marketing mix" for the first time in 1953. In American Marketing Association, he took his successful idea ahead and invented the term "marketing-mix". Later in 1980, E. Jerome McCarthy, a popular marketer, recommended the usage of the term 4P's.

Marketing mix is a well-defined concept in order to assist the marketers in planning their conceptual framework and which also helps them to have a checklist of factors that are considered before coming up with a new marketing strategy.

### **The 4 P's**

In the marketing process, there are four main areas in decision making. These areas include Product, Price, Place and Promotion which are combined together to achieve goals and optimum

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results. This blend of elements is called as marketing mix or 4P's of marketing. Every element is further divided into many sub elements. Based on these sub elements, marketers decide marketing plans, strategies and activities.

**Product:** Product means the tactile objects or abstract services that are mass produced on a large scale. A product is, basically, a bundle of benefits that satisfies the needs of organisations or consumers and for which they are willing to exchange money or other items of value. It includes tangible goods, services, ideas, people and places. For example, soaps, razors, cars, travel services/ packages, tourist spots so on.

When introducing a product to a market many factors and decisions are considered such as product design, its features, quality, branding so on.

**Price:** The amount a customer pays for any product is called as price. Many factors are considered before an organisation can determine the price of their products. Some factors that influence price are organisation's market share and expected profit margin, direct/ production costs such as material cost, transportation, indirect costs such as warehouse rent, agent's commission, product type, its brand image, competition, economic factors like supply and demand conditions, and customer's perceived value of product.

**Place:** A purchasing location of a product is called Place. Distribution channel is another name for place. Distribution Channels indicate those routes or sequences through which goods and services flow or move from manufacturer to the ultimate consumer. It includes the involvement of marketing intermediaries such as wholesalers, retailers, agents, franchisees and other facilitators in the movement of products. It also includes virtual stores on Internet apart from real time stores.

Figure 1.3 illustrates shows different marketing mix elements:

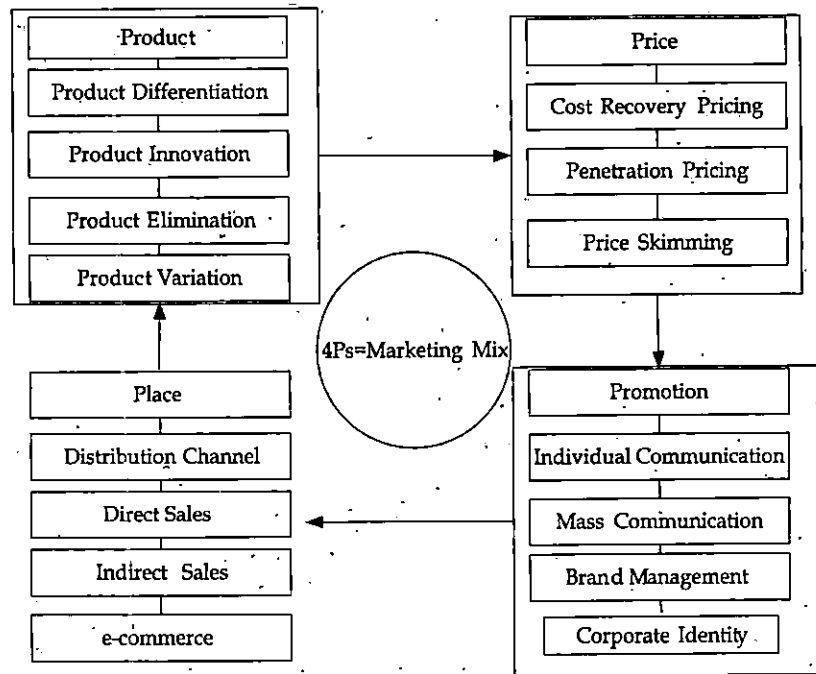


Figure 1.3. Four Main components of Marketing Mix

Source: www.en.wikipedia.org

**Promotion:** All communications that are employed by a marketer are referred to as Promotion. It has four main segments which are also referred to as the promotion mix. They are Advertising, Public relations, Personal selling and Sales promotion

Apart from these methods, marketers also rely on word of mouth, publicity, direct marketing and several innovative and original promotion methods.

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## 1.19 Determining the 4 P's in e-Marketing Mix

Let us now study how marketing mix elements are determined for e-marketing mix. To have a better understanding of the 4 P's of e-marketing, we must first know how 4 P's are depicted on the internet and online marketing:

### Product

There are some key factors in e-marketing that enhance product development and help to identify categories of new-product strategies and the classifications for a suggested Internet product taxonomy. A product is a bundle of benefits that satisfies needs of organizations or consumers. Products such as search engines are unique to the Internet while others simply use the Internet as a distribution channel.

Creating Customer Value Online indicates customer value which is the net sum of all benefits after deducting all the costs. Some product decisions that deliver benefits to customers are Attributes, Branding, Support Services, Labeling and Customer Co-Design.

- **Attributes:** Attributes include product quality and features. Internet increases customer benefits in many ways. Media, music, software and other digital products can be presented on the Web. Mass customization is possible. User personalization of the shopping experience can be achieved.
- **Branding:** A brand includes a distinct name, symbol or a design. A brand represents a promise or value proposition to its customers. Brand equity is the intangible value of a brand, measured in money value. EBay, Yahoo! and Amazon rank among the top 100 brands in the U.S. A great brand taps into popular culture and touches consumers. Firms can use existing brand names or create new brands on the Internet. Some firms may use different names offline and online to avoid risk if the new product or channel should fail. For example, "Sports Illustrated" created thriveonline.com. Wired Magazine changed its online version name to Hotwired.

Internet Domain Names also form a part of the branding strategy. A URL (Uniform Resource Locator) is a Web site address. Domain names contain several levels. One level is often the name of the company and the top-level may be .com or a country name, such as .in for India. ICANN is a nonprofit corporation that makes decisions about protocol and domain name assignment, registration, so on. Sites such as VeriSign provide domain registration services. More than 97% of words in the dictionary have already been registered as domain names. Picking the right domain name can make a huge difference for directing people correctly to a site and also for building consistency in marketing communications.

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- **Support Services:** Customer support is a critical component in the value proposition. Customer service representatives help customers with installation, maintenance, product guarantees, etc. to increase customer satisfaction. "CompUSA" combines online and offline channels to increase customer support.
- **Labeling:** It has digital equivalents in the online world. Online "labels" provide information about installing and using software. Online "labels" also provide extensive legal information about the software product. Online firms may add the Better Business logo or TRUST e-privacy shield to their sites.
- **Customer Co-Design:** Business and consumer collaboration are possible on the Internet. Software developers seek customer inputs about new products. They often allow users to download new products, test them, and provide feedback. Customer interaction increases product success. For example, "Amazon" regularly and routinely seeks customers' product reviews.
- **Product Mix Strategies:** Companies can choose among six categories of new-product strategies, based on marketing objectives, risk tolerance, resource availability and others:
  - ❖ Discontinuous innovations: new-to-the-world products. Example, TV, CD's
  - ❖ New-product lines: new products in a different category for an existing brand name. Example, Microsoft IE's, Honda's Ridgeline Truck
  - ❖ New variation of a current product line. Example, On-line stock trading
  - ❖ Improvements or revisions that replace an old product. Example, "new and improved" Ford hybrid-Escape
  - ❖ Current products targeted to different markets or promoted for new uses. Example, Yahoo! (search->Portal->Life Engine)
- Me-too lower-cost products. Example, Apple iPod Clones

### Price

Price is defined as the sum of all values that buyers exchange for the benefits of a good or service. Throughout history, prices were negotiated. This happened as a result of mass manufacturing and mass retailing. Internet is taking us back to an era of dynamic pricing varying prices for individual customers. The meaning of price depends on viewpoints of the buyer and the seller.

**Buyer View:** Buyer's costs may include time, energy and psychic costs. But they often enjoy many online cost savings due to following factors:

- Net is convenient
- Net is fast
- Self-service saves time
- One-stop shopping saves time
- Integration saves time
- Automation saves energy

The change in power from seller to buyer affects pricing strategies. Buyer power online is also based on the huge quantity of information and products available on the Web. Buyers set prices and sellers decide whether to accept the prices or not. For example, a reverse auction (also called procurement auction, e-auction, sourcing event, e-sourcing) is a tool used in industrial business-to-business procurement. It is a type of auction in which the role of the buyer and seller are reversed, with the primary objective to drive purchase prices downward. In an ordinary auction (also known as a forward auction), buyers compete to obtain a good or service. In a reverse auction, sellers compete to obtain business.

**Seller View:** Pricing objectives may be profit oriented, market oriented or competition oriented. Internet is only one sales channel and must be used in sync with other marketing mix elements. Information technology can place both upward and downward pressure on prices.

Internet puts Upward Pressure on Prices due to following reasons:

- Online customer service is an expensive competitive necessity
- Distribution and shipping costs could be high
- Affiliate programs add commission costs
- Site development and maintenance is expensive
- Customer acquisition costs are higher

Internet puts downward Pressure on Prices based on market structure and market efficiency.

The seller's ability to set prices varies by market type:

- Pure competition (many buyers and sellers)
- Monopolistic competition (many buyers and sellers with differentiated offerings)
- Oligopolistic competition (few sellers)
- Pure monopoly (one seller)

Internet however does not act like an efficient market regarding narrow price dispersion. In two studies, greater price spread was found for online purchases than for offline purchases. Price dispersion may occur either because the online channel is still immature or issues related with Brand strength, Delivery options, and time-sensitive shoppers.

- **Pricing Strategies:** How marketers apply pricing strategy is as important as how much they charge. Marketers can employ all traditional pricing strategies to the online environment which maybe -
  - ❖ **Fixed pricing:** also called menu pricing is when everyone pays the same price. Two common fixed pricing strategies are Price leadership (Cheapest, Best Value) and Promotional pricing.
  - ❖ **Dynamic Pricing:** is the strategy of offering different prices to different customers. Firms use dynamic pricing strategy to optimize inventory management and to segment customers. Hotels, Airlines have long used dynamic pricing to price air travel. There are two types of dynamic pricing which are Segmented pricing and Negotiated Pricing.

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Segmented Pricing includes Geographic segment pricing in which these factors are considered:

- ❖ Pricing differs by geographic area.
- ❖ May vary by country.
- ❖ May reflect higher costs of transportation, tariffs, margins, so on.

Segmented pricing also includes Value segment pricing that is based on following parameters:

- ❖ Recognition that not all customers provide equal value to the firm.
- ❖ Pareto principle: 80% of a firm's business comes from the top 20% of customers.

In Negotiated Pricing, price is set more than once in a back-and-forth discussion. Online auctions utilize negotiated pricing. In such situations, consumers enjoy the sport and community.

### Place or Distribution

Distribution determines how, when and where the customer receives a product or service. Marketers set strategies for availability, access, and distribution service. Distribution channel is a group of interdependent members who are also called as marketing intermediaries. They work together to transfer product and information from the supplier to the consumer the most common being wholesalers and retailers. Some may provide independent channel services.

Online intermediaries can be classified according to their business model -

- Content sponsorship
- Direct selling
- Infomediary and
- Intermediaries in the distribution channel

**Content sponsorship:** In this model, firms create web sites, attract traffic and sell advertising. All the major portals like AOL, Yahoo! & MSN utilize this model. Content sponsorship is often used in combination with other models. For example, newspapers charge fees for archived articles.

- **Direct selling:** In this model the manufacturer sells directly to the consumer or business customer. This has been successful in B2B and B2C markets. Examples are- Digital products & Perishable products such as flowers and fresh food. Dell is the best example of direct selling on the internet.
- **Infomediary:** aggregates and distributes information. Market research firms are examples of infomediaries. Some infomediaries compensate consumers for sharing demographic and psychographic information and receiving ads targeted to their interests.
- **Intermediaries in the distribution channel:** Three intermediary models that are commonly used on the Internet are Brokerage models, Agent models and Online retailing models.
- **Brokerage models:** The Broker creates a market in which buyers and sellers negotiate and complete transactions. B2B market has spawned brokerages. Converse is the leading exchange for global electronics. Online auctions are available in the B2B, B2C and C2C markets.

- **Agent models:** May represent sellers or buyers.

Agents that represent sellers are:

- ❖ Selling agents
- ❖ Manufacturers' agents
- ❖ Metamediaries
- ❖ Virtual malls

Agents that represent buyers are:

- ❖ Shopping agents
- ❖ Reverse auctions
- ❖ Buyer Cooperatives

- **Online retailing models:** Online retailing is one of the most visible e-business models. Online merchants set up storefronts online. Digital goods are delivered through Internet. Physical goods may be shipped via logistic providers.
- **Distribution Channel Metrics:** American consumers spend billions online and online sales figures exclude the brick-and-mortar sales, driven by consumer research on the Internet before visiting stores.

Besides revenue, B2C metrics may include:

- ❖ ROI
- ❖ Customer satisfaction levels
- ❖ Customer acquisition costs

B2B metrics may include:

- ❖ Time from order to delivery
- ❖ Order fill levels
- ❖ All about speed and fiscal efficiency

## Promotion

Promoting and communicating products online and reaching out to consumers let alone acquiring them will be a very difficult task for e-marketers. Let us see three main reasons that make this task difficult:

The web is a large medium with billions of web pages all competing for consumer attention.

The web is constantly changing, so even if you are "at the top of the list" today, you may well not be tomorrow.

Users have limited attention span and have established loyalty to a few sites that they trust.

Now, let us study the different ways of advertising and promoting products that e-marketing adopts:

## Internet Advertising

Advertising is non-personal, usually persuasive, communication about products or ideas by an identified sponsor. All paid space on a Web site or in an email is considered advertising. There are three major Internet advertising vehicles:



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- E-mail
- Wireless content sponsorship
- Web sites

Most advertising expenditures include:

- Keyword search
- Classified ads
- Sponsorships

### **Search Marketing**

Search marketing is unique to the online environment. There are two main tactics here - Keyword (contextual) advertising which refers to word buys at search engine sites and Search Engine Optimization that involves altering a web site so that it does well in crawler-based listings of search engines. Many search engines charge slotting fees for the top positions of search results.

Search engine optimization (SEO) is the process of improving the volume and quality of traffic to a web site from search engines via "natural" ("organic" or "algorithmic") search results. Usually, the earlier a site is presented in the search results or the higher it "ranks", the more searchers will visit that site.

### **Interactive Advertising**

Interactive Advertising is the use of interactive media to promote and/or influence the buying decisions of the consumer in an online and offline environment. Interactive advertising utilise media such as Internet, interactive television, mobile devices (WAP and SMS), as well as kiosk-based terminals. It enables marketers to engage consumers directly and personally, encouraging a sophisticated and dimensional dialogue. One of the most effective implementations of interactive advertising is so-called Viral marketing. This technique uses images, texts, web links, Flash, animations, audio/video clips, passed from user to user chain letter-style, via email.

Interactive advertising is also assuming other avatars, such as online directories for brands. These directories presently perform a complementary role to conventional advertising, helping viewers recall and compare brands primarily seen on television. Response is mediated usually through forms and click-to-call technologies. Animated and highly interactive display ads may become more important in future.

### **Banner Ads**

A web banner or banner ad is a form of advertising on the World Wide Web. This form of online advertising entails embedding an advertisement into a web page. It is intended to attract traffic to a website by linking them to the web site of the advertiser. These images are usually placed on web pages that have interesting content, such as a newspaper article or an opinion piece. The web banner is displayed when a web page that references the banner is loaded into a web browser. This event is known as an "impression". When a viewer clicks on the banner, he/she is directed to the website advertised in the banner. This event is known as a "click through". In many cases, banners are delivered by a central ad server.

When the advertiser scans their log files and detects that a web user has visited the advertiser's site from the content site by clicking on the banner ad, the advertiser sends the content provider a small sum of money. This payback system is often how the content provider is able to pay for the Internet access to supply the content in the first place. Web banners function the same way as traditional advertisements and intended to notify consumers of the product or service and presenting reasons why the consumer should choose the product in question.

### Interstitials, Superstitials and Screen Interrupts

On the World Wide Web, interstitials are web pages that are displayed before an expected content page, often to display advertisements or confirm the user's age. Interstitials are Java-based ads that appear while content is loading. They represent only 2% of all Web advertising. Superstitials are video like ads that appear when a user moves her mouse across a page. They utilize Flash and Java to make them entertaining and fast. Shoshkele is an animated banner ad that uses objects that overlay the Web page. Developed by United Virtualities ([www.unitedvirtualities.com](http://www.unitedvirtualities.com)) and named after the nickname of the daughter of one of its co-founders, Shoshkeles do not require a plug-in and typically include sound. They often start out as small objects that emerge from somewhere on the page and then enlarge and move around in some fashion. The objects eventually disappear or wind up as a static image.

**Activity:** List the principal ways through which a cellular phone can be promoted on a website.

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## 1.20 Additional P's to Support e-Marketing

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In the e-marketing scenario, there are several additional Ps added to make marketing mix more effective. Let us identify these additional P's:

- **People:** Every person involved with a product or service creation and delivery is important for example, workers, management and employees.  
People are very important resources to marketing. In e-marketing, if the personal element is missing, no technology or online techniques will achieve success. In customer's perspective, people cannot be separated from the service. Therefore, the right person should be selected, trained and motivated to perform his/her tasks successfully.
- **Process:** Indicates a procedure and flow of activities by which services are utilised. It is a procedure followed to achieve sales and thereby customer satisfaction. It shows a sequential direction in which several tasks have to be carried out by concerned personnel involved in e-marketing.
- **Physical evidence:** The circumstance in which the service or product is delivered is called physical evidence. In e-marketing context, tangible evidence is the one which helps to communicate and intangible evidence is the knowledge of the people around us: Generally this is addressed by easy downloads, immediate responses, videos, speeches, site's privacy issues, instant messaging/SMS to customer's mobile for successful online transactions, providing online statements/bills so on.

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- **Personalisation:** It refers to customisation of products through the use of internet. For example, Dell on-line and Amazon.com are involved in making customised offers to their customers.
- **Participation:** Allows customers to participate and get involved with the product/brand. Customers get a say in how exactly a product should be or what kind of ads are to be shown. It lays the foundation for customised changes through democratization of information.
- **Peer-to-peer:** This refers to customer networks and active customer communities that encourage brand engagement through social computing and advocacy.
- **Predictive modeling:** Refers to predictive algorithms such as neural network, artificial intelligence that can be successfully applied in marketing problems.
- **Partnership:** It is also seen e-marketing campaigns having 'Partnership' as their key element have won awards. Emergence of a smart partnership opens way for a vast customer base and emergence of alliance managers. Most UK companies have dedicated a separate section for partnership marketing. For example, Ford Galaxy came together with Tesco and AOL to reach millions of new online customers.

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### 1.21 Marketing Mix Vs. e-Marketing Mix

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We know that e-marketing mix is generally the same as the marketing mix and that it is simply an adaptation of price, place, product and promotion to the context of e-marketing.

Although the marketing mix elements remain the same, the way it is designed, portrayed and communicated may be based on the actual 4 P's or modified to suit the e-marketing platform. Let us see how e-marketing mix differs from traditional marketing mix -

Whenever e-marketing is involved the differences in the expectations and behaviours of online customers when compared with offline customers can be summarised as - 'from 4Ps to 4 Cs'

#### **From Product to Choice**

Online customers do not always search for a product but for a choice. They often search for solutions online. The offline customer has limited choice but the online customer comes across many choices and evaluates the choice within a short span of time. The delivery speed of your solution or product will decide how well you perform. It also exhibits how effectively you have displayed it and guessed the customers' problems. All these factors will decide the success factor of the service provided. For example, an off-line customer is willing to wait for few minutes till he/she seeks the desired brand. But this cannot be expected from online customers as they will easily click another website. The website which a customer might look in, may offer many options and in a more pleasing manner to attract the customer by displaying the original alternatives which the customer is searching for.

#### **From Price to Cost**

Online customers do not just search for price alone. They consider other cost elements also such as costs associated with online purchasing process like time cost, delivery cost and so on. Unless

proper information is not provided to the customer about pricing, he/she may not be aware of the currency utilised to charge the credit card. Any cost related to the payment process like debit card, card handling fee, alternative payment choices like credit cards and debit cards, direct money transfer and so on should be carefully analysed. Customers should also be made aware of the cancellation charges and refund policies. All these facts come under the 'physic costs' of the customers. In addition to these, there are many issues related to privacy and security. To meet customers' requirements a marketer should focus on issues like storing and transferring customers' personal information like name, email address, contact information, payment method and security while paying.

## Notes

Customers should be given an assurance of minimising the psychic cost. To make customers comfortable with online transactions, these few things are considered:

- Existence of a comprehensive privacy policy that is accessible through all pages of your website
- Detailed 'about us' page with your company history
- Number of years in operation, past/key customers testimonials
- Any national/international awards/certifications received
- Background details of your directors, top management people.
- Access to your contact details, physical address, customer support numbers

Today's digital life marketers face challenges by the trends such as attention scarcity, time poverty and information overload. Based on these no marketer can expect their online customers to wait 20-30 seconds till the webpage is fully loaded. Every millisecond is important. It adds up to the 'time cost'. Many popular online companies initially reported this site loading problems' time to range from 5 - 10 seconds.

'Energy cost' is another aspect of time cost. Every action of the user on the website can be counted as energy cost to the customer. If you increase the number of clicks to access the information on the website it will directly increase the energy cost of the customer. There are certain things which make browsing the net more frustrating such as:

- Requiring form filling,
- User registration
- Logging in before completing a transaction
- Creating website clutter with pop ups
- Too many calls to actions in the form of action oriented links/buttons

### From Place to Convenience

Convenience is one of the main reasons for selecting online shopping for purchase and sales enquiry. The "reach ability" to the service is made easy by the internet. Setting up an online business and not setting up a place for transactions is like a half work done in terms of providing access to the services.

Users can access your website with many browsers such as:

- IE

- Fire fox
- Browser versions (IE7, IE8)
- Mobile devices.

## Notes

Marketers should be careful and make sure that their services can be accessed through all these sources. They can also initiate the use of desktop and browser widgets, gadgets and applications which are very handy and are used by modern age people.

### From Promotion to Communication

In e-marketing, it has become very difficult to differentiate between communication and distribution. The main reason for such confusion is because multiple channels providing service distribution and communication operate equally and effectively. Search engine advertising, search engine optimisation and email advertising are the traditional channels for leading customers to a website. But the developments in the Web 2.0 area has drastically changed the way companies are expected to treat their customers. The age of marketers ruling the marketing sector is no more applicable. Now customers play an important and influential role in the marketing process.

The era of customer communication where marketers had the luxury of deciding what and how to communicate is almost behind us. We have now evolved into a state of participative communication where customers have a greater influential power than ever before. The present market expects a more active, genuine and transparent communications including total cooperation from support staff and from the entire company. e-Marketing requires more engagement, visibility and capability to deal with the community.

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### 1.22 Designing an Effective e-Marketing Mix

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In the previous section, you studied the challenges and implications involved to deal with e-marketing mix elements. Now, let us study what steps have to undertaken to design a proper e-marketing mix.

#### Steps involved in designing e-Marketing mix

The marketing mix model guides you in deciding the way to present a new product in the market. The existing marketing strategy can also be verified. The following steps are to be considered while improving the marketing mix.

1. Identify the product and service
2. Refer to the 4 P's
3. Ask "why" and "what if", to challenge yourself

For example, question why the target audience requires a certain feature. What if you reduce the price of the product by 5%? What if more colours are presented? Why are products being sold with the help of wholesalers but not through direct channels?

4. Try examining everything from the customers' point of view if a well defined marketing mix is present.

Some customer oriented questions that can help in examining are:

- Does it meet their needs? (product)

- Will they find it where they shop? (place)
  - Will they consider it's priced favourably? (price)
  - And will the marketing communications reach them? If yes, in what manner and how will they perceive it? (promotion)
5. Constantly ask questions and make changes to the mix till you are satisfied. Keep on asking questions and making changes to your mix with the given information and facts until you are satisfied that you have optimised your marketing mix.
  6. Regular reviews are an important feature as the products in the market constantly grow and mature to meet the changes and survive in the competitive environment.

### Beyond the Mix

Even if the marketing mix provides the necessary framework, marketers should also consider other marketing aspects like how to build a positive relationship with customers in order to have a long term value. A marketer should also know how to tackle partnerships.

In today's marketing scenario, customer relation is everything. The choice of marketing mix should assist in growing cordial relationships with customers and keeping customers happy should be the essence of relationship marketing. Partnerships and alliances are also about relationship.

Most customers seek variety in their purchases and products they buy. It is very easy for customers to get tempted by different offers in the markets especially when there are so many choices available. If the customers start buying competitor's products and show preference to similar or substitute products, then winning and losing depends on the relationship between customers and marketers. Hence, it is very important for marketers to know how to maintain and manage a good relationship with the customers.

### 1.23 Implementing e-Marketing Plans and Strategies

Let us study the three main stages involved in implementing an e-marketing plan and strategy:

1. **Evaluate the Marketing Options:** The first step in implementing an e-marketing plan is to evaluate the available marketing options and decide which channels fit your requirements. The following are a few most widely used communication channels in e-marketing:

**Email:** Email can be used for creating good relations with customers. It helps in updating the new offers to your customers. It is less disruptive than telephonic marketing. Regarding spam messages, one should abide by the government regulations.

**SMS (short messaging service):** Today, the mobile phone has become a must for every one in the day-to-day life. Hence, SMS, which is a low cost mode of communicating, is being preferred by marketers. However, one should be careful while marketing through SMSs, as some people may not like being disturbed during their busy work schedule.

**Websites:** A Website is used widely to meet any marketing need. One big advantage of advertising through a Website is that you can include a lot of pictures and video content in your advertisements, which can make your offer look very attractive. However, in today's highly competitive world, you need to have a lot of special features in your Website to attract customers.

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2. **Plan the Rollout Phase:** The next step is to analyse and decide how to implement the product promotion activity. For example, if you have decided to go with the mobile SMS method, you need to figure out who will be carrying out the task – do you want to tie up with a special agency, or do you plan to manage it internally? Again, if you want to manage it with internal resources, what are the training implications, what would be the time required for the team to learn and get accustomed to the new system, etc.

Is there any requirement for reviewing customer contacts database? This is the best time to review customer contacts database before starting anything new.

3. **Implement e-Marketing:** You will that what follows now are the typical activities in this phase which are:
  - Any important and relevant training should be rolled out.
  - Staff feed back and involvement should be encouraged. This will assist in smooth implementation, because staff buy-in (staffs support) can create or break a project.
  - A cross departmental taskforce can be organised. It will assist in ensuring the implementation work business-wide. This will also help in staff buy-in.
  - Practices should be continuously reviewed against e-marketing regulations.

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## 1.24 Creating and Managing a Website

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Let us study the four main functions of Web site design and these are:

- Planning the site
- Designing the site
- Building the site
- Maintaining the information and structure

### Planning the Site

A Website development and management plan should be created first, as the lack of a good plan will not serve the future of the Website well.

### Resources (human and hardware) and skills

Following are a few questions that can be asked while planning for a Website:

- Who will build and maintain the Website, and where will it be hosted?
- If any initial designs are expected to be contracted and built, is the maintenance also going to be in contract or done in-house? If it is done in house, then who will maintain it?
- If a staff member has the initiative to maintain the site, do they have sufficient time and the right skills to do the job? Sufficient initial training for in-house staff is expected, but not essential. However, the staff members must have an enthusiasm to learn and keep up with continuous changes.
- Is there sufficient budget allotment for the project? If not, how to plan and manage the expenses? The typical expenses involved in creating a Website are – staff salaries for

creating and maintaining the Website, staff training expenses and expenses involved in buying the required software and hardware. *Introduction to e-Marketing*

## Holding a Meeting

While creating a Website, including the people who are going to work on the project in the planning process is a very important function. If people participation is encouraged, they will take an active part in creating the Website. It should be considered that the person leading the team should have a broad vision. The lead should also know what resources are available and what are the planned goals and objectives, so that the team is eventually informed about the likely outcomes. This person should also be willing to take decisions on particular issues and should have a complete knowledge of the following:

- **Purpose of the site:** What is the purpose of the Web site? The entire structure of the site will depend on the answer to this. The content for the Web page should also be decided. An outline of the content must be created in the form of written lists, handbooks, research papers, etc. Pre-existing information can also be used. Many a times, text taken from booklets does not look impressive on the Web. Hence, it is always a safe option to start afresh.
- **Information structure and content:** Once the purpose and details of the Website are clear, you must set out to create a structure for the Website. Although you might have outsourced the project to an agency, you should be the one to create an outline of the structure and content, since you are the one who knows what you want your customers to see and read. While working on the structure, you need to keep in mind the logical sequence of data and the way you want the customers to navigate through the pages. A Website is usually targeted at more than one type of audience. It means one needs to structure the Website with many points in mind. Every idea should reach a particular target audience and provide them with what they want.
- **Content of the home page:** The exact content to be displayed on the home page should be planned. Each group of target audience should be addressed, and a marketer should decide which content should address which group. This might overlap, but this analysis will let you know which data is right for a particular audience. Information should be made user-centric, so that the customer can find all the required information at one go.
- **Content - recommended items:** There are certain things which are very essential while planning to create a Website. They are:
  - It is mandatory to mention the corporate identity or logo along with the name of the organisation, optionally asserting copyright.
  - To create trust, your postal address and email contact and/or Webmaster address should be added.

Some links which might prove useful to a particular audience can be added. But adding too many links is not advised, as the page may get overloaded and might cause inconvenience to the customer. Website Providing description for each category of information is important. Some important links that are to be added are:

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- Request for feedback
- a metadata description and some metadata keywords to facilitate worldwide searches finding your site
- Links to policies about privacy and about accessibility of site
- **Wording:** Along with the layout of the Website, the words that are used in the content are also important. As the Web is accessed world wide the vocabulary used should be simple, easily understandable and unambiguous. If the marketers desire to reach out to customers with different languages, then it would be desirable to create the Website in multi-language. There are some words, called keywords, which a marketer might expect people to utilise to search for a particular site.
- **Structuring your content (information architecture):** Generally, a marketer should aim for a hierarchical structure with the home page at the top of the structure. Various main submenus should be present within the structures. The main links of the home page are the branches of data.
- **Directories:** The next level of the home page should be structured into the active directories. Each directory file will be named with the file extension, index.html. This will be the 'home page' for the directory.
- **Getting a theme for your site:** A fast loading Website is always welcomed by any customer. It is a misconception that to attract the youth, a Website needs to employ a lot of gimmicks. A Website is always evaluated on the basis of how easily it can be accessed and how user friendly it is.

Here is an example of corporate website wherein the web components are highlighted. Check out figure 1.4 and 1.5 to see the various aspects of a web-site:

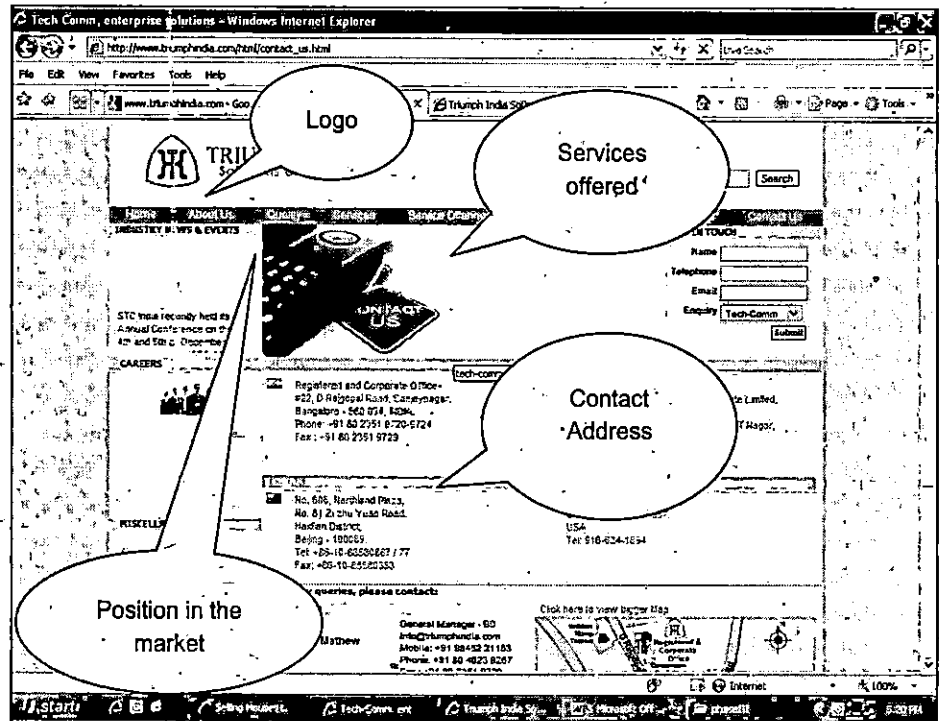


Figure 1.4. Example of a Corporate Webpage

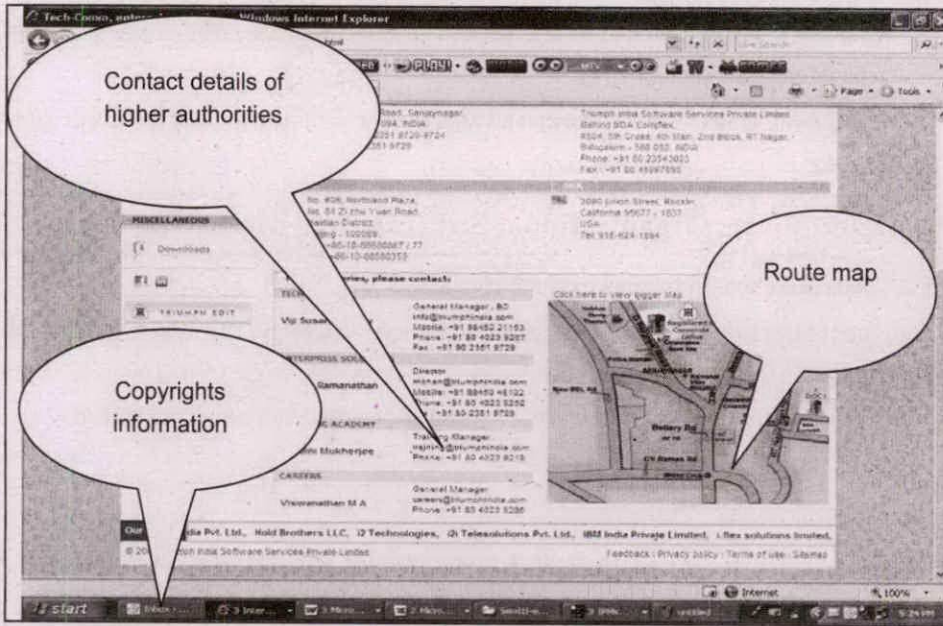


Figure 1.5. Example of a Corporate Webpage

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### Managing the Website

Once your Website is up and running, there are many things that you need to do on a regular basis to ensure that your Web site remains useful and functional. Some of the tasks you should be performing are listed below:

- **Promote:** You must promote your Web site constantly. Every single day you should do something that tries to get people to your site. This is extraordinarily critical in order to ensure that people continue to visit your site day after day.
- **Check your links:** Another task that must be performed on a regular basis is checking for "link rot". This is the tendency for broken links to appear all over a site. Link rot is more prevalent with external links, but can occur occasionally with internal links too.
- **Change Your Site:** People expect sites on the Web to be constantly changing. If your site is unchanging, there is no reason for someone to come back again – after all, they've already seen it - so why return? One good way to get them back to your site is to change the content constantly and keep the visitors informed that it is changing.
- **Review Your Statistics:** Another task you should be performing on a regular basis is to review your statistics. You should check your page counts to be sure that your site is being viewed. A Webmaster who does not have access to statistics is a crippled Webmaster who has no idea how effectively the Website is performing.
- **Stay Up-to-Date:** All Webmasters need to stay up-to-date on new technologies which they can use to improve their Web site.
- **Review Your Site –** Occasionally, review your site. This is because, as time progresses your articles may become outdated, so be sure and recheck your facts and conclusions. What may have been true when you wrote the article last year may not be true or important anymore.

- **Check Your Site's Security** – Ensure that, to the best of your abilities and knowledge, your site is secure. This ensures that your customers' and visitors' information remains confidential and safe.

**Activity:** Assume that you are starting a Website for your business. List all the activities which you would consider while creating it.

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## 1.25 Determining Organisational Structure in e-Marketing

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The people who make up an Internet marketing team are:

**Internet Marketing Director/Manager** – The Internet Marketing Manager is responsible for all the strategies that are related to the company's Web marketing efforts. This person is a member of senior management. Some of the activities of the Internet Marketing Director are to:

- Set strategies for the Website.
- Prepare a budget for the Website.
- Take decisions on Web marketing programs and the development program of a site.

It is better to give the decision making part to this person. Democracy often delays in making decisions. This person should be given the power to take quick decisions by considering the budget and strategy plan that has been approved. The Internet Director/Manager is responsible for all offline and online marketing efforts.

**Internet Project Manager/Coordinator:** This person reports to the director of the organisation. One of the chief responsibilities of the Internet Project Manager is to coordinate all activities of the Web team.

Some of the other responsibilities are to:

- Handle schedules, action plans, development timeframes and meeting coordination
- Bring the process of Web marketing into a concrete plan

**Internet Marketing Specialist:** An Internet Marketing Specialist takes the responsibility of leading the traffic to the Website with the help of all means like:

- Search engines
- Pay for click
- Email marketing
- Affiliates
- Ads
- Links exchanges
- Offline marketing

**Website Research Specialist** – The tasks of this person are:

- Collecting customers' feedback
- Analysing the collected data and reporting the statistics and suggestions to the Web marketing team

This person works closely with the Web design and development team.

**Web Content Writer:** The designation itself explains the major function of the person. Apart from writing the Web content, a writer has to:

- Write for email campaigns

Write scripts for online videos and pod casts, interview key people in the organisation, so as to write effectively for the Web.

**Photography and Other Media Specialist** – This person is responsible for:

- Photos
- Video
- Web cams
- Interactive tours
- Pod casts and all other media presentations of content on the Website.

**Graphic Designer:** The major task of a Graphic Designer is designing the graphic and artistic elements of a Website including the:

- Logo
- Navigation systems
- Content placement
- Photo placement and all other graphic elements on the Website.

**Technology and Development Engineer:** The key responsibility of this person is to look after the structure of the Website and its operations including:

- Technology platform
- Hosting
- Ecommerce
- HTML
- Coding
- How updates are made and all key technology functions.

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## 1.26 Monitoring e-Marketing Activities

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As an e-marketer, you need to constantly monitor your website and related e-marketing activities to find out for gaps, irregularities and its performance. You will need to do it by –

### Tracking and Site Analysis Tools

Marketing will be successful only if you know why people visit your Website. The reason behind it is, only if the nerve of the people is known, a marketer comes to know which kind of marketing should be employed and where money can be invested. Tracking and site analysis tools help you in collecting, measuring, analysing and reporting Internet data, for the purposes of understanding and optimising the Website. Tracking tools tell you where visitors come from, what do they do while on your site and where do they go when they leave.

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The two main technological approaches for collecting the data are logfile analysis and page tagging. Logfile analysis reads the logfiles in which the Web server records all its transactions, whereas page tagging uses JavaScript to notify a third-party server when a page is used by a Web browser.

A Website analysis tool is a piece of software that helps you to measure the usage patterns of your site. It does this using statistics such as the total number of visitors, the number of new and returning visitors, which search engines they are finding the site through, and which parts of the site they are making particular use of.

Examples of Website analysis tools are: Analog Wusage, WebTrends and Google Analytics.

### **User Surveys and Usability Testing**

Another way of checking traffic to your Website is asking the users directly. Initially, marketers should know how the customers have reached the Website directly. The best way to collect this kind of data is by using Pop-up surveys. However, you need to select the most vital questions for your survey, as customers generally ignore pop-ups that contain too many questions.

Another way of gathering valuable feedback from the customers is Usability testing, which involves getting a group of people (both visitors and non-visitors) to review your Website and provide feedback on how easy is it to use your Website and how effectively a product is promoted online. This process can be done by yourself or with the help of an agency.

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## **1.27 Evaluating the Performance of e-Marketing Activities**

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We will now go through some techniques which can be employed while evaluating the performance of e-marketing activities. Some of them are discussed here:

### **4.6.1 Marketing Performance Measurement and Management (MPM)**

Marketing professionals use the term Marketing Performance Measurement and Management (MPM) to explain the analysis and improvement of the efficiency and effectiveness of marketing activities.

- This can be achieved with a focus on the business objectives, marketing activities, strategies and metrics.
- The basic functions of MPM are creating a metrics framework to monitor marketing performance, and then creating and using marketing dashboards to control marketing performance.
- This strategy is used by many companies including IBM, Intel, and Citrix.

### **Performance Management**

- Performance management (PM) is among the many processes applied to business operations such as manufacturing, logistics and product development. The main aim of PM is to obtain crucial outcomes and objectives to optimise a single person, group or company performance. MPM focuses mainly on measuring, managing, and analysing marketing performance to increase effectiveness and optimise the return of investment (ROI) on marketing.

- The three important elements which play a crucial role in managing marketing performance are data, analytics, and metrics. *Introduction to e-Marketing*

## Data and Analytics

Collecting the appropriate data is one of the means to measure marketing effectiveness. A crucial part in measuring marketing performance is collecting the right content.

Data collection is a simple process, whereas analysing the same to make sense could be quite complicated. By collecting and analysing marketing data, any company can arrive at actionable business insights to enhance the efficiency of marketing, which, in turn, leads to better business decisions within less time.

These analytics are used for one common purpose, which is optimising marketing. Companies generally use the marketing mix model (do not confuse with the 4 Ps of Marketing Mix) for optimising. These models measure the effect of marketing activities with relation to competitive effects and market environment on sales of a product. This method has been used extensively by the consumer packaged goods (CPG) industry and now it has been adopted everywhere else. Data is used in this model to establish the relationship between the amounts spent on various channels, geographies and so on with incremental sales. These tools were innovated 30 years back. With the increasing popularity of the Internet, mobile advertising, text messaging and social networking sites, interest in these has also increased a lot.

## Metrics and Management

Measurement and metrics permit marketing professionals to verify budgets based on returns and foster organisational growth and innovation. In result, the marketers utilise these metrics and performance measurement to prove value and state the contribution of marketing to the company or firm.

Marketers use some popular metrics for analysing the collected data. These include activity-based metrics that uses numerical counting and reporting. Tracking downloads attendees and Web site visitors at various events are the examples of such type of activity-based metrics. Histograms help in analysing the metrics. The following diagram is an example of how a histogram looks like.

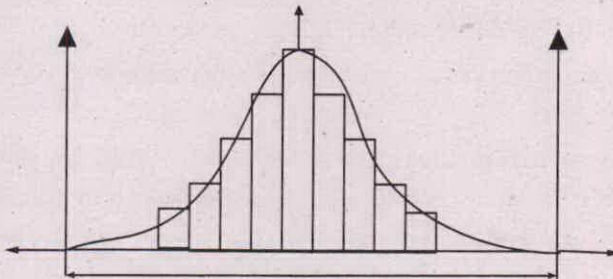


Figure 1.6. Histogram

## Operations Performance Metrics

This term is used when companies try to manage marketing functions as a business. Companies committed to implement MPM may develop positions called as Marketing Operations Director

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and Marketing Finance Director. The typical data collected and analysed in this process are program-to-people ratios, awareness-to-demand ratios, cost vs. lead, cost vs. sale and conversion rates. These generally provide the company with operational performance metrics, and provide a solution to justify marketing investments. It does not relate marketing to business strategy and performance.

**Dashboard:** A "dashboard" resembles a speedometer like shown in figure 1.7.

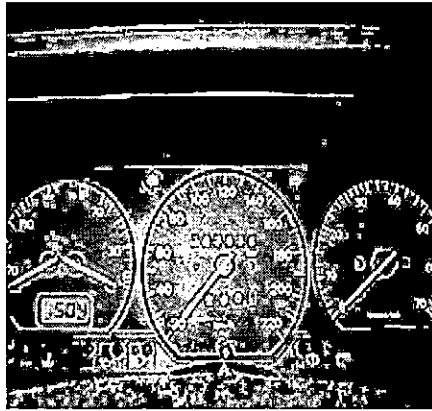


Figure 1.7. Dashboard

MPM professionals utilise a dash board to report the marketing performance. All the data and metrics is collected in the dashboard and displayed as important and useful information to the company. Marketing professionals develop these kinds of dashboards from metrics and KPIs (Key Performance Indicator). Companies use this information to proceed with the marketing activities. In other words "a dashboard is a multi-layered performance management tool that enables organisations to measure, monitor and manage business activity by using both financial and non- financial measures". It also provides an analysis into the progress of the company towards reaching or obtaining every defined objective of the organisation

### CASE-LET: Berries Fruit Juice

The brand, "Berries" Juice, is a synonym for simplicity, purity, freshness and being close to fresh fruit juice. It wanted to create a site for its brand. Berries Juice, a new product line from Marty Fruit Producers, approached Cramer to launch a Website that would promote and provide information related to its products.

Cramer is a small but established company with highly skilled and technically experienced employees.

The requirement of berries Juice was not only visual satisfaction but also content. So the company felt that the site, in order to be truly popular, not only they should have pictures that are attractive but decent also. The commercial advertisements are very lush and beautiful, and they wanted to not only reflect that visually but also in its structure and offerings and the content of the site.

The site did not have nightclub listings, chat rooms, message boards, and e-commerce offerings found on other consumer packaged goods sites. Instead of all those, customers will find required product information, a "tell a friend" viral marketing component, a store locator, and a low-key "simply fun" section.

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As a promotional measure, consumers were offered a chance to "win a trip" to Europe. This allowed Cramer to gather demographic data regarding Berries Juice's online customers, a highly demanded component when sending a new product to the market. Berries Juice had two aims for using the Internet, according to Gagan, the company's marketing manager. The first is to create awareness and excitement regarding the brand before planning its launch. Berries started shipping the product on March 2004, but launched the site much earlier. This assisted Berries to create an endless excitement among the retailers who probably would be stocking the product.

The main motive of creating the Website was that it's an enhancement of development of this brand promise to their customers. Gagan tapped Cramer to develop a place on the Internet where customers can visit to experience the brand, know and understand what it stands for and what promise it is making to them.

The planned site was promoted in a televised ad that showed the URL for a few seconds. Links to some sweepstakes sites were also provided. Berries wanted to make sure and know whether their customers or the visitors who are interested in their products are able to get the information they want, and they wanted to find out who they were. According to Gagan, the campaign was extremely successful.

Cramer is planning something more for berries Juice and is focusing on what lies ahead in 2006. Berries Juice is learning a lot from the research conducted on customer packaged goods. Berries will utilise the Internet as a crucial element for expansion. The company will definitely continue communications with customers who pleaded for updates after entering the sweepstakes.

**Questions:**

1. Did Cramer employ any extra visuals to attract the customers?
2. What did Berries Juice do in order to attract the more customers for its product?

**1.28 Summary**

e-Marketing has become the part and soul of day-to-day shopping. e-Marketing entirely depends on the electronic gadgets and medium for transactions. It has a wider scope globally. It has many advantages over traditional marketing as it is less expensive and less time consuming. Now-a-days no one has the time to visit a shop for purchasing a product due to their busy schedules. In such scenarios, e-marketing proves the best. It also has its own de-merits too. The traditional marketing and e-marketing methods have important positions in the market. As times are changing, the market requirements are also changing. In fact, the differences between e-marketing and traditional marketing really lie in their efficiency and effectiveness.

Marketing activities concepts like production, product, selling, and marketing are playing a major role in e-marketing.

The various internet marketing techniques like SEM, SEO, PPC, paid inclusion, e-mail marketing, banner advertising and blog marketing are widely used in the modern market. e-Marketing is one of the branches of e-commerce. Interactive marketing is that branch of marketing where interactive electronic products are used for marketing.



An e-marketer should carefully consider several aspects while formulating e-marketing plan, developing the plan, e-marketing objectives, principles and building strategies. There are 5 main objectives of e-marketing.

The various e-Business models are Brokerage model, manufacturer model, advertising model, merchant model, community model, subscription model, affiliate model and utility model. Apart from that there are e-Functional models also.

Dead-ends, giving and selling, trust, push and pull and niche marketing are the five e-marketing principles.

e-Marketing Mix is essentially the same as the marketing mix. When marketing mix elements - product, price, place and promotion are adapted in the e-marketing context, then it becomes e-marketing mix. There are additional P's also to support e-marketing.

In e-marketing mix, each element will have its own significant role along with several sub-elements involved in it.

To achieve an optimum e-marketing mix, marketers have to undertake several steps and keep answering questions till they get a satisfactory response for the same.

The four main functions of Website design are: planning the site, designing it, building it and maintaining the information and structure. Many organisations are evaluating the online presence through blogs. Updating and posting the blog regularly is very important in order to have a good impression with the customer.

Internet Marketing Director/Manager, Internet Project Managers/ Coordinators, Internet Marketing Specialists, Website Research Specialists, Web Content Writers, Photography and Other Media Specialists, Graphic Designers, and Technology and Development Engineers make up the organisational structure of the marketing department.

Monitoring the e-marketing activities is also equally important. There are various tools and techniques to monitor such activities.

Evaluating the performance of e-marketing activities is another crucial process in e-marketing. Evaluating can be done with the help of various tools like MPM, data and analytics, histograms and dashboard.

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## 1.29 Glossary

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- **Omnipresent:** The states of being present everywhere. The internet is present in every transaction in the present world.
- **e-CRM:** Electronic methods are used to gather data and analyse customer information. The internet is the foundation of e-CRM today.
- **Robotics:** The field of computer science which mainly deals with construction of robots.
- **Incentive:** Serving to encourage or motivate: an incentive bonus for high productivity.
- **Interfaces:** A program that controls a display for the user and that allows the user to interact with the system.
- **Temporal:** Pertaining to or concerned with the present life or this world.
- **Semantics:** The study or science of meaning in language.

- *Rendezvous*: A popular gathering place, popular websites for any community.
- *Tangible*: Capable of being touched or felt; real substance, Tactile
- *Inconsistent*: Not regular or predictable; erratic, not at all organised.
- *Unambiguous*: Doubtful or uncertain, not clear.
- *Disruptive*: Causing trouble, confusion, causing disturbance.

## Notes

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### 1.30 Review Questions

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1. Give the meaning of e-marketing.
2. Mention the features of e-marketing.
3. Distinguish between e-marketing and traditional marketing.
4. What are the benefits of e-marketing?
5. Discuss the scope of e-marketing.
6. What was the result of the joint efforts of Brook Ltd. and Q-Fashions?
7. Suggest some e-marketing techniques that the companies can adopt.
8. What is an e-marketing plan? Mention the steps to develop it.
9. Discuss the e-marketing principles.
10. Write a note on e-business models?
11. What are functional models?
12. What is e-marketing mix?
13. What do you understand by the term Price in e-marketing mix?
14. Differentiate between marketing mix and e-marketing mix.
15. Give a note on Promotion element of e-marketing mix.
16. Mention the various steps to achieve an optimum e-marketing mix.
17. Explain the stages of implementing the e-marketing plan and strategies.
18. Identify the issues to be highlighted while creating a corporate Website.
19. Briefly describe the organisational structure in e-marketing.
20. Mention the different techniques used while evaluating the performance of e-marketing activities.

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### 1.31 Further Readings

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- Smith P. R., Chaffey Dave, (2003), Marketing excellence – The Heart of Business, Viva Books
- Strauss Judy, Frost Raymond, (2002) e-Marketing, 2nd Ed., Free Press

**E-MARKETING ENVIRONMENT**

## Notes

**(Structure)**

- 2.1 Learning Objectives
- 2.2 Introduction
- 2.3 E-Security
- 2.4 Network and Website Security
- 2.5 Firewall
- 2.6 E-Payment Systems
- 2.7 Electronic Funds Transfer
- 2.8 Digital Token Based Electronic Payments
- 2.9 Modern Payment Systems
- 2.10 Steps for Electronic Payment
- 2.11 Payment Security
- 2.12 Net Banking
- 2.13 Summary
- 2.14 Glossary
- 2.15 Review Questions
- 2.16 Further Readings

**2.1 Learning Objectives**

After studying the chapter, students will be able to:

- Recognize the E-Security and types of Vulnerabilities of network;
- Define the various network and website security;
- Explain the Firewall and its types;
- Explain the modern payment systems and token based e-payment system;
- Define the steps for electronic payment;
- Recognize the net banking and security issues.

**2.2 Introduction**

In this lesson you will be aware with the basic elements used to construct security for e-commerce website. These elements include the E-Security, Network and website security, and Firewall. These basic elements are used to construct more comprehensive security feature to website. Some of

the basic informations like attacks, viruses and Vulnerabilities of network needs very detailed information; however, the purpose of this type of basic informations is to introduce certain basic concepts and to provide some necessary definitions for the topics that follow in next few lessons.

We learn through this lesson as electronic payment system for e-commerce decides the part of transactions to allow the user to make the purchase on their place; it also determines the scope of the secured transaction. All the payment system consists of well defined steps. The e-payment system can be achieved through the credit card, debit card, electronic fund transfer and e-money determines the easy way of the payment mode.

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## 2.3 E-Security

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Security is an essential part of any transaction that takes place over the internet. Customers will lose his/her faith in e-business if its security is compromised.

E-security can be described on the one hand as those policies, guidelines, processes, and actions needed to enable electronic transactions to be carried out with a minimum risk of breach, intrusion, or theft. On the other hand, e-security is any tool, technique, or process used to protect a system's information assets. Information is a valuable strategic asset that must be managed and protected accordingly. The degree of e-security used for any activity should be proportional to the activity's underlying value. Thus, security is a risk-management or risk-mitigation tool, and appropriate security means mitigation of the risk for the underlying transaction in proportion to its value.

### Security on the Internet

Internet security is defined as a process to create rules and actions to take to protect against attacks over the Internet. Internet security is a broad term that refers to the various steps individuals and companies take to protect computers or computer networks that are connected to the Internet. One of the basic truths behind Internet security is that the Internet itself is not a secure environment. The Internet was originally conceived as an open, loosely linked computer network that would facilitate the free exchange of ideas and information. Data sent over the Internet – from personal e-mail messages to online shopping orders – travel through an ever-changing series of computers and network links. As a result, unscrupulous hackers and scam artists have ample opportunities to intercept and change the information. It would be virtually impossible to secure every computer connected to the Internet around the world, so there will likely always be weak links in the chain of data exchange.

Small business owners need to recognize the various threats involved in conducting business over the Internet and establish security policies and procedures to minimize their risks. Internet security measures range from hardware and software protection against hackers and viruses, to training and information programs for employees and system administrators. It may be impossible – or at least impractical – for a small business to achieve 100 percent secure computer systems. But small business owners can find ways to balance the risks of conducting business over the Internet with the benefits of speedy information transfer between the company and its employees, customers, and suppliers.

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### **Common Security Problems**

Several common security problems that affect small business computers. For example, a well-known cause of computer problems is viruses, or damaging programs that are introduced to computers or networks. Some viruses rewrite coding to make software programs unusable, while others scramble or destroy data. Many viruses spread quickly and operate subtly, so they may not be noticed until the damage has already been done.

Hackers have two main methods of causing problems for businesses' computer systems: they either find a way to enter the system and then change or steal information from the inside, or they attempt to over-whelm the system with information from the outside so that it shuts down. One way a hacker might enter a small business's computer network is through an open port, or an Internet connection that remains open even when it is not being used. They might also attempt to appropriate passwords belonging to employees or other authorized users of a computer system. Many hackers are skilled at guessing common passwords, while others run programs that locate or capture password information.

Another common method of attack used by hackers is e-mail spoofing. This method involves sending authorized users of a computer network fraudulent e-mail that appears as if it were sent by someone else, most likely a customer or someone else the user would know. Then the hacker tries to trick the user into divulging his or her password or other company secrets. Finally, some hackers manage to shut down business computer systems with denial of service attacks. These attacks involve bombarding a company's Internet site with thousands of messages so that no legitimate messages can get in or out.

### **Measures to Ensure Security**

Major security measures are following:

- **Encryption:** It is a very effective and practical way to safeguard the data being transmitted over the network. Sender of the information encrypts the data using a secret code and only the specified receiver can decrypt the data using the same or a different secret code.
- **Digital Signature:** Digital signature ensures the authenticity of the information. A digital signature is an e-signature authenticated through encryption and password.
- **Security Certificates:** Security certificate is a unique digital id used to verify the identity of an individual website or user.

### **Network and Website Security Risks**

The term network security refers to protecting your digital assets (computer systems, programs, and information) from intrusion, destruction, theft, modification, or misuse. Network security can be made up of hardware devices, specialized software, physical security (i.e. locked computer rooms), and rules for people to follow. Just like securing your home, a network security system must protect against threats coming in from the outside and also deal with intruders if they make it inside. Criminals who access data or networks illegally are known as hackers.

Network security is an over-arching term that describes that the policies and procedures implemented by a network administrator to avoid and keep track of unauthorized access, exploitation, modification, or denial of the network and network resources.

This means that a well-implemented network security blocks viruses, malware, hackers, etc. from accessing or altering secure information.

The first layer of network security is enforced through a username/password mechanism, which only allows access to authenticated users with customized privileges. When a user is authenticated and granted specific system access, the configured firewall enforces network policies, that is, accessible user services.

However, firewalls do not always detect and stop viruses or harmful malware, which may lead to data loss. Anti-virus software or an intrusion prevention system (IPS) is implemented to prevent the virus and/or harmful malware from entering the network.

The basic business logic of a website and an internet application which has the client interface and the server end on a web server and made known by a Uniform Resource Locator (URL). The internet server is understood by its name. The browser (client) and server talk via a transport protocol TCP. The transport protocol is HTTP; the data format is Cascading Style Sheets (CSS) and hypertext mark-up language (HTML). The user clicks or enters a URL to call the application or access the website (Vandana et al., 2014). A request via communication protocol is sent to the server from the clients. A script at the net server removes input from the consumer knowledge and creates a request to a backend application server, e.g. a mysql query to a database. The result is received from the backend by the web server and returns a hypertext mark-up language (HTML) result page to the consumer. The result is displayed as a page by the client's browser. To show a page, the browser creates an interior picture for it.

### **Weakness of the Website Risks**

Ten security risks have also been identified by Open Web Application Security Project (OWASP) as the most critical security risks associated with web applications. These risks are known to be common forms of attacks. Aside that they are known to be exploitable and can have a negative impact on websites when executed hence their rank as the top 10. The top 10 risks as published by OWASP are:

- Injection flaws.
- Broken authentication and session management.
- Cross site scripting.
- Insecure direct object references.
- Security mis-configuration.
- Sensitive data exposure.
- Missing level access control.
- Cross Site Request Forgery (CSRF).
- Using components with known vulnerabilities.
- Invalidated redirects and forwards.

### **Denial-of-Service Attacks**

A denial-of-service (DoS) is any type of attack where the attackers (hackers) attempt to prevent legitimate users from accessing the service. In a DoS attack, the attacker usually sends excessive

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messages asking the network or server to authenticate requests that have invalid return addresses. The network or server will not be able to find the return address of the attacker when sending the authentication approval, causing the server to wait before closing the connection. When the server closes the connection, the attacker sends more authentication messages with invalid return addresses. Hence, the process of authentication and server wait will begin again, keeping the network or server busy.

A DoS attack can be done in a several ways. The basic types of DoS attack include:

1. Flooding the network to prevent legitimate network traffic.
2. Disrupting the connections between two machines, thus preventing access to a service.
3. Preventing a particular individual from accessing a service.
4. Disrupting a service to a specific system or individual.
5. Disrupting the state of information, such resetting of TCP sessions.

There are many different methods for carrying out a DoS attack. The most common method of attack occurs when an attacker floods a network server with traffic. In this type of DoS attack, the attacker sends several requests to the target server, overloading it with traffic. These service requests are illegitimate and have fabricated return addresses, which mislead the server when it tries to authenticate the requestor. As the junk requests are processed constantly, the server is overwhelmed, which causes a DoS condition to legitimate requestors.

- In a **Smurf Attack**, the attacker sends Internet Control Message Protocol broadcast packets to a number of hosts with a spoofed source Internet Protocol (IP) address that belongs to the target machine. The recipients of these spoofed packets will then respond, and the targeted host will be flooded with those responses.
- A **SYN flood** occurs when an attacker sends a request to connect to the target server, but never completes the connection through what is known as a three-way handshake—a method used in a TCP/IP network to create a connection between a local host/client and server. The incomplete handshake leaves the connected port in an occupied status and unavailable for further requests. An attacker will continue to send requests, saturating all open ports, so that legitimate users cannot connect.

Individual networks may be affected by DoS attacks without being directly targeted. If the network's internet service provider (ISP) or cloud service provider has been targeted and attacked, the network will also experience a loss of service.

### Viruses

A computer virus is a computer program that can replicate itself and infect a computer. The term "computer virus" is also commonly but erroneously used to refer to other types of malware, adware, and spyware programs that do not have this reproductive ability. Malware includes worms, Trojans, most rootkits, spyware, dishonest adware, crimeware, and other unwanted software, including true viruses. Viruses are sometimes confused with computer worms and Trojan horses, which are technically different. A worm can exploit security vulnerabilities to spread itself to other computers through networks, while a Trojan is a program that appears harmless but hides malicious functions. Worms and Trojans, like viruses, may harm a computer system's data or performance.

A true virus can only spread from one computer to another (in some form of executable code) when its host is taken to the target computer; for instance because a user sent it over a network or the internet, or carried it on a removable medium such as a floppy disk, CD, DVD, or USB drive. Transmission of viruses can increase by infecting files on a network file system or a file system that is accessed by another computer. Computer viruses were labeled as viruses because of the fact that they are similar to biological viruses in the aspect of multiplying themselves. Similarly they find a host and then infect and multiply themselves. However, in both cases there must be a cause in order for the problem to begin. Some viruses and other malware have symptoms noticeable to the computer user, but many are surreptitious and go unnoticed.

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### *Different Types of Viruses*

- **Boot sector viruses:** A boot sector virus infects the boot sector of floppy disks or hard drives. These blocks contain a small computer program that participates in starting the computer. A virus can infect the system by replacing or attaching itself to these blocks. These viruses replicate very slowly because they can only travel from one computer to another on a diskette. In addition, a boot attempt must be made on the target computer using the infected diskette before the virus can infect it. The virus may, however, reside on the diskette and infect new computers even if there is no operating system on it.
- **"Direct action viruses":** replicate and take action when executed. When a specific condition is met, the virus comes into action and infects files in the directory or folder that it is in and in directories that are specified in the AUTOEXEC.BAT file PATH. This batch file is always located in the root directory of the hard disk and carries out certain operations when the computer is booted.
- **"FAT viruses":** use the file allocation table or FAT part of a disk used to connect information and is vital to normal functioning of the computer. This type of virus attack can be especially dangerous, by preventing access to certain sections of the hard drive where important files are stored. Damage caused can result in information losses from individual files or even entire directories.
- **"Stealth viruses":** try to trick antivirus software by intercepting its requests to the operating system. It has the ability to avoid detection from some antivirus software programs.

### **Unauthorized Access to a Computer Network**

Unauthorized access is when someone gains access to website, program, server, service, or other system using someone else's account or other methods. For example, if someone kept guessing a password or username for an account that was not theirs until they gained access, it is considered unauthorized access.

Unauthorized access could also occur if a user attempts to access an area of a system they should not be accessing. When attempting to access that area, they would be denied access and possibly see an unauthorized access message.

Some system administrators set up alerts to let them know when there is an unauthorized access attempt, so that they may investigate the reason. These alerts can help stop hackers from



gaining access to a secure or confidential system. Many secure systems may also lock an account that has had too many failed login attempts.

When you have a network of computers, they are connected together so that every user has access to all of the shared network files. If your network isn't protected correctly, you are leaving these shared network files and the integrity of your network open for outsiders to access. You can protect your home or work network by ensuring you have a password set up, creating a network security key, changing the advanced settings, and turning on Windows firewall protection.

The risks posed by unauthorized network access are: unauthorized join or network expansion, VLAN join, VLAN tagging or hopping. The Ethernet is easy to deploy with minimal administration required. Hence anybody can connect to an Ethernet segment by gaining access to an unconnected port on a switch. This can be done by: gaining physical access to the switch, or wall socket, removing the cable from a computer and plugging it into another computer, or plugging in a switch between the existing computer and the socket. If a switch listens for VLAN management protocols on host ports, a host can act as a switch and join all VLANs. Also an attacker can create Ethernet frames that have a VLAN tag and thus inject frames to VLANs to which they are not supposed to have access

### **Vulnerability of Internet Sites**

Website vulnerability is a weakness or mis-configuration in a website or web application code that allows an attacker to gain some level of control of the site, and possibly the hosting server. Most vulnerability is exploited through automated means, such as vulnerability scanners and botnets. Cybercriminals create specialized tools that scour the internet for certain platforms, like WordPress or Joomla, looking for common and publicized vulnerabilities. Once found, these vulnerabilities are then exploited to steal data, distribute malicious content, or inject defacement and spam content into the vulnerable site.

#### ***Types of Vulnerabilities***

There are five common types of website vulnerabilities that are frequently exploited by attackers. While this isn't an exhaustive list of all the possible vulnerabilities a determined attacker may find in an application, it does include some of the most common vulnerabilities websites contain today.

- **SQL Injection Vulnerabilities (SQLi):** SQL injection vulnerabilities refer to areas in website code where direct user input is passed to a database. Bad actors utilize these forms to inject malicious code, sometimes called payloads, into a website's database.
- **Cross-Site Scripting (XSS):** Cross-site scripting occurs when attackers inject scripts through unsanitized user input or other fields on a website to execute code on the site. Cross-site scripting is used to target website visitors, rather than the website or server itself. This often means attackers are injecting JavaScript on the website, so that the script is executed in the visitor's browser.
- **Command Injection:** Command injection vulnerabilities allow attackers to remotely pass and execute code on the website's hosting server. This is done when user input that is passed to the server, such as header information, is not properly validated, allowing attackers to include shell commands with the user information.

- **File Inclusion (LFI/RFI):** Remote file inclusion (RFI) attacks use the include functions in server-side web application languages like PHP to execute code from a remotely stored file. Attackers host malicious files and then take advantage of improperly sanitized user input to inject or modify an include function into the victim site's PHP code.
- **Cross-Site Request Forgery (CSRF):** Cross-site request forgery attacks are less common, but can be quite jeopardous. CSRF attacks trick site users or administrators to unknowingly perform malicious actions for the attacker.

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## 2.4 Network and Website Security

Network security is the security provided to a network from unauthorized access and risks. It is the duty of network administrators to adopt preventive measures to protect their networks from potential security threats.

Computer networks that are involved in regular transactions and communication within the government, individuals, or business require security. The most common and simple way of protecting a network resource is by assigning it a unique name and a corresponding password.

Network security is a computer networking system policy to assure the security to its organization assets, software and hardware resources. The term network security also emphasis on monitoring and controlling of unauthorized access, misuse and any unwanted modification in the networking system.

The most common authentication process practiced everywhere is to assign an exclusive user ID and password to the user for authentication and to access the resources of the network. Website security is any action or application taken to ensure website data is not exposed to cybercriminals or to prevent exploitation of websites in any way. Network security combines multiple layers of defenses at the edge and in the network. Each network security layer implements policies and controls. Authorized users gain access to network resources, but malicious actors is blocked from carrying out exploits and threats.

### Transaction security and data protection

Secure Electronic Transaction (SET) is a system for ensuring the security of financial transactions on the Internet. It was supported initially by Mastercard, Visa, Microsoft, Netscape, and others. With SET, a user is given an electronic wallet (digital certificate) and a transaction is conducted and verified using a combination of digital certificates and digital signatures among the purchaser, a merchant, and the purchaser's bank in a way that ensures privacy and confidentiality. SET makes use of Netscape's Secure Sockets Layer (SSL), Microsoft's Secure Transaction Technology (STT), and Terisa System's Secure Hypertext Transfer Protocol (S-HTTP). SET uses some but not all aspects of a public key infrastructure (PKI).

Security is an essential part of any transaction that takes place over the internet. Customers will lose his/her faith in e-business if its security is compromised. Following are the essential requirements for safe e- payments/transactions –

- **Confidentiality:** Information should not be accessible to an unauthorized person. It should not be intercepted during the transmission.

- **Integrity:** Information should not be altered during its transmission over the network.
- **Availability:** Information should be available wherever and whenever required within a time limit specified.
- **Authenticity:** There should be a mechanism to authenticate a user before giving him/her an access to the required information.
- **Non-Reputability:** It is the protection against the denial of order or denial of payment. Once a sender sends a message, the sender should not be able to deny sending the message. Similarly, the recipient of message should not be able to deny the receipt.
- **Encryption:** Information should be encrypted and decrypted only by an authorized user.
- **Auditability:** Data should be recorded in such a way that it can be audited for integrity requirements.

### ***Secure Electronic Transaction***

It is a secure protocol developed by MasterCard and Visa in collaboration. Theoretically, it is the best security protocol. It has the following components –

- **Card Holder's Digital Wallet Software:** Digital Wallet allows the card holder to make secure purchases online via point and click interface.
- **Merchant Software:** This software helps merchants to communicate with potential customers and financial institutions in a secure manner.
- **Payment Gateway Server Software:** Payment gateway provides automatic and standard payment process. It supports the process for merchant's certificate request.
- **Certificate Authority Software:** This software is used by financial institutions to issue digital certificates to card holders and merchants, and to enable them to register their account agreements for secure electronic commerce.

The term data protection is used to describe both the operational backup of data and business continuity/disaster recovery (BC/DR). Data protection strategies are evolving along two lines: data availability and data management.

Data availability ensures users have the data they need to conduct business even if the data is damaged or lost.

A key area on the data management side is data lifecycle management, which is the process of automating the movement of critical data to online and offline storage, and information lifecycle management, a comprehensive strategy for valuing, cataloging and protecting information assets from application and user errors, malware and virus attacks, machine failure, or facility outages and disruptions. More recently, data management has come to include finding ways to unlock business value from otherwise dormant copies of data for reporting, test/dev enablement, analytics and other purposes.

### **Security Audits and Penetration Testing**

IT networks keep on changing based on business needs. It is often found that various changes performed by multiple technical teams usually lead to vulnerabilities from cyber security

standpoint. It is advised to conduct network security audit occasionally to ensure network health. Upon completion of such an audit, the firm gains stable, scalable and secure IT network infrastructure.

Regularly scheduled network vulnerability scanning can help an organization identify weaknesses or security holes in their network security before the hackers can plant an attack. A security audit is the first step toward your IT infrastructure security and it can be defined as a methodical evaluation of your business IT infrastructure protection. Through the process of this testing, security specialists will scale how strongly your security protocols go along with a catalog of established criteria to verify their security aspect.

IT infrastructure security audits should be thoroughgoing and organized on a routine to secure your data and IT assets. If you are in an extremely regulated industry, participating in this activity will also benefit your business to make sure compliance. A standard security audit will evaluate the following:

- Email
- Information handling processes
- Hardware configurations
- Data and access-related details (like cards, tokens, password and )
- User practices
- The physical configuration of the system and setting
- Network
- Software configurations
- Smart devices

The audit should assess any of the above against past and possible future challenges. This implies that your security team should be updated on the newest security tendency and the steps taken by other organizations to answer to them.

A penetration test, also known as a pen test, is an authorized simulated attack on a computer system that looks for security weaknesses, potentially gaining access to the system's features and data. Following steps typically form the penetration testing. The primary objective for a network penetration test is to identify exploitable vulnerabilities in networks, systems, hosts and network devices (ie: routers, switches) before hackers are able to discover and exploit them.

Network penetration testing will reveal real-world opportunities for hackers to be able to compromise systems and networks in such a way that allows for unauthorized access to sensitive data or even take- over systems for malicious/non-business purposes.

There are various kinds of penetration tests, but more usually than not they're separated into three contrasts.

- **External Penetration Tests:** These tests will be conducted from the viewpoint of a hacker to reveal vulnerabilities that can possibly present internal systems.
- **Internal Penetration Tests:** In this situation, penetration tests will be conducted on inside systems that can be entered and managed remotely by a bad character.

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- **Hybrid Penetration Tests:** Hybrid penetration tests strength both external and internal attacks to discover if a combination of both approaches can lead to a data breach.

To execute these kinds of penetration tests, cyber security experts apply three approaches to attack and breach the system.

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Regular security audits and penetration tests play a crucial role in improving the security of enterprise systems and networks. It's a proactive approach to remain one move ahead of cybercriminals because you're constantly conducting a thorough risk assessment of your IT infrastructure.

Security audits and penetration tests also allow security teams to concentrate on high-severity vulnerabilities and verify the security tools applied by the organization. This method also features application-level security concerns to both development and administration teams. Conducting both security audits and penetration tests can improve your organization to save money while assuring business continuity.

### **E-Business Risk Management Issues**

Information assets are subject to many kinds of threats. Threats can occur from a direct or indirect source, can be from natural (environmental) or human causes (either accidental or deliberate) and it may arise from within an organization or from outside. The impact caused by the unwanted incident may be of a temporary nature or it may be permanent. Vulnerabilities of the asset may be exploited and may lead to undesirable consequences affecting the confidentiality, integrity, availability, accountability, authenticity and/or reliability of information.

Risk management plays a critical role to protect the organization and its ability to perform their business mission, not just its IT assets.

Risk management is the process of identifying risk, assessing risk, and taking steps to reduce risk to an acceptable level. The risk management is an important component of an IT security program.

The risk categories can help identify and assess the risks, that are poorly managed or not mitigated represent an exposure to the health of the organization. The identification of the risk categories will help to consider where potential events might affect the achievement of e-business objectives. Typical risk categories include: external environment, operational, legal, information, regulatory, human resources, governance, financial, strategic and technology.

#### ***Layered Risk Model***

Four levels of risk can be distinguished:

- **Technical risk:** includes viruses, worms, Trojans, backdoors, and other malware as well as hacker attacks plus risks due to hardware attacks.
- **Individual risk:** besides security, individuals greatly value their privacy, which is jeopardized by attacks such as phishing. Other individual risks result from fraud in ecommerce, missing or wrong information, or data manipulation.
- **Business risk:** for businesses, sales and reputation losses are major risks.

Companies may never regain their full financial capacity after a computer downtime of several days, and even a company's existence can be threatened as a result of technical incidents.

- Societal risks: loss of privacy (—transparent user), cyber-terrorism, and information warfare are key terms that outline the dangers on the societal level.

In order to define an efficient framework for the management of risks it is important to:

- Understand the background of the organization and its risks (e.g. its core processes, valuable assets, competitive areas etc.);
- Evaluate the Risk Management activities being undertaken so far;
- Develop a structure for the Risk Management initiatives and controls (countermeasures, security controls etc.) to follow.

New forms of security attacks constantly emerge, and organizations must address the business risks arising from these security issues: viruses, worms, Trojan horse, port scanning, denial of service attacks, remote administration, sniffers, spoofing, and intrusion.

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### 2.5 Firewall

A firewall is a device that allows multiple networks to communicate with one another according to a defined security policy. They are used when there is a need for networks of varying levels of trust to communicate with one another. For example, a firewall typically exists between a corporate network and a public network like the Internet. It can also be used inside a private network to limit access to different parts of the network. Wherever there are different levels of trust among the different parts of a network, a firewall can and should be used.

A private network may consist of different platforms with diverse OS and applications running on them. Many of the applications were designed and developed for an ideal environment, without considering the possibility of the existence of bad guys. Moreover, most of the corporate networks are not designed for security. Therefore, it is essential to deploy a firewall to protect the vulnerable infrastructure of an enterprise.

Firewalls are similar to routers in that they connect networks together. Firewall software runs on a host, which is connected to both trusted and untrusted networks. The host operating system is responsible for performing routing functions, which many operating systems are capable of doing. The host operating system should be as secure as possible prior to installing the firewall software.

#### Network Policy

A network security policy is a formal document that outlines the principles, procedures and guidelines to enforce, manage, monitor and maintain security on a computer network. It is designed to ensure that the computer network is protected from any act or process that can breach its security.

A network security policy primarily helps in protecting a computer network from network security threats – both internal and external – from the organization or network. It is generally

a broad document and varies based on the underlying environment, organization and/or legal requirements. Typically a network security policy documents:

- Rules and legal procedures to access the network and to modify its characteristics.
- Governance and management over Web/Internet access
- Implementation of security procedures (access control) on network nodes and devices
- Role/Privilege based policies, such as identifying authorized and unauthorized services/ processes any user can perform on the network

A network security policy is usually part of a broader information security policy.

### **Structure of a Security Policy**

When you compile a security policy you should have in mind a basic structure in order to make something practical. Some of the main points which have to be taken into consideration are -

- Description of the Policy and what is the usage for?
- Where this policy should be applied?
- Functions and responsibilities of the employees that are affected by this policy.
- Procedures that are involved in this policy.
- Consequences if the policy is not compatible with company standards.

Network policy is to restrict the access of anyone towards the network resource and make clear who all will access the network.

### **Advanced Authentication Mechanism**

Authentication is process of validating the user's identity. Users are identified using different authentication mechanisms. In a security system the authentication process checks the information provided by the user with the database. If the information matches with the database information, the user is granted access to the security system. There are three types of authentication mechanism used.

Validation is the initial phase in access control, and there are three regular variables utilized for verification - something you know, something you have, and something you are. Something you know mostly requires individual to get access to the system by typing the username and password. Something you have is where the user uses smart card for authentications. Something you are is where the user using biometrics methods to get access control.

All types of authentication mechanisms allows user to get access to the system however they all work differently. There are many authentications methods developed for users to gain access to the system. In password authentication, there are two forms - weak password and strong password authentications. Access control allows the user to log in into the trusted sites of an organization. Every access control has four processes - identification, authentication, authorization, and accountability. The identification is when the user enters the ID and ID is checked with the security system. Some security system generates random IDs to protect against the attackers. There are three authentication processes. Authorization is checking and matching

the authenticated entity of information with access level. The authorization process is handled three ways - authorization is performed for authenticated user, authorization is performed for members of the group, authorization is performed across the multiple systems, and accountability is a process keeping system logs. Systems logs keep track of all successful and unsuccessful logins.

### Types of Authentications

- **Password Authentication:** This type of authentication requires the supplicant recall what he knows. There are two parts in this method. First, the supplicant enters the username and second, the password. The password is the secret combination of words and numbers which the supplicant knows.
  - ❖ Strength of Password Authentication.
  - ❖ Password Authentication
- **Smartcard Authentication:** Smart Card authentication is 'something a user has' factor. A smart card is a credit-card sized card that has an embedded certificate used to identify the holder. The user can insert the card into a smart card reader to authenticate the individual; Smart cards are commonly used with a PIN providing multi-factor authentication. In other words, the user must have something (the smart card) and know something.
- **Biometric Authentication:** Biometrics user authentication is a method that identifies a user and/or verifies their identity based on the measurement of their unique physiological traits or behavioral characteristics. Physiological biometrics is fingerprint, facial recognition, iris-scan, hand geometry; retina scan. Behavioral biometrics is voice recognition, gaits, keystroke- scan, and signature-scan
- **Digital Certificate Authentication:** A digital certificate is an encryption technology that works similar to the Internet version of a passport. Using public key and private key information, digital certificates essentially ensure to the recipient of a message that the message is coming from a specific person. The digital certificate authenticates the identity of the sender to ensure safer communication and prevent fraud on the Internet. "The biggest advantages of digital certificate-based authentication are privacy-based.

### Packet Filtering

A router has to make a routing decision about each packet it receives; it has to decide how to send that packet on towards its ultimate destination. In general, a packet carries no information to help the router in this decision, other than the IP address of the packet's ultimate destination. The packet tells the router where it wants to go, but not how to get there. Routers communicate with each other using "routing protocols" such as the Routing Information Protocol (RIP) and Open Shortest Path First (OSPF) to build *routing tables* in memory to determine how to get the packets to their destinations. When routing a packet, a router compares the packet's destination address to entries in the routing table and sends the packet onward as directed by the routing table. Often, there won't be a specific route for a particular destination, and the router will use a "default route;" generally, such a route directs the packet towards smarter or better-connected routers.

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A packet filter firewall is configured with a set of rules that define when to accept a packet or deny. When the firewall receives a packet, the filter checks the rules defined against IP address, port number, protocol, and so on. If the rule matches "accept," then the packet is accepted in the network, otherwise it is dropped.

To understand configuring packet filtering rules, you need to first understand TCP/IP protocol, what an IP packet is and how they are handled at each layer. RFC 7913 and RFC 7934 provide the details of IP protocol and TCP protocol. From a packet filtering point of view, the IP header contains three important pieces of information:

- **The IP source address:** four bytes long, and typically written as 192.168.2.34
- **The IP destination address:** four bytes long, Just like source address
- **The IP protocol:** specifies whether it is a TCP packet or UDP packet, an Internet Control

Two-way communication presents a challenge for network security based on packet filtering. If one blocks all incoming traffic, one prevents responses to outgoing traffic from coming in, disrupting communication. Consequently, one has to open two holes, one for outgoing traffic and one for incoming traffic, without enforcing any association of the incoming traffic with existing outgoing connections in the network. Packet filtering thus can allow in crafted malicious packets that appear to be part of existing sessions, causing damage to protected resources.

Packet filtering devices do not track dynamic protocols, where a server and a client negotiate a random port for data transmission.

### Application gateways

Application gateway firewalls operate at the application layer (Layer 7) of the OSI model. They filter access based on application definitions. Application definitions can include not only port numbers but also specific application information like acceptable HTTP verbs. Application gateway firewalls are considered to be some of the most secure firewalls available because of their capability to inspect packets and ensure the packets are conforming to application specifications.

Because of the amount of information being processed, application gateway firewalls can be a little slower than other firewalls. Sometimes, people use application gateway firewalls in conjunction with another firewall. The application gateway firewall will be used only to protect servers. Or the application gateway firewall will sit behind the other firewall. The first firewall will be used as a first-level filter. The application gateway firewall will process only packets that pass through the first firewall.

An application gateway or application level gateway (ALG) is a firewall proxy which provides network security. It filters incoming node traffic to certain specifications which mean that only transmitted network application data is filtered. Such network applications include File Transfer Protocol (FTP), Telnet, Real Time Streaming Protocol (RTSP) and BitTorrent.

Application gateways provide high-level secure network system communication. For example, when a client requests access to server resources such as files, Web pages and databases, the client first connects with the proxy server, which then establishes a connection with the main server.

- The application gateway resides on the client and server firewall.

The proxy server hides Internet Protocol (IP) addresses and other secure information on the client's behalf. A computer's internal system may communicate with an external computer using firewall protection. The application gateway and external computer function without client information or knowledge of the proxy server IP address.

An application-level gateway runs proxies that examine and filter individual packets, rather than simply copying them and blindly forwarding them across the gateway. Application-specific proxies check each packet that passes through the gateway, verifying the contents of the packet up through the application layer (which is the highest layer) of the OSI model. These proxies can filter particular kinds of commands or information in the application protocols the proxies are designed to copy, forward, and filter.

Application gateways can also restrict specific actions from being performed. For example, the gateway could be configured to prevent users from performing the FTP put command. This command lets users write to the FTP server. Prohibiting this action can prevent serious damage of the information stored on the server.

### Defining Enterprise Wide Security Framework

Traditionally, organizations have relied on policies to communicate high-level directives from the management. These documents, once issued, provide top down influence for everyone in the company—from business units to departments to individual employees. Furthermore, these policies typically were developed at one time in the organization's evolution to capture the current environment. One of the major challenges for an organization in this area is the continued growth and adaptation of the policies to mirror the transformation within the organization. The fastest area of growth and change within an organization is Information Systems. With the rapid development and push toward new technologies, organizations find themselves striving to maintain current technical environments with outdated policies. Secondly, with the emergence of new technology strategies such as Intranets and Extranets, security and the protection of informational assets has become paramount.

The first step is an enterprise-wide Information Systems Security Policy that is consistently enforced even as business needs change. Unfortunately, most companies have only bits and pieces of security scattered throughout the organization. These may make some departments or individuals feel safe, but they do little to protect the enterprise as a whole.

Organizations must now focus much more on information and data: understanding where it is and how it is managed both within and outside the enterprise boundary. Enterprise security encompasses:

- **Information security:** how information technology supports safe business practices.
- **Business security:** security processes and the security control framework, in the context of the business.
- **Physical security:** how facilities and access control support the logical security model.

- **Operational risk management:** providing a risk-based approach to define priorities and identify exposure to potentially malicious activities.

Improving or maintaining the enterprise security posture is a continuous process that must be based on a robust, enterprise-level security architecture.

Every organization, from the smallest upwards, faces security challenges. These include:

- Obtaining relevant, high quality information which allows you to make the correct security decisions: you need to know what the real risks are, in the context of your business, at any specific point in time.
- Keeping up with a constantly changing threat landscape environment: how easy is it for your organisation to prevent or fix a new security problem?
- Identifying the 'smartest' approach to compliance with laws, regulations and industry standards.
- Applying agile security management models to legacy systems and the existing organisation.
- Managing a heterogeneous environment in a consistent way.
- Leveraging any investment in security to obtain a better security posture overall, rather than focusing on reducing a single, specific risk

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## 2.6 E-Payment Systems

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E-commerce sites use electronic payment, where electronic payment refers to paperless monetary transactions. Electronic payment has revolutionized the business processing by reducing the paperwork, transaction costs, and labor cost. Being user friendly and less time-consuming than manual processing, it helps business organization to expand its market reach/expansion. Listed below are some of the modes of electronic payments –

EPSs enable a customer to pay for the goods and services online by using integrated hardware and software systems. The main objectives of EPS are to increase efficiency, improve security, and enhance customer convenience and ease of use. Although these systems are in their immaturity, some significant development has been made. There are several methods and tools that can be used to enable EPS implementation.

- Credit Card
- Debit Card
- Smart Card
- E-Money
- Electronic Fund Transfer (EFT)

### *Credit Card*

Payment using credit card is one of most common mode of electronic payment. Credit card is small plastic card with a unique number attached with an account. It has also a magnetic strip embedded in it which is used to read credit card via card readers. When a customer purchases

a product via credit card, credit card issuer bank pays on behalf of the customer and customer has a certain time period after which he/she can pay the credit card bill. It is usually credit card monthly payment cycle.

### **Debit Card**

Debit card, like credit card, is a small plastic card with a unique number mapped with the bank account number. It is required to have a bank account before getting a debit card from the bank. The major difference between a debit card and a credit card is that in case of payment through debit card, the amount gets deducted from the card's bank account immediately and there should be sufficient balance in the bank account for the transaction to get completed; whereas in case of a credit card transaction, there is no such compulsion.

Debit cards free the customer to carry cash and cheques. Even merchants accept a debit card readily. Having a restriction on the amount that can be withdrawn in a day using a debit card helps the customer to keep a check on his/her spending.

### **Smart Card**

Smart card is again similar to a credit card or a debit card in appearance, but it has a small microprocessor chip embedded in it. It has the capacity to store a customer's work-related and/or personal information. Smart cards are also used to store money and the amount gets deducted after every transaction.

Smart cards can only be accessed using a PIN that every customer is assigned with. Smart cards are secure, as they store information in encrypted format and are less expensive/provide faster processing. Mondex and Visa Cash cards are examples of smart cards.

### **E-Money**

E-Money transactions refer to situation where payment is done over the network and the amount gets transferred from one financial body to another financial body without any involvement of a middleman. E- money transactions are faster, convenient, and save a lot of time.

Online payments done via credit cards, debit cards, or smart cards are examples of e-money transactions. Another popular example is e-cash.

In case of e-cash, both customer and merchant have to sign up with the bank or company issuing e-cash.

### **Electronic Fund Transfer**

It is a very popular electronic payment method to transfer money from one bank account to another bank account. Accounts can be in the same bank or different banks. Fund transfer can be done using ATM (Automated Teller Machine) or using a computer.

Nowadays, internet-based EFT is getting popular. In this case, a customer uses the website provided by the bank, logs in to the bank's website and registers another bank account. He/she then places a request to transfer certain amount to that account. Customer's bank transfers the amount to other account if it is in the same bank, otherwise the transfer request is forwarded to

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an ACH (Automated Clearing House) to transfer the amount to other account and the amount is deducted from the customer's account. Once the amount is transferred to other account, the customer is notified of the fund transfer by the bank.

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## 2.7 Electronic Funds Transfer

Electronic funds transfer is one of the oldest electronic payment systems. EFT is the groundwork of the cash-less and check-less culture where paper bills, checks, envelopes, stamps are eliminated. EFT is used for transferring money from one bank account directly to another without any paper money changing hands. The most popular application of EFT is that instead of getting a paycheck and putting it into a bank account, the money is deposited to an account electronically. EFT is considered to be a safe, reliable, and convenient way to conduct business.

### Why is electronic transfer preferred?

Electronic funds transfer is a much more preferred money transfer options it allows customers to make money transfers at the comfort of their homes using integrated banking tools such as internet and mobile banking. Besides being convenient, electronic transfer modes are considered to be safe, secure and make transferring money much simpler. Electronic transfers are processed immediately with the transferred amount being deducted from one account and credited to the other in real time, thus saving time and effort involved in physically transferring a sum of money. Opting for electronic transferring system also reduces the possibilities of any mistakes as a transaction is only authorized with complete details which include the correct account number of the beneficiary and the target bank's specific IFSC code.

### How do you transfer funds?

Transferring funds via electronic gateway is much simpler than the conventional methods. You can choose to:

- Transfer funds into your own linked accounts of the same bank network.
- Transfer funds into different account of the same bank.
- Transfer funds into different bank's accounts using NEFT.
- Transfer funds into other bank accounts using RTGS
- Transfer funds into various accounts using IMPS.

#### Types of electronic funds transfer?

- NEFT or National Electronics Funds Transfer
- RTGS or Real Time Gross Settlement
- IMPS or Immediate Payment Service.

#### NEFT

The National Electronic Funds Transfer is a nation-wide money Nowadays, internet-based EFT is getting popular. In this case, a customer uses the website provided by the bank, logs in to the bank's website and registers another bank account. He/she then places a request to transfer certain amount to that account. Customer's bank transfers the amount to other account if it is

in the same bank, otherwise the transfer request is forwarded to an ACH (Automated Clearing House) to transfer the amount to other account and the amount is deducted from the customer's account. Once the amount is transferred to other account, the customer is notified of the fund transfer by the bank. transfer system which allows customers with the facility to electronically transfer funds from their respective bank accounts to any other account of the same bank or of any other bank network. Not just individuals but also firms and corporate organizations may use the NEFT system to transfer funds to and fro.

### RTGS

Real Time Gross Settlement as the name suggests is a real time funds transfer system which facilitates you to transfer funds from one bank to another in real time or on a gross basis. The transaction isn't put on a waiting list and cleared out instantly. RTGS payment gateway, maintained by the Reserve Bank of India makes transactions between banks electronically. The transferred amount is instantly deducted from the account of one banks and credited to the other bank's account.

### IMPS

Majority of the funds transferred using electronic channels are processed via NEFT or RTGS. But as the funds could only be cleared in batches using these transfer gateways, the National Payments Corporation of India introduced a pilot mobile payment project also known as the Immediate Payment Service (IMPS). Available to Indian Nowadays, internet-based EFT is getting popular. In this case, a customer uses the website provided by the bank, logs in to the bank's website and registers another bank account. He/she then places a request to transfer certain amount to that account. Customer's bank transfers the amount to other account if it is in the same bank, otherwise the transfer request is forwarded to an ACH (Automated Clearing House) to transfer the amount to other account and the amount is deducted from the customer's account. Once the amount is transferred to other account, the customer is notified of the fund transfer by the bank.

Public, IMPS offers instant electronic transfer service using mobile phones. IMPS interbank transfer service is available 24X7 and allows you to use your mobile phones to access your account and to authorize transfer of funds between accounts and banks. The IMPS service also features a secure transfer gateway and an immediate confirmation on fulfilled orders.

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## 2.8 Digital Token Based Electronic Payments

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The digital token based payment system is a new form of electronic payment system which is based on electronic tokens rather than e-cheque or e-cash. The electronic tokens are generated by the bank or some financial institutions. Hence we can say that the electronic tokens are equivalent to the cash which are to be made by the bank.

Categories of Electronic Tokens:

1. **Cash or Real Time:** In this mode of electronic tokens transactions takes place via the exchange of electronic currency (e-cash).

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2. **Debit or Prepaid:** In this electronic payment system the prepaid facilities are provided. It means that for transactions of information user pay in advance. This technology are used in smart card, electronic purses etc.
3. **Credit or Postpaid:** These types of electronic token based on the identity of customers which issue a card, their authentication and verification by a third party. In this system the server authenticates the customers and then verifies their identity through the bank. After all these processing the transaction take place.

The Digital Token based system has following issues for which they are established:

1. **Nature of transaction for which instrument is designed:** In this category, the design issues of token take place. It may be designed to handle micro payments. It may be designed for conventional products. Some tokens are designed specifically and other generally. The design issue involves involvement of parties, purchase interaction and average amount.
2. **Means of Settlement:** The Digital Tokens are used when their format must be in cash, credit, electronic bill payments etc. Most transaction settlement methods use credit cards while other used proxies for values.
3. **Approach to Security, Anonymity and Authentication:** Since the electronic token are vary from system to system when the business transaction take place. So it is necessary to secure it by intruders and hackers. For this purpose various security features are provided with electronic tokens such as the method of encryption. The encryption method use the digital signatures of the customers for verification and authentication.
4. **Risk Factors:** The electronic tokens may be worthless and if the Nowadays, internet-based EFT is getting popular. In this case, a customer uses the website provided by the bank, logs in to the bank's website and registers another bank account. He/she then places a request to transfer certain amount to that account. Customer's bank transfers the amount to other account if it is in the same bank, otherwise the transfer request is forwarded to an ACH (Automated Clearing House) to transfer the amount to other account and the amount is deducted from the customer's account.

Once the amount is transferred to other account, the customer is notified of the fund transfer by the bank, customer have currency on token than nobody will accept it, If the transaction has long time between delivery of products and payments to merchants then merchant exposes to the risk. so it is important to analysis risk factor in electronic payment system.

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## 2.9 Modern Payment Systems

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A payment system is a set of processes and technologies that transfer monetary value from one entity or person to another. Payments are typically made in exchange for the provision of goods, services or to satisfy a legal obligation. They can be made in a variety of currencies using several methods such as cash, checks, electronic payments and cards. The essence of a payment system is that it uses cash-substitutes, such as checks or electronic messages, to create the debits and credits that transfer value.

A modern payment system directly integrates to your point of sale and delivers a robust payment experience for both merchant and customer. It connects merchants to a total payment ecosystem, from merchant services to remote terminal solutions, to hardware procurement. The benefits of today's modern payment system.

1. Complete Payment Flexibility
2. Revolutionary Pricing
3. Get Paid Faster
4. Secure Payment and POS Integration
5. Remote Terminal Management
6. Lower Operational Costs
7. Access to Premium Payment Services

Businesses and consumers alike are interested in faster, safer, and more convenient payment methods, as cash is becoming obsolete and credit cards are being phased out. Mobile and social payment options could be the future of millennial-driven purchasing, creating the sort of instant gratification that millennials expect.

### ***Mobile in-store payments and apps***

The development and usage of mobile POS options will increase exponentially as the demand and usage of mobile devices grows.

Currently, options such as SMS and NFC payment methods are possible, but they are not prevalent or convenient enough to satisfy the growing demand of millennials for an easier, faster, and safer way to pay via mobile. Opening up smartphones as a POS method of payment will create innumerable opportunities for the entire payments industry;

In-store payment apps are also on the rise, with PayPal Beacon and Apple's iBeacon paving the way. Many consumers are turning towards these methods as a safer option, quicker than waiting in line, and easier to access, as each transaction has its own unique code. They allow users to simply pay for items found in the physical store via apps on their mobile phones.

### ***Digital currencies***

Digital currencies will surface and solidify their place in the economic ecosystem of financing. The popularity of digital currencies stems from the instantaneous and border-less nature of the transactions. Essentially, this payment method can be used anywhere, and it isn't being regulated by government influences and rules, yet.

### ***Social media payment options***

Social media networks will expand their reach to include payment solutions such as transferring money from one user to the next (peer-to-peer) or paying directly within the network. Social payments are being split into two categories: on-site purchases and peer-to-peer money transfer services.

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The most advanced ideas of a mobile-based payment system are known as mobile wallets. With a mobile wallet, consumers can load multiple cards into one device and choose the preferred payment method for each transaction, all without carrying an actual wallet of cards.

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## 2.10 Steps for Electronic Payment

An electronic payment is any kind of non-cash payment that doesn't involve a paper check. Methods of electronic payments include credit cards, debit cards and the ACH (Automated Clearing House) network. The ACH system comprises direct deposit, direct debit and electronic checks (e-checks).

Online payments are made instantly, so it's convenient and saves lots of time. It is important, especially today when every aspect of our lives happens at a fast pace.

1. **Customer action:** The process begins when a customer visits the merchant's site and adds to the cart items (products or services) they want to buy. They then need to fill out the payment form with certain information (e.g. card number, expiration date, CVV code, address). Depending on the payment method, the customer is either redirected to external service or bank's website or continues the payment on the website or in an app.
2. **Payment authentication by the operator:** The payment gateway (with other parties involved) checks whether the payment information is valid. If everything's OK, the process continues and the payment gateway reports back the successful transaction. After that, the customer receives a payment confirmation — the notification is usually displayed in real-time.
3. **Payment to the seller's account:** An online payment provider receives a payment from a customer's bank and transfers it to the merchant's account.

The steps involved in online payment processing have significantly reduced the waiting period and hassle when purchasing commercial products and services. With new technologies and payment processes, people can easily purchase products and one-time services, set up recurring payment, and streamline payments that allow sellers to accept new orders 24/7.

The operation of the model is often referred to as the payment process and it involves four basic steps:

- Payment instructions are the information contained in a wire transfer or check. These instructions are from the payer and tell the paying bank to transfer value to the beneficiary through the network and receiving bank.
- Payment generation is when the instructions are entered into the system—e.g. printed on a check or transmitted via ACH or wire.
- Clearing is the process where the banks use the payment information to transfer money between themselves on behalf of the payer and the beneficiary (payee).
- Settlement is the final step in the basic process and occurs when the beneficiary's (payee's) bank account is credited and the payer's bank account is debited. Final settlement occurs when the banks irrevocably pass value among themselves, a distinction that has important treasury implications.

The actual payment process will depend on the type of payment instrument that the payer and payee choose to use—or have chosen for them by their financial institutions.

The benefits of streamlined online payment processing steps that drive business success include global reach, electronic records, advanced fraud protection and secure transactions, simple integration into various website platforms and bank processing systems, and user-friendly features. These convenient features will make it easier for consumers to purchase your products and services and to keep up with a large demand.

Most of the professional payment processing service providers can configure their payment services to suit your business needs. Mobile payments comprise one of the newest forms of online payment processing. Instead of using credit cards, a buyer has to simply send a payment request via a text message or a software application that's linked to a credit card or bank account. And while there is a concern of eCommerce fraud, added security measures such as a security pin helps diminish the chance of this occurring.

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### 2.11 Payment Security

Security is an essential part of any transaction that takes place over the internet. Customers will lose his/her faith in e-business if its security is compromised. Following are the essential requirements for safe e-payments/transactions –

- **Confidentiality:** Information should not be accessible to an unauthorized person. It should not be intercepted during the transmission.
- **Integrity:** Information should not be altered during its transmission over the network.
- **Availability:** Information should be available wherever and whenever required within a time limit specified.
- **Authenticity:** There should be a mechanism to authenticate a user before giving him/her an access to the required information.
- **Non-Repudiability:** It is the protection against the denial of order or denial of payment. Once a sender sends a message, the sender should not be able to deny sending the message. Similarly, the recipient of message should not be able to deny the receipt.
- **Encryption:** Information should be encrypted and decrypted only by an authorized user.
- **Auditability:** Data should be recorded in such a way that it can be audited for integrity requirements.

The electronic payment system-the ability to pay electronically for goods and services purchased online-are an integral part of e-commerce and an essential infrastructure for e-commerce models. One of the major reasons for the widespread of e-commerce transactions is perhaps the rapid development and growth of various electronic payment systems. In the developed countries, credit cards have been used even before the advent of Internet. The present part of the study revealed many electronic payment systems and broadly this electronic payment system can be grouped or classified in to four categories: (1) Online Credit Card Payment System. (2) Online Electronic Cash System. (3) Electronic Cheque System and (4) Smart Cards based Electronic

Payment System. These payment systems have numbers of requirements: e.g. security, acceptability, convenience, cost, anonymity, control, and traceability. **Measures to ensure Security**

Major security measures are following:

- **Encryption:** It is a very effective and practical way to safeguard the data being transmitted over the network. Sender of the information encrypts the data using a secret code and only the specified receiver can decrypt the data using the same or a different secret code.
- **Digital Signature:** Digital signature ensures the authenticity of the information. A digital signature is an e-signature authenticated through encryption and password.
- **Security Certificates:** Security certificate is a unique digital id used to verify the identity of an individual website or user.

### **Secure Socket Layer (SSL)**

It is the most commonly used protocol and is widely used across the industry. It meets following security requirements -

- Authentication
- Encryption
- Integrity
- Non-reputability

"https://" is to be used for HTTP urls with SSL, where as "http://" is to be used for HTTP urls without SSL.

### **Secure Hypertext Transfer Protocol (SHTTP)**

SHTTP extends the HTTP internet protocol with public key encryption, authentication, and digital signature over the internet. Secure

HTTP supports multiple security mechanism, providing security to the end-users. SHTTP works by negotiating encryption scheme types used between the client and the server.

### **Secure Electronic Transaction**

It is a secure protocol developed by MasterCard and Visa in collaboration. Theoretically, it is the best security protocol. It has the following components:

- **Card Holder's Digital Wallet Software:** Digital Wallet allows the card holder to make secure purchases online via point and click interface.
- **Merchant Software:** This software helps merchants to communicate with potential customers and financial institutions in a secure manner.
- **Payment Gateway Server Software:** Payment gateway provides automatic and standard payment process. It supports the process for merchant's certificate request.
- **Certificate Authority Software:** This software is used by financial institutions to issue digital certificates to card holders and merchants, and to enable them to register their account agreements for secure electronic commerce.

With the rapid development of technology, internet plays a significant role in changing the banking scenario. It provides an online platform for various banking transactions through which it offers various services like online payment, online fund transfer, online stock trading and online shopping etc. The use of internet as a delivery channel for banking services is increasing widely in banking sector. Internet banking facilities enable financial institution and customers to access their accounts, transactions and getting information financial products & services.

Internet banking (e-banking) facilitates customers to avail various small and large value banking products and services through electronic channels. Internet banking comprises banking activities or services which can be avail by the customers at any point of time and from any places with their convenience, it is also called PC banking, online banking, cyber banking, virtual banking, etc. Internet banking delivers banking services through the open-access computer network i.e. Internet, directly to customers \_home that can be used with different electronic devices such as personal computer, mobile phone with a browser or desktop software, digital television. So, we can say that Internet banking is about using banking facilities via the internet with the help various electronic devices.

Using Internet banking is beneficial for both i.e. Costumers as well as banks. The benefits of adopting internet banking are mentioned below:

### Benefits for costumers

- Less waiting time:
- Ease and Convenience:
- 24/7 Availability:
- Self service channel:
- Save time and money:

### Benefits for banks

- Increased Profitability:
- Cost effective mechanism:
- Reach where there is no branch:
- Improve Customer relationship:
- Eco-friendly image:

The security of information may be one of the biggest concerns to the internet users. For Internet Banking users who most likely connect to the internet via dial-up modem, is faced with a smaller risk of someone breaking into their computers. Only organizations such as banks with dedicated internet connections face the risk of someone from the internet gaining unauthorized access to their computer or network. However, the electronic banking system users still face the security risks with unauthorized access into their banking accounts.

Notes

In order to provide effective and secure banking transactions, the following major controls must be ensured.

- **Authenticity controls:** To verify identity to individuals like password, pin etc.
- **Accuracy control:** To ensure the correctness of the data, following across the network
- **Completeness control:** To make sure that no data is missing
- **Redundancy controls:** To see that data is traveled and processed only once and there is no repetitive sending of data
- **Privacy control:** To protect the data from inadvertent or unauthorized access.
- **Audit trail controls:** To ensure keeping chronological role of events that are occurred in the system,
- **Existence controls:** To make sure that ongoing availability of all the system resources with the same throughout.
- **Efficiency:** To ensure that the system uses minimum resources, to achieve the desired goal.
- **Firewall controls:** To prevent unauthorized users accessing the private network, which are connected to Internet?
- **Encryption controls:** To enable only those who possess secret key to decrypt the cyber text.

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### 2.13 Summary

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In this unit, you have learnt about the basics of e-security, network and website security and firewall. This knowledge would make you understand the various attacks, viruses, and data protection mechanism used to develop the secured e-commerce website and transactions for real time problems. Thus, the e-security unit would have brought you to closer to know the concept of security issues of e-commerce.

In this unit, you have learnt about the basics of e-payment systems, electronic fund transfer, modern payment system and steps for electronic payment. This knowledge would make you understand the various payment option through e-commerce website based transaction and net banking and payment security options used to do the online transaction. Thus, the E-Payment Systems unit would have brought you to closer to know the concept of electronic fund transfer.

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### 2.14 Glossary

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- **Security Certificates:** Security certificate is a unique digital id used to verify the identity of an individual website or user.
- **Availability:** Information should be available wherever and whenever required within a time limit specified.
- **Merchant Software:** This software helps merchants to communicate with potential customers and financial institutions in a secure manner.

- **Accuracy control:** To ensure the correctness of the data, following across the network .
- **Technical risk:** includes viruses, worms, Trojans, backdoors; and other malware as well as hacker attacks plus risks due to hardware attacks.

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## 2.15 Review Questions

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1. Briefly explain about the viruses.
2. Write about the vulnerabilities of internet site.
3. Define firewall?
4. State the various modes of e-payment systems.
5. Discuss about the steps for electronic payment.
6. What is E-Security? Explain.
7. Explain the Network and Website Security.
8. What is Electronic Funds Transfer?
9. Briefly Explain the digital token Based Electronic Payments.
10. Discuss the modern payment systems.
11. Define the steps for electronic payment.
12. What is Payment Security?
13. What is Net Banking?

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## 2.16 Further Readings

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- Smith P. R., Chaffey Dave, (2003), Marketing excellence - The Heart of Business, Viva Books
- Strauss Judy, Frost Raymond, (2002) e-Marketing, 2nd Ed., Free Press

## CONSUMER BEHAVIOUR AND SEGMENTATION

### Notes

#### (Structure)

- 3.1 Learning Objectives
- 3.2 Introduction
- 3.3 Consumer Behaviour and Marketing
- 3.4 Nature of Consumer Behaviour
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- 3.17 Research - Marketing Research
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- 3.20 Review Questions
- 3.21 Further Readings

### 3.1 Learning Objectives

After studying the chapter, students will be able to:

- To identify and introduce the main Internet technology affected by the traditional marketing concepts and issues;
- To analyze the impact on the Internet traditional marketing complex elements;
- -To identify and introduce basic Internet technology, affected by the marketing concepts and communication aspects;

- To present a systematic approach to marketing communication;
- Be able to assess what is typical of integrated marketing communication, what are its features;
- To get acquainted with the market segmentation, analyze and identify e-market segmentation process and basic principles;
- To introduce the online research types, methods and principles

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### 3.2 Introduction

The concept of segmentation, the process and basic criteria. The market is characterized by different users or groups, which differ not only in terms of the needs, desires, habits or interests, but also for its financial strength. This situation leads to certain difficulties to the organization presenting products on the market - i.e. the organization's target consumer, to whom, how and at what price to offer a product or service, which should be applied to the marketing strategy and marketing activities, or pay off the investment in sponsorship and many other issues.

All this affects the need for the market to break down, i.e. segmented into separate parts - segments of the market, it is more appropriate to identify and recognize users who have the same or a similar response to ongoing marketing efforts and ultimately possess similar consumer behaviour. Thus, segmentation makes possible to better satisfied the needs of users and the needs, which create a strong competitive advantage not only by the organizations as a market participant, but also the production situation of other products or services in the same market or in a part of it and thus significantly increase sales and generate higher profits.

### 3.3 Consumer Behaviour and Marketing

How many times throughout the day do people make product decisions? If you stop thinking about it, many product decisions are made every day, some without much thought. What should I wear? What should I eat? What am I going to do today? Many product decisions are answered routinely every day and they help move the economy of cities, countries and ultimately the world.



- Provide value and customer satisfaction.
- Effectively target customers.
- Enhance the value of the company.
- Improve products and services.
- Create a competitive advantage
- Understand how customers view their products versus their competitors' products.
- Expand the knowledge base in the field of marketing,



- Apply marketing strategies toward a positive effect on society (encourage people to support charities, promote healthy habits, reduce drug use etc.)

Product decisions also shape life of the consumer. How can simple decisions be so important? Why do marketers spend millions of dollars to uncover the reasons behind these decisions?

To define consumer behavior: it is the study of consumers and the processes they use to choose use, and dispose of products and services. A more in-depth definition will also include how that process impacts the world. Consumer behavior incorporates ideas from several sciences including psychology, biology, chemistry and economics.

Consumer behavior marketing is so much more than creating a catchy phrase or a jingle people will sing for days. Understanding consumer behavior is a vital aspect of marketing. Consumer behavior is the study of how people make decisions about what they buy, want, need, or as regards a product, service, or company. It is critical to understand consumer behavior to know how potential customers will respond to a new product or service. It also helps companies identify opportunities that are not currently met.



### Definition

Some selected definitions of consumer behaviour are as follows:

1. According to Engel, Blackwell, and Mansard, 'consumer behaviour is the actions and decision processes of people who purchase goods and services for personal consumption'.
2. According to Louden and Bitta, 'consumer behaviour is the decision process and physical activity, which individuals engage in when evaluating, acquiring, using or disposing of goods and services'.

### Factors Affecting Consumer Behavior

Why do we need to learn about consumer buying behavior? The simple answer is that no longer can we take the customers for granted. Consumer buying behavior determines how our consumers decide to buy our product and what are the various factors responsible for this decision?

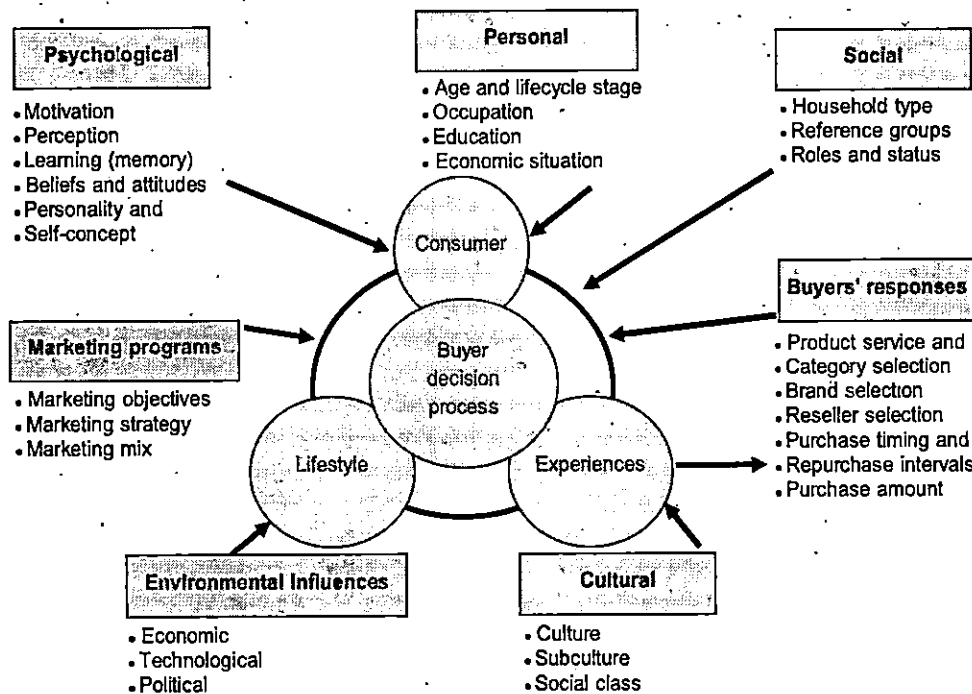
To fully understand how consumer behavior affects marketing, it's vital to understand the two factors that affect consumer behavior: psychological, personal, and social.

#### *What are internal influences on consumer buying behaviours?*

Internal influences are personal influences and they include consumers' perceptions, attitudes, motivations and lifestyles. These internal influences affect consumers' purchase decisions.

The major internal influences include:

1. **Personality:** Personality affects the way consumers search for information about products or services that they want to buy, such as whether a customer is an active info seeker or a passive info receiver.



**Factors Influencing Consumer Behaviour**

Personality sways consumers' lifestyle choice, while lifestyle not only influences their opinions and attitudes towards products and services in general but also motivates them to take certain activities, which may bring about the need or desire to purchase relevant products and services.

2. **Motivation:** Motivation relates to consumers' desire to obtain a certain product or service, such as having the plan to purchase a product for a long time or being prompted to buy a product by an advertisement on media.

A consumer's motivation can be affected by number of factors, such as financial resource (e.g., whether he can afford the purchase), time constraints (e.g., if he needs to make the purchase within a certain time frame), overall value (e.g., if the product or service is worth his money), and perceived risk (e.g., what will be the consequence if he makes a bad purchase decision).

The motivation is also closely tied to consumers' purchase involvement. Highly motivated consumers will want to get mentally and physically involved into purchase process and are more likely to be influenced by promotional campaigns.

3. **Experiences:** Get profile of your customer's past experiences with the similar product or service and even purchase process can have an impact on the future purchase decision. When searching for the products or services, consumers often compare the incoming information to a frame of reference previously formed, and those who do not fit into the frame are filtered out.

Consumers' experiences on certain products or services are directly associated with their expectations. While experience is the memory of what has happened in the past. The expectation is an imagination about what will be happening in the future. If what happens does not match with what was envisaged, the consumers will feel disappointed hence the

experience will be negative, which could prevent them from having future purchase of the similar products or services.

### **What are external influences on consumer buying behaviours?**

## Notes

Consumers' values, attitudes, beliefs and opinions are shaped by their cultural, social and economic backgrounds. These external influences affect consumers' attitude towards products and services.

The major external influences include the followings:

1. **Family influence:** Family influence affects a consumer's buying behaviour both ways:
  - (a) The influence on the consumer's personality, attitudes and evaluation criteria towards products and services.
  - (b) The influence on consumer's purchase decision-making process as the family members are usually the first to be consulted with when the consumer plans to purchase a product or service.
2. **Influence from friends and colleagues:** Friends and colleagues may not necessarily get involved in the purchase decision-making process like family members would do, but often serve as important-sounding boards for the ideas of products or serves purchase;
3. **Influence from an environment in which a consumer lives:** Environmental influence includes the location, the cultural atmosphere and the overall economic situation. The products and services favored by consumers from NSW regional areas are often different from those of Sydney. Customers in semi-tropical Darwin are also likely to have different requirements for products and services than the residents in Adelaide.
4. **Culture:** Culture refers to the traditions, taboos, values and basic attitudes of the whole society within which an individual lives. It is essentially associated with a certain nationality or religious identity of an individual. Cultural norms are learnt by an individual from childhood and their influence is so ingrained that it is invisible in everyday behaviour.  
Culture teaches an individual the acceptable norms of behaviour and tells him the rights and wrongs. When an individual deviates from acceptable norms, certain sanctions are imposed on him.
5. **Influence from Advertising:** A well-written strategically-placed advertisement has the power to change consumer behaviour if it delivers what is promised. Advertisements can draw consumers' attention to the problems that they may not consciously notice or consider there is no need to be resolved. And if an ad makes a convincing beneficial evaluation of the product or service, it can help consumers to make a positive purchase decision.

### **3.4 Nature of Consumer Behaviour**



1. **Process:** Consumer behaviour is a systematic process relating to buying decisions of the customers. The buying process consists of the following steps;
  - Identification to buy the product .
  - Information search relating to the product.
  - Listing of alternative brands.
  - Evaluating the alternative (cost-benefit analysis)
  - Purchase decision.
  - Post-purchase evaluation by the marketer.
2. **Influenced by Various Factors:** Consumer behaviour is influenced by a number of factors. The factors that influence consumers include marketing, personal, psychological, situation-based, social, cultural etc.
3. **Different for all Customers:** All consumers do not behave in the same manner. Different consumers behave differently. The difference in consumer behaviour is due to individual factors such as nature of the consumer's life style, culture, etc.
4. **Different for Different Products:** Consumer behaviour is different for different products. There are some consumers who may buy more quantity of certain items and very low or no quantity of some other items.
5. **Region Bounded:** The consumer behaviour varies across states, regions and countries. For instance, the behaviour of urban consumers is different from that of rural consumers. Normally, rural consumers are conservative (traditional) in their buying behaviour.
6. **Vital for Marketers:** Marketers need to have a good knowledge of consumer behaviour. They need to study the various factors that influence consumer behaviour of their target customers. The knowledge of consumer behaviour enables marketers to take appropriate marketing decisions.
7. **Reflects Status:** The consumer buying behaviour is not only influenced by the status of a consumer, but it also reflects it. Those who own luxury cars, watches and other items are considered by others as persons of higher status.
8. **Spread-effect:** Consumer behavior has a spread-effect. The buying behaviour of one person may influence the buying behavior of another person. For instance, a customer may always prefer to buy premium brands of clothing, watches and other items etc.

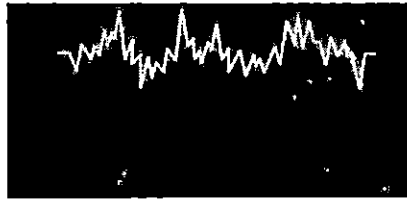
This may influence some of his friends, neighbors, colleagues. This is one of the reasons why marketers use celebrities like Shahrukh Khan , Sachin to endorse their brands.
9. **Standard of Living:** Consumer buying behaviour may lead to higher standard of living. The more a person buys the goods and services, the higher is the standard of living.
10. **Behaviour Keeps on Changing:** The consumer's behaviour undergoes a change over a period of time depending upon changes in age, education and income level. Etc. for instance, kids may prefer colorful dresses, but as they grow up as teenagers and young adults, they may prefer trendy clothes.

### 3.5 Need to Study Consumer Behaviour

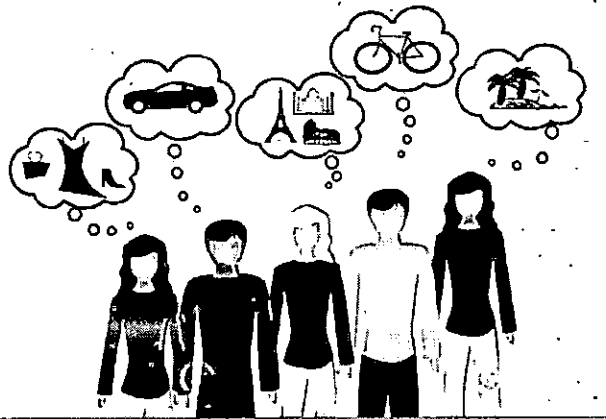
#### Notes

Behaviour is the interaction with the surrounding ambiance, inherent in living creatures and mediated by their external and inner activeness. Thus consumer behaviour is the actions of consumers in the market place and the underlying motives for those actions. Marketers expect that by understanding what causes consumers to buy particular goods and services, they will be able to determine which products are needed in the market place, and which are obsolete and how best to present those goods to the consumer.

The study of consumer behaviour is the study of how individuals make decisions to spend their available resources (time, money, effort) on consumption-related items. In the words of Walters and Paul "consumer behaviour is the process whereby individuals decide what, when, where, how and from whom to purchase goods and services."



The needs of studying consumer behavior have significant bearing on marketing decisions. It yields important information and insight into what consumers are thinking. With these insights, marketing firms may enhance their particular marketing campaigns to successfully connect with consumers. Need to study consumer behavior help marketers in many ways some points are as follows.



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1. **Perception:** Studying consumer behavior helps marketers understand consumer perceptions about a particular product or range of products. Uncovering and correcting erroneous perceptions about a particular product may give marketers an additional competitive advantage over competitors.
2. **Attitudes:** Consumer attitudes very often determine consumer beliefs about certain products. Discovering consumer attitudes allows marketers in tune with their campaigns to resonate with a particular consumer niche and deepen marketing reach.

3. **Cultures:** Changing population demographics around the world affect the way marketing campaigns are designed. Understanding cultural nuances and subtleties may allow marketers to help further define their particular target market.
4. **Lifestyles:** Consumer lifestyles also determine what products appeal to certain consumer markets. Understanding consumer lifestyles is also a key component of consumer behavior that lets marketers make the appropriate appeals in promoting lifestyle products and further consumption of lifestyle products.
5. **Experience:** Like consumer attitudes, experience also covers consumer responses to certain products. By studying consumer behavior, marketing professionals can tap into consumer experiences with similar products to promote consumption and gain competitive advantage over competitors.

The modern marketing management tries to solve the basic problems of consumers in the area of consumption. To survive in the market, a firm has to be constantly innovating and understand the latest consumer needs and tastes. It will be extremely useful in exploiting marketing opportunities and in meeting the challenges that the Indian market offers. It is important for the marketers to understand the buyer behaviour due to the following reasons.

- The study of consumer behaviour for any product is of vital importance to marketers in shaping the fortunes of their organizations.
- It is significant for regulating consumption of goods and thereby maintaining economic stability.
- It is useful in developing ways for the more efficient utilization of resources of marketing. It also helps in solving marketing management problems in more effective manner.
- Today, consumers give more importance on environment friendly products. They are concerned about health, hygiene and fitness. They prefer natural products. Hence detailed study on upcoming groups of consumers is essential for any firm.
- The growth of consumer protection movement has created an urgent need to understand how consumers make their consumption and buying decision.
- Consumers' tastes and preferences are ever changing. Study of consumer behaviour gives information regarding color, design, size etc. which consumers want. In short, consumer behaviour helps formulate production policy.
- For effective market segmentation and target marketing, it is essential to have an understanding of consumers and their behaviour.

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### 3.6 Factors Influencing Consumer Behaviour

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Consumer behavior involves the psychological processes that consumers go through in recognizing needs, finding ways to solve these needs, making purchase decisions (e.g., whether or not to purchase a product and, if so, which brand and where), interpret information, make plans, and implement these plans (e.g., by engaging in comparison shopping or actually purchasing a product).

Notes

## Notes

The consumer faces numerous sources of influence. Often, we take cultural influences for granted, but they are significant. An American will usually not bargain with a store owner. This, however, is a common practice in much of the world. Physical factors also influence our behavior. We are more likely to buy a soft drink when we are thirsty, for example, and food manufacturers have found that it is more effective to advertise their products on the radio in the late afternoon when people are getting hungry.

A person's self-image will also tend to influence what he or she will buy. An upwardly mobile manager may buy a flashy car to project an image of success. Social factors also influence what the consumers buy often, consumers seek to imitate others whom they admire, and may buy the same brands.

The social environment can include both the mainstream culture (e.g., Americans are more likely to have corn flakes or ham and eggs for breakfast than to have rice, which is preferred in many Asian countries) and a sub-culture (e.g., rap music often appeals to a segment within the population that seeks to distinguish itself from the mainstream population). Thus, sneaker manufacturers are eager to have their products worn by admired athletes. Finally, consumer behavior is influenced by learning – you try a hamburger and make sure that it satisfies your hunger and tastes good, and the next time you are hungry, you may consider another hamburger.

Consumer behavior refers to the selection, acquisition and consumption of goods and services to meet their needs. There are different processes involved in consumer behavior. Initially, the consumer tries to find what products you would like to consume, and then select only those products that promise greater utility. After selecting the products, the consumer makes an estimate of available funds that can happen.

Finally, the consumer looks at the current prices of commodities and makes the decision about which products to consume. Meanwhile, there are several factors that influence consumer purchases, such as social, cultural, personal and psychological. The explanation of these factors is as follows.



1. **Cultural factors:** Consumer behavior is deeply influenced by cultural factors, such as buyer's culture, subculture and social class.

(a) **Culture:** Essentially, culture is the share of each company and is the major cause of the person who wants culture and behavior. The influence of culture on the purchasing

- behavior varies from country to country, therefore sellers have to be very careful in the analysis of the culture of different groups, regions or even countries.
- (b) **Subculture:** Each culture has different subcultures, such as religions, nationalities, geographical regions, racial, etc. Marketing groups may use these groups, segmenting the market in several small portions. For example, marketers can design products according to the needs of a specific geographical group.
  - (c) **Social Class:** Every society has some kind of social class which is important for marketing because the buying behavior of people in a particular social class is similar. Thus marketing activities could be adapted to different social classes. Here we should note that social class is not only determined by income, but also there are several other factors such as wealth, education, occupation etc.
2. **Social factors:** Social factors also influence the purchasing behavior of consumers. Social factors are: the reference groups, family, the role and status.
- (a) **Reference groups:** Reference groups have the potential for the formation of an attitude or behavior of an individual. The impact of reference groups vary across products and brands. For example, if the product is visible as clothing, shoes, car etc. The influence of reference groups will be higher. Reference groups also include opinion leader (a person who influences others by his special skill, knowledge or other characteristics).
  - (b) **Family:** Buyer behavior is strongly influenced by a family member. So vendors are trying to find the roles and influence of the husband, wife and children. If the decision to purchase a particular product is influenced by the wife of a buyer then sellers will try to target women in their advertisements. Here we should note that the purchase of roles change with changing lifestyles of consumers.
  - (c) **Roles and Status:** Each person has different roles and status in society in terms of groups, clubs, family, etc. organization to which it belongs. For example, a woman working in an organization as manager of finance. Now she is playing two roles. One is the chief financial officer and the other one is mother. Therefore, purchasing decisions will be influenced by their role and status.
3. **Personal factors:** Personal factors may also affect consumer behavior. Some of the important factors that influence personal buying behavior include lifestyle, economic status, occupation, age, personality and self esteem.
- (a) **Age:** Age and life-cycle have a potential impact on the purchasing behavior of consumers. It is obvious that consumers change the purchase of goods and services over time. Family life cycle consists of different stages as young, singles, married couples, and unmarried couples etc that help marketers develop suitable products for each stage.
  - (b) **Occupation:** The occupation of a person has a significant impact on their buying behavior. For example, a marketing manager of an organization is trying to buy business suits, while a low level worker in the same organization buy - resistant clothing works.



Notes

- (c) **Economic Situation:** Economic situation of the consumer has a greater influence on their buying behavior. If income and savings a customer is high, then going to buy more expensive products. Moreover, a person with low income and savings buy cheap products.
  - (d) **Lifestyle:** Lifestyle clients are another factor affecting import purchasing behavior of consumers. Lifestyle refers to the way a person lives in a society and express things in their environment. It is determined by the client's interests, opinions, etc and activities shape their whole pattern of acting and interacting in the world.
  - (e) **Personality:** Personality varies from person to person, time to time and place to place. Therefore, it can greatly influence the buying behavior of customers. In fact, personality is not what one has, but is the totality of the conduct of a man in different circumstances. He has a different characteristic, such as dominance, aggression, confidence etc that may be useful to determine the behavior of consumers to the product or service.
4. **Psychological Factors:** There are four major psychological factors that affect the purchasing behavior of consumers. They include perception, motivation, learning, beliefs and attitudes.
- (a) **Motivation:** The level of motivation also affects the purchasing behavior of customers. Each person has different needs, such as physiological needs, biological needs, social needs, etc. The nature of the requirements is that some are more urgent, while others are less pressing. Therefore, a need becomes a motive when it is most urgent to lead the individual to seek satisfaction.
  - (b) **Perception:** Select, organize and interpret information in a way to produce a meaningful experience of the world is called perception. There are three different perceptual processes which are selective attention, selective distortion and selective retention. In case of selective attention, sellers try to attract the attention of the customer, whereas, in case of selective distortion, customers try to interpret the information in a way that supports what customers already believe. Similarly, in case of selective retention, marketers try to retain information that supports their beliefs.
  - (c) **Beliefs and Attitudes:** Client has specific beliefs and attitudes towards different products. Because such beliefs and attitudes shape the brand image and affect consumer buying behavior so traders are interested in them. Marketers can change beliefs and attitudes of customers with special campaigns in this regard.

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### 3.7 Changing Trends In Consumer Behaviour

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The essential principles of customer service are timeless, but consumer expectations are not. Customers have always wanted a friendly, efficient and reliable service, but with the development of new technology, their expectations have been raised.

They want a more efficient service than before. They don't just want 'friendly', they want to feel like the service has been personalized for them.

The old adage 'know your customers' is also still as true today as it ever was. And with consumer behavior changing rapidly, businesses need to stay up-to-date with customer expectations.



Notes

**Definition**

There are habits or behaviors currently prevalent among consumers of goods or services. Consumer trends track more than simply what people buy and how much they spend. Data collected on trends may also include information such as how consumers use a product and how they communicate about a brand with their social network.

According to Trend Hunter's 2016 Trend Report, five trends that will change consumer behavior are given below:

1. **Automated Creation:** Funding an idea has been made exponentially easier with crowd funding sites like Indiegogo and Kickstarter, but a new cohort of businesses being created are looking forward to drawing upon vast, active communities in various industries to help produce a product. For example, if you're keen on launching an app or website, Fifty Three Paper's Mix app is where you should head first from. A place where designers and artists come together, Mix serves as an endless resource for inspiration, offering a wide range of tutorials to advance your skills and templates to get your digital product off the ground.
2. **Curated Dining:** Ready-made is still not a cool term, but that doesn't mean consumers aren't looking for shortcuts. Services like Chef's Plate offer people the chance to cook gourmet meals without all of the fuss. The service ships ingredients and instructions so that anyone can prepare a healthy homemade meal hand-selected by executive chef Jason Rosso of Milestones Canada.
3. **Resource Sharing and Community Building:** Consumers care about the global community and want to know that the brands they purchase from do, too. Social Feed is satisfying the push for responsible business by allowing brands to buy media that make a real impact on people's lives in South Africa. Brands sign up for Social Feed and post advertisements or content they'd like shared. Consumers can pick which ads or pieces of content they'd like to post to their social networks, and for each share they complete, a meal goes to a child in need. The more exposure for the brand, the more meals distributed - it's a feel-good situation all around. In 2016, we'll be seeing more businesses align with environmental, social and even political causes to appeal to a mounting pressure for brands to authentically stand for something greater than the products they sell.

## Notes

4. **Streamlined Feedback:** As the pace of consumer needs quicken, brands have to rely on new technologies to get feedback and insight about where they are, both over-and-under performing and what they can push on. Co-operative Food's smart shopping carts are complete with tablets that prompt shoppers to answer various questions ranging from their thoughts on store layout to sustainability. Shaftsbury, on the other hand, is using I-Beacon technology to provide retailers with data such as the number of people who pass by their shop versus the number who goes in to check it out.
5. **Recognition Purchasing:** Brick and mortar and e-commerce have been fiercely competing over the past handful of years, but the line between the two has become increasingly blurred. One Canadian business is really trying to take the shopping experience to the next level. Well.ca created a completely virtual store at Toronto's Union Station, where passersby could scan the QR code of any product pictured on the wall to purchase. Slyce, another Canadian-based company, also provides consumers with a convenient way to purchase. Just take a picture of a product in a store, and its visual product search technology will allow you to immediately purchase that item from your Smartphone.

Here are the common changing trends in consumer behaviour which are as follows:

1. **Social media is changing the definition of what's "fast":** We're each connected to an instant feed of live updates, breaking news and messages. We can post something on social media and get instant feedback from friends. And according to Global Web Index, 28% of time spent online is social networking.

This has effectively sped up the time consumers expect it to take a brand (or anyone) to reply to a message. When asking about a product or service, 66% of consumers expect a response to their query on the same day, and over 40% expect a reply within the hour.

2. **The online world is changing how efficient we expect a business to be:** A quick Google search can tell you just about anything you need to know. As a result, consumers have little patience when companies simply don't know something.

Consumers expect data to be at companies' fingertips – from accurate stock information to delivery dates and customer records. And with this wealth of data and the technology to support it, consumers often feel like there's no excuse for getting it wrong.

3. **The rise of self-service has led to a generation happy to help themselves:** From self-checkouts to FAQ pages and call center IVR, consumers are more willing than before to try to solve their problems themselves.

This doesn't mean that they no longer want to call and talk to a real person, but it does mean that through clever use of self-service tactics, contact centers can save time and money.

4. **The "always on" culture means customers expect 24/7 service (or as close as possible):** We live in an age where virtually everyone has a Smart-phone in their pockets, connecting them to just about every aspect of their lives.

This is a device that's always on and always connected. We've grown used to being able to find the information we need, contact whoever we want and even listen to whatever music we'd like, whatever time of day. Consumers don't expect to have to break this habit for a

business. While 24/7 call centers may not be possible, consumers expect longer opening hours and weekend support.

5. **E-commerce has become commonplace** – and shoppers no longer expect to pay for the convenience of it.

When e-commerce began, delivery costs were standard. It was well and truly part of the deal of online shopping. Now that online service is main stream, it seems wrong to pay for something like delivery. Consumers now want free next day delivery as standard.

6. **Channel or device-hopping habits mean customers expect channel service:** Customers see a brand, not a department. They can't understand why a call center agent can't remember a Twitter conversation they had with the brand the day before. This is particularly significant because 60% of consumers change their contact channel depending on where they are and what they're doing.

As consumers move between channels, they should receive a consistent service and the experience should feel like one big conversation.

7. **Social media has made customers feel more empowered:** Social media has made it easier than ever before for consumers to share their thoughts with a wide audience. There are even some shoppers who have a larger social following than brands.

But even the average consumer is connected to at least 150 people on Facebook and to around 140 people on Twitter. Today, companies have to tackle an audience with audiences – get it right and their message could spread like wildfire, get it wrong and it's a PR disaster.

All of this has led to many consumers feeling more empowered. They know that if they complain publicly on social media, they're likely to get a better response than if they complain privately.

8. **The data-driven online world means consumers expect a personalized service:** The whole online experience is now personalized – from social media to the way Google personalizes our search results. It only makes sense for customer service to be personalized too.

Consumers expect you to remember them. They expect to be treated as an individual and not as just another customer. In practice, this means your agents need to have access to their whole communication history, their buying habits and preferences.

9. **Our mobile-focused culture means customers expect your site and customer service to be "mobile-friendly":** Mobile is changing the way we all live our lives. It connects us to people, brands and information – all of the time. All aspects of your customer experience should therefore be mobile-friendly from your website to your customer service. Mobile shopping and service is no longer an extra but a necessity.

10. **Social media means customers expect you to be "listening":** With social media, everything is out there in the open. This "open book" approach to socializing has led to an expectation that brands should be monitoring any mentions on social media and responding accordingly. Whether this is a direct complaint or message or whether it's just a mention, consumers expect brands to be heard and ready to respond.

## Notes

Consumers may expect more from brands than they did before, but with the right technology, there's no reason why any business can't meet (and exceed) the rising customer expectations. With customer service now the key competitive differentiator makes your customer experience a priority and you'll soon see huge rewards.

## Notes

### 3.8 Consumer Behaviour and Marketing

Companies use marketing to promote and sell their products or services, and consumer behavior is how consumers act and respond in the retail environment. In order for a company to create a strong marketing campaign, it is important to understand how and to what the consumer will respond. This relationship between marketing and consumer behavior involves studies, focus groups, psychological analyses and other methods of studying the market for a particular product or service.

Understandingly, consumer behavior is critical for marketing any product or service successfully. When a company can understand why people buy what they buy and the reasons behind their decisions as consumers, the company can create a marketing campaign that specifically addresses those elements of the purchasing decision. Not all products appeal to all people. The key for successful marketing is to understand the values of a specific consumer group that's where the focus of the groups, studies and psychology comes into the picture.

Studies of the relationship between marketing and consumer behavior provides companies with information about their target audiences that they can use when developing ad campaigns. Focus groups are a method of consumer research that involves small groups of people in which a product is discussed. This provides a small sample of how people will react to the product and what elements they find the most valuable.

The relationship between the marketing and consumer behavior can also be studied through surveys. Potential consumers for a product or service can be given a list of questions about the product and asked to respond with a "yes" or "no" answer, or to rate the elements of the product on most or least important. Surveys are often anonymous in order to encourage people to answer more freely about their preferences.

Buyer's clubs, such as those used at some grocery stores, are a marketing gateway used to track purchases for individual consumers. At check out, a club card can provide discounts on items as a benefit to the consumer as well as keep detailed lists of all the items an individual purchases, whether they are on sale or not. This provides valuable information to the company that can be used to target specific markets.

Often, understanding the relationship between marketing and consumer behavior relies upon a simple psychological analysis of the intended audience and the ability to highlight the features that are most likely to resonate with that audience. A marketing campaign for high-end natural skin care products, for instance, is going to need a more different marketing strategy than a campaign used to sell hunting rifles. A successful campaign will take into account the target consumer as well as his buying behavior.

### 3.9 Marketing Segmentation - Vals

There are many ways in which a market can be segmented. A marketer will need to decide which strategy is best for a given product or service. Sometimes the best option arises from using different strategies in conjunction.

As marketers are certainly aware, a consumer's economic situation will undoubtedly affect their purchasing decisions in a certain way. Marketers of income-sensitive products and services should be watching for changes in demographics' income, savings and access to the prevailing interest rates. If financial trends are towards a recession, we should be making proactive changes to alter our product and service lines, or re-position the messaging of our campaigns. During good economies, we should be doing the same. The point is, our messaging, and our products, should be constantly evolving to best reflect the consumer's buying environment.

Marketer's need to remember that although consumers in a chosen demographic may be coming from the same subculture, social class and occupation, they will usually have very different lifestyles. It is our job to understand these lifestyles so we can tailor our messaging method as best as possible to convince the consumer that our products and services have the right value they are looking for. Recall, a lifestyle is a consumer's pattern of living, and is expressed within their activities, interests and opinions. Activities, Interests, and Opinions (AIO) are commonly referred to as AIO Dimensions. These AIO Dimensions are usually defined as:

- **Activities:** work, hobbies, shopping, sports, and social events
- **Interests:** food, fashion, family and recreation
- **Opinions:** about themselves, social issues, business, and products

Lifestyle is more than a social class or a consumer's personality. It encompasses a consumer's patterns of action and their interaction with the world around them. When utilized effectively, the lifestyle concept helps us understand changing consumer values and how they affect consumer buyer behavior.

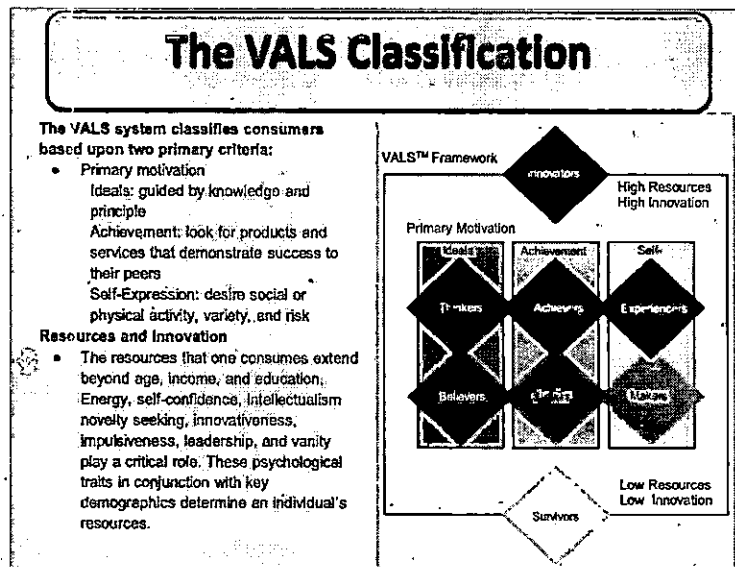
The most widely used lifestyle classification system is the VALS study. VALS classifies people by their psychological characteristics via four major demographics that correlate with consumer buyer behavior. The VALS study helps us understand how consumers spend their time and money, and it divides consumers into groups we can understand based on their primary motivations and resources.

VALS is a marketing and consulting tool that helps businesses worldwide develop and execute more effective strategies. The system identifies current and future opportunities by segmenting the consumer marketplace on the basis of the personality traits that drive consumer behavior. VALS applies in all phases of the marketing process, from new-product development and entry-stage targeting to communications strategy and advertising.

The basic tenet of VALS is that people express their personality traits through their behaviors. VALS specifically defines consumer segments on the basis of those personality traits that affect behavior in the marketplace. Rather than looking at what people do and segregating people with like activities, VALS uses psychology to segment people according to their distinct personality traits.

### Notes

## Notes



VALS reflects a real-world pattern that explains the relationship between personality traits and consumer behavior. VALS uses psychology to analyze the dynamics underlying consumer preferences and choices. VALS not only distinguishes differences in motivation, it also captures the psychological and material constraints on consumer behavior.

VALS is based on current personality research into specific components of social behavior. VALS asserts that people express their personality traits through their behaviors. People with different personalities engage in different behaviors or exhibit similar behaviors for different reasons.

### History

The original VALS system was built by consumer futurist Arnold Mitchell. Mitchell created VALS to explain changing U.S. values and lifestyles in the 1970s. VALS was formally inaugurated as an SRI International product in 1978 and was cited by Advertising Age as one of the ten top market research breakthroughs of the 1980s.

In 1989, VALS was redefined to maximize its ability to predict consumer behavior. A team of experts from SRI International, Stanford University, and the University of California, Berkeley, determined that consumers should be segmented on the basis of enduring personality traits rather than social values that change over time.

By using psychology to analyze and predict consumer preferences and choices, the current VALS system creates an explicit link between personality traits and purchase behavior. The current VALS system is described in depth in The VALS Segments.

### Definition

The Proprietary psycho-graphic consumer segmentation system that classifies people into eight basic lifestyle groups on the basis of two dimensions; resources and self-orientation. Resource dimension includes education, income, intelligence, health, energy level, and eagerness to purchase resources that normally increase from youth to middle age decline afterwards. Self-orientation is

divided into three parts (1) Principle oriented: having set views. (2) Status oriented: influenced by other people's thinking. (3) Action oriented: seeks activity, adventure, and variety.

The eight basic lifestyle groups are (1) Actualizers, (2) Fulfillers, (3) Believers, (4) Achievers, (5) Strivers, (6) Experiencers, (7) Makers, and (8) Strugglers. VALS-2 was developed by the US consulting firm Stanford Research Institute (SRI) as an improvement on its original VALS (introduced in 1978), a system that divided people into three basic lifestyle groups (Need driven, Outer directed, and Inner directed).

### The VALS Segments

VALS places U.S. adult consumers into one of eight segments based on their responses to the VALS questionnaire. The main dimensions of the segmentation framework are primary motivation (the horizontal dimension) and resources (the vertical dimension).

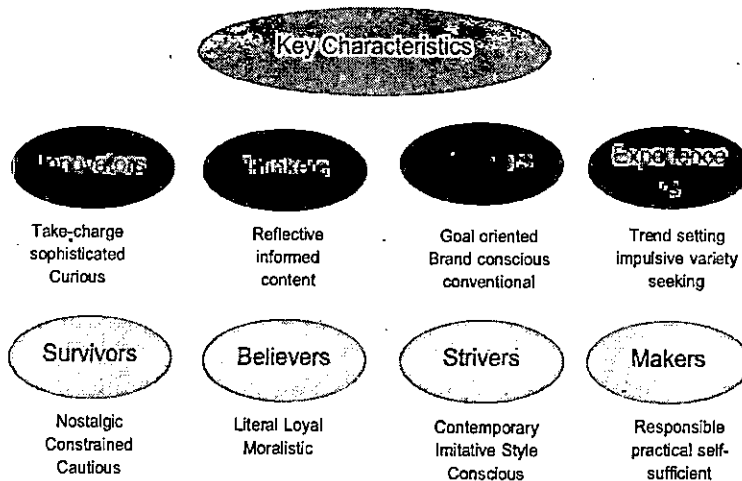
Descriptions of the VALS types:

#### Primary Motivation: Ideals, Achievement, and Self-Expression

The concept of primary motivation explains consumer attitudes and anticipates behavior. VALS includes three primary motivations that matter for understanding consumer behavior; ideals, achievement, and self-expression. Consumers who are primarily motivated by ideals are guided by knowledge and principles. Consumers who are primarily motivated by achievement look for products and services that demonstrate success to their peers. Consumers who are primarily motivated by self-expression desire social or physical activity, variety, and risk. These motivations provide the necessary basis for communication with the VALS types and for a variety of strategic applications.

#### Resources

A person's tendency to consume goods and services extends beyond age, income, and education. Energy, self-confidence, intellectualism, novelty seeking, innovation, impulsiveness, leadership, and vanity play a critical role. These psychological traits in conjunction with key demographics determine an individual's resources. Various levels of resources enhance or constrain a person's expression of his or her primary motivation.





## Notes

There is so much more to say about these different classifications of consumers. Let's dive deeper into the classifications of the VALS study.

1. **Innovators:** Innovative consumers are typically defined as sophisticated, successful, "take-charge" people with extremely high self-esteem and self-confidence. Because these consumers have such abundant amounts of resources, they are able to exhibit all three primary motivations at various levels. They are considered to be change and thought leaders. Innovators are usually extremely receptive to new ideas and technologies in the marketplace. Innovators are very active consumers, and their buyer behavior reflects their tastes for upscale, niche products and services.

Innovators are very conscious about their "image", however, not as an outward appearance of their status or power, but as an individual expression of their tastes, style, independence, and personality. Innovators are usually members of the established and emerging leaders in society, business and government, yet they continue to seek new challenges. They never stand still; they love variations. Their material possessions and recreational activities reflect a preference for the "finer things in life."

2. **Survivors:** Survivors live much focused lives. Because they have few resources (mainly economic) with which to exist, these consumers often feel like that the world around them is changing too fast. Survivors are more comfortable with the "familiar" and "traditional", and they are primarily concerned with the safety and security of their families. Because these consumers must focus on meeting needs rather than fulfilling wants and desires, Survivors don't show a strong level of primary motivations.

Out of the necessity of their situations, Survivors are cautious consumers. These consumers represent a very modest market for most products and services. Survivors tend to be loyal to specific, habitually purchased brands, especially if they are at discounted prices.

3. **Thinkers:** Thinkers represent consumers motivated by their ideals. These consumers are more mature, more satisfied, more comfortable with them, and are highly reflective. Thinkers value order in life, knowledge through educational opportunities, and personal responsibility. Thinkers are usually well educated, and eagerly seek out information to aid in the process of decision making. These consumers keep up with current events.

Thinkers have a moderate respect for institutions of authority and social decorum, but they are always open to entertain new ideas. Even though Thinkers usually have incomes that enable them the freedom to satisfy many desires, they tend to be conservative, practical consumers. Thinkers look for durability, functionality, and value in the products that they purchase.

4. **Believers:** Like Thinkers, Believers are motivated by ideals. They are conservative, conventional people with concrete beliefs based on traditional, established codes: family, religion, community, and the nation. Many Believers express moral codes that have deep roots and literal interpretation. They follow established routines, organized in large part around home, family, community, and social or religious organizations to which they belong. As consumers, Believers are predictable; they choose familiar products and established brands. They favor U.S. products and are generally loyal customers.

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5. **Achievers:** Motivated by the desire for achievement, Achievers have goal-oriented lifestyles and a deep commitment to career and family. Their social lives reflect this focus and are structured around family, their place of worship, and work. Achievers live conventional lives, are politically conservative, and respect authority and the status quo.

Achievers value consensus, predictability, and stability over risk, intimacy, and self-discovery. With many wants and needs, Achievers are active in the consumer marketplace. Image is important to Achievers; they favor established, prestige products and services that demonstrate success to their peers. Because of their busy lives, they are often interested in a variety of time-saving devices.

6. **Strivers:** Strivers are trendy and fun loving consumers. Because they are motivated by achievements. Strivers are concerned about the opinions and approval of others. Money defines success for Strivers who don't ever seem to have enough of it to meet their desires (which can become viewed as needs for them). These consumers prefer stylish trendy products that give the appearance of the lifestyle of people with greater material riches.

Many Strivers see themselves as having a job rather than a career, and a lack of skills, education and focus often prevent these consumers from moving ahead. However, Strivers are active consumers, because for them shopping is a social activity and an opportunity to show off to people in their circle of influence their ability to buy. Strivers are as impulsive as their financial circumstance will allow them to be, sometimes to their own economic demise.

7. **Experiencers:** Experiencers are consumers that are primarily motivated by self-expression. These are younger, enthusiastic, and impulsive consumers. Experiencers will quickly become enthusiastic about new opportunities, but are equally quick to cool it they cannot get what they want soon, or after they have experienced the "high" once or twice.

As such, these consumers will seek variety and excitement, savoring the fresh, the "offbeat", and the risky. Their energy (remember that energy is a resource) finds an outlet in exercise, sports, outdoor recreation, and social activities. They are avid consumers and are willing to spend a high proportion of their income on fashion, entertainment, and socializing activities. Their buying behavior reflects an emphasis on looking good and having trendy things.

8. **Makers:** These consumers, like Experiencers, are motivated by self-expression. Makers express themselves and experience the world by working on it - building a house, raising children, fixing a car, or canning vegetables - and they have enough skill, education and energy to carry out their endeavors successfully. These consumers are highly practical people who have constructive skills and value self-sufficiency and independence. They usually live within a traditional context of family, practical work, and physical recreation and have little interest in what lies outside that lifestyle.

Makers are suspicious of new ideas and large institutions such as big business. They are respectful of government authority and organized labour but are often resentful of government intrusion on individual rights. Makers are motivated by the accumulation of material possessions other than those with a practical or useful purpose. Because they prefer value to luxury. They buy basic products that meet their needs on a daily basis.

When sales are trending down, conducting a VALS Study is a great way to find new customer segments to sell to. It is also a great way to understand how to create messaging for these specific customer segments.

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### 3.10 Components, Process of Marketing Communication

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Marketing communication helps to develop brand awareness, which means that consumers translate product information into perceptions about the product's attributes and its position within the larger market. Businesses also use marketing communication to retain the product's current customer base, and to cement relationships with customers and suppliers, notes "Reference for Business." Marketing communication strategy defines the business's plan for product information dissemination and brand awareness development.

A well-chosen marketing communication strategy utilizes one or more components to disseminate the company's outgoing message. A market-appropriate strategy increases the company's chances to accurately transmit the product's benefits, and to have that message positively received by the customer. The business is likely to get benefited from customer goodwill when the company story or customer testimonial strategies are used.

A business owner must utilize a marketing communication strategy appropriate for each product. If the company sells higher-end diamond jewelry, for example, customers may value a diamond ring's cut and diamond clarity over other variables. The jewelry store does not want to use a strategy focusing on its superiority to its competitors. This comparison may cheapen the diamond's value for the customer. The business should focus on the benefits the customer receives by buying the ring.

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### 3.11 Components Of Marketing Communication

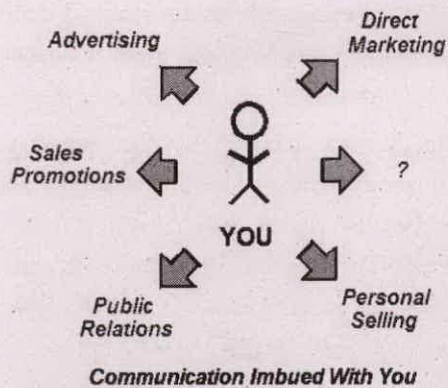
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Communication is just as important in business relationships as it is in personal relationships. Most marketers are aware of this, but many do not know how and when to properly communicate their message to prospective customers. In today's sophisticated marketplace, overcoming communication obstacles is critical—especially early on in the sales process. It is increasingly obvious that the competitive battle for customers is being won or lost at the top of the sales funnel.

Design an effective marketing communication strategy with one or more marketing communication components. Advertising allows a business to reach a large audience through mass market or target market appeals. Personal selling enables a company to communicate product benefits directly to the customer, as in a retail setting.

Direct marketing permits a business to reach customers without a third party medium. Examples include catalogs and direct mail. Sales promotion provides a customer with an incentive to buy the company's product, such as a company that makes a charitable contribution with each sale. Public relations involve a company's outflow of information to customers, suppliers and other groups affected by company operations.

So, how does a firm make itself stand out from the rest? It all ties back to effective communication. Here are the six most important components of an effective marketing communication strategy:



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1. **Advertising:** Advertising is often the most prominent element of the communication mix. In fact, marketing and advertising are often misconstrued as the same thing. Advertising includes all messages a business pays to deliver through a medium to reach a targeted audience. Since it involves the majority of paid messages, companies often allocate significant amounts of the marketing budget to the advertising function. While it can be costly, the advertiser has ultimate control over the message delivered, since it pays the television or radio station, print publication or website for placement.
2. **Personal Selling:** Personal selling is sometimes integrated with the direct marketing element. However, many companies make such extensive use of a sales force that it is important to consider this component distinctly. Distribution channel suppliers use salespeople to promote products for resale to trade buyers. Retail salespeople promote the value of goods and services to consumers in retail businesses. Selling is more emphasized by companies that sell higher-end products and services that require more assertive efforts to persuade customers to buy.
3. **Discounts and Promotions:** Sales promotions or discounts are similar to advertising in that they are often promoted through paid communication. However, sales promotions actually involve offering a discounted price to a buyer. This may include coupons, percent-off deals and rebates. Along with ads to promote deals and coupon mailers, companies use exterior signs and in-store signage to call customer attention to the discounts. Goals of this communication tool include increasing revenue and cash flow, attracting new customers and clearing out extra inventory.
4. **Public Relations:** Public relations are sometimes somewhat similar to advertising in that much of it involves messages communicated through mass media. The major difference is you don't pay for the time or space for the message. A television or newspaper feature story mentioning a business, for instance, isn't paid for and can provide brand exposure. The downside of PR is that you don't always control the messages. You can try to influence them through press releases and invite for media coverage, but the media could put a negative spin on the story.
5. **Direct Marketing:** Direct marketing includes some aspects of both sales promotions and personal selling. It is interactive communication with customers where the company's message seeks or implores a response from targeted customers. E-mail and direct mails are

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common formats. These messages are sent to customers with special offers or calls to action, often promoting limited-time deals or new product launches. Mail-order clubs, online or print surveys and infomercials are other examples of direct marketing communication.

6. **Event Sponsorship:** Event sponsorship is the element sometimes left out of the five-element communication mix. Many models include it within advertising. Event sponsorship occurs with a company that pays to have a presence at a sports, entertainment, nonprofit or community events. The sponsorship may include a mix of benefits including booth representation during the event to hand out samples, gifts and literature, name mention during the event and ad spots connected to the event.
7. **Tracking:** Tracking the success of your promotions, either with sophisticated metrics or analysis, or by simply asking "where did you hear about us," lets you determine your strongest marketing channel. Once you know this, you can leverage your marketing communications strategies.
8. **Leverage:** Every marketing channel has its specific strengths and weaknesses. Savvy marketers know how to leverage the strengths of one marketing channel in order to offset the weaknesses of another. For example, a start-up with a limited marketing budget might not be able to afford a full page ad in the local paper. Instead, their marketing communications plan would involve purchasing a smaller ad that features their distinctive logo and slogan, then set up social media pages with said logo and slogan.
9. **Brand Identity:** The stronger your brand identity is, the easier it is to market it across a variety of channels. "Fifteen minutes can save your 15 percent on car insurance." Nike also does this well, with their "Just Do It" slogan.
10. **Synergy:** A successful marketing communications strategy has an overwhelming need for synergy. Every type of communication must sing in a single voice, which harmonizes with your brand identity. This implies that all of your marketing tools, including advertising, event sponsorship and social media pages must coordinate with your brand identity.
11. **Earned Media:** Paid media is advertising that you pay for. This might even include social media, because you have to pay for your Internet access. Earned media comes from being newsworthy. Newspaper articles, television news, magazines and blog posts by others all constitute earned media. If you do something unique with your business, or if the history of your business is particularly interesting, you might earn media coverage. Then, you can use quotes from the media source as marketing communications examples in your advertisements, and on your social media pages.
12. **Educated Consumers:** Where an educated consumer is our best customer? This advertisement appeared on television commercials during the 1980s, but how much can you educate your clients in a 40-second TV spot? Thanks to social media, you can stress the need for consumer education in a TV, print or billboard ad, then make a call to action, advising clients to go your website, and listing your URL. This is integrated marketing communication at its finest.
13. **Client Centered:** Many business owners measure success by their ability to attract new clients, but the ability to maintain the loyalty of existing clients is even more important. Client-centered business owners understand that "communications" is the essential keyword

in integrated marketing. As such, companies that use integrated marketing communications plan interactive strategies across all of their marketing platforms.

14. **Product Design:** Since client-centered companies are always listening to consumers, they usually develop products that people actually want to buy, with features that clients say they need. Once they determine the requirements of their potential clients, they create the appropriate product.

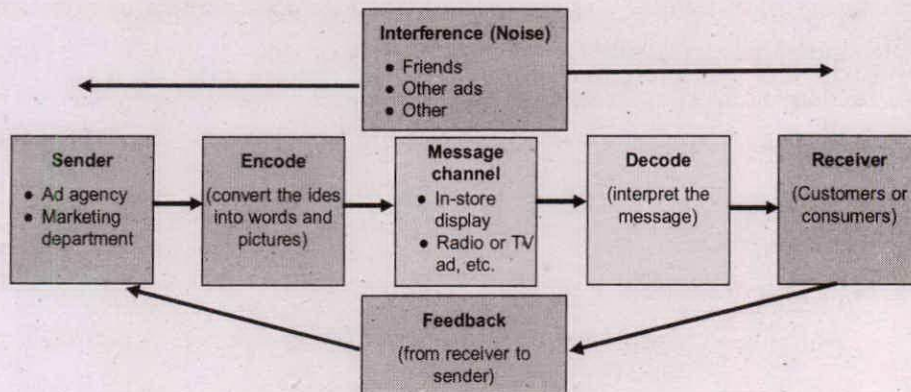
### 3.12 Process of Marketing Communication

Marketing communications consist of integrated activities in which the targeted audience is identified and a well coordinated promotional program is prepared to generate the desired response from the audience. Most problems of preferences, image and immediate awareness in the target customers are focused by the marketing communication. But there are certain limitations associated with the concept of communication. These limitations include high cost and short term duration that cannot generate the desired results from the targeted customers.

In recent years, Marketing Communication is used by most of marketers as building customer relationship at the stages of pre-selling, selling, utilization, and post-utilization. Due to differences in customers, different programs of communications are developed for specific segments & niches.

Breaking the Marketing Communication Process into simplified categories will allow you to better work with the vast number of Marketing Communication Tools at your disposal today. Think of Marketing Communications in terms of regular interpersonal communication and imbue your marketing efforts with the same level of sincerity, enthusiasm and personality as you use in speaking with people you know.

The tools you use to communicate with your customers are more sophisticated than regular interpersonal communication tools but can still be categorized as written, spoken, physical or multimedia. The majority of your communication with customers will be written or spoken. Physical communication includes packaging and branding while Multimedia communication ventures into the high-tech and includes online "sights and sounds" as well as TV and radio among others.



Your marketing communication process should be a reflection of how you communicate with your best customers. You should utilize the various tools of your marketing communication as extensions of your own personality.

Marketing communication aims at conveying a firm's message as effectively and accurately as possible. The basic process of marketing communication involves the following constituents:

1. **Sender and Receiver:** In marketing communications, there are two main entities "Sender" and "Receiver". The sender may be the company wanting to target the consumer group. The receiver is the consumer himself. There are several features which you need to know about the sender and receiver before the communication process begins, like their demographics, financial power and their compatibility. If a sender is a sports shoes maker, but the message is received by 60 years old customers, then the marketing communication may fail. The sender needs to know beforehand who the receiver of the message is going to be. This is why the process of segmentation targeting and positioning is done before marketing communication begins.
2. **Encoding:** The message needs to be bundled in the right format for the sender to send the appropriate message to the receiver. This is known as encoding. In marketing communications, this is where advertising agencies play an important role. Depending on the choice of the sender, the creative ad agencies encode the message in the proper format. The format depends on the type of media vehicle being used to deliver the communication message. Thus, you will find that a radio message, a TV message or a print message are encoded differently as all of them have their own pros and cons. Whatever media vehicle / message format you may use, the focus message needs to be the same.
3. **Message decisions:** During marketing communication, there are various ways in which the message can be sent to the end customers. Television and print is known to have the highest retention and hence advertisers use them the most. Other than these 2, there is radio marketing, online marketing, out of home media, banner advertising, so on and so forth. Any of these media vehicles can carry your message. The important point here is that the message should reach to as large a target audience as possible. In the sales funnel, the more the prospects you have the more would be the conversion rates. Thus, the objective of a message is to reach as many prospects as possible. A proper message can immediately connect you with your target group, build a better brand positioning, and thereby give an immediate boost to your organization. Marketing communications messages can be of various types. Some of the normally used ones are:
  - Introducing a new product
  - Creating awareness
  - Building brand image
  - Sales promotion offers
  - Customer retention

A marketing message therefore needs to be altered on the basis of these three fundamental factors

- Media vehicle to be used
- What is the objective of the message?
- Which is the target group?

4. **Decoding:** Decoding a message is not in the hands of the sender. Instead, it is done by the receiver. What the sender can do is encoding the message as best as he can and ensure that it reaches the receiver. The receiver then decodes the message.

For example, if I show you a shoe in muddy water, some of you might not be interested in the image, some of you might think this is an advertising for the shoe, and some of you might get the message that I am trying to show a shoe which is water proof and easy to clean.

Thus, if I am unable to get the message across to most of my audiences, then I fail as a marketer. I need to ensure that decoding of the message is as easy as possible for the receiver. This is the essence of marketing communications. This is the reason why agencies such as O&M, Lowe Lintas etc get such a high fee. Because of their messages can be decoded easily by the end user and by the masses.

5. **Receiver:** The receiver is the one making the decision after decoding the message. In other words, the receiver is your end customer or prospect. Thus, the receiver is a very important entity in the marketing communications process. Ideally, the receiver should act on the message he has received. Thus if your message was of a sales promotion, your receiver will go ahead and purchase the product. However, as in any situation, there are different variants of receivers. Some will completely ignore the message, some will use it for reference later and others will act on it.

To make sure that the receiver acts on the message, integrated marketing communication is used. The same message is sent in different formats through various media vehicles. The receiver receives the same message in differently encoded format and decodes it. This is why nowadays advertising frequency plays an important role in converting prospects to customers. As FMCG companies have the maximum consumer interactions. They are known to use integrated marketing communication in the best manner.

6. **Feedback:** Nowadays, another factor which has been added to the marketing communication model is the feedback parameter. This is because taking feedback is gaining importance with the noise that happens due to too many products being advertised. Thus after an ad campaign for increasing awareness of a product, the company can take market feedback to know what percentage of target customers are aware of the new product. This feedback will tell the company whether its advertising strategy was right or wrong.

In the end, you have to understand that marketing communication is not just an interaction between the company and the end customer. Rather, it involves the presence of numerous entities. Marketing communications is an art in itself. A significant amount of an organization resources are used to ensure that the right message reaches the end customers and the end customer acts in a desired manner.

## Message

In order to create persuasive communication, the sponsor (who may be a person, a for-profit company, or a not-for-profit group) must first establish the objectives of the communication, then select the appropriate audience for the message and the appropriate media through which to reach

## Notes



them, and then design (encode) the message in a manner that is appropriate to each medium and to each audience. The communication strategy should also include a prior feedback mechanism that alerts the sponsor to any need for modifications or adjustments to the media or the message.

## Notes

### Message Strategies

The message is the thought, idea, attitude, image, or other information that the sender wishes to convey to the intended audience. In trying to encode the message in a form that will enable the audience to understand its precise meaning the sender must know exactly what he or she is trying to say and why. The sender must also know the target audience personal characteristics in terms of education, interests, needs and experience. The sender must then design a message strategy through words and/or pictures that will be perceived and accurately interpreted by the target audience. A single study can develop a list of messages elements designed to appeal to three personality types.

- (a) **Righteous buyer:** One who looks forward to recommendations from the independent sources such as consumer reports?
- (b) **Social buyer:** One who relies upon the recommendations of friends on celebrity endorsements and testimonials?
- (c) **Pragmatic buyer:** One who looks for the best value for the money, though not necessarily the least expensive?

### Message Structure Presentation

Some of the decision that marketers must make in designing the message include the use of resonance, positive or negative message framing, one-sided or two-sided messages, comparative advertising, and the order of presentation.

1. **Resonance:** Advertising resonance is defined as a wordplay, often used to create a double meaning used in combination with a relevant picture. By using the resonance in ads marketers can improve the chances that their ads will be noticed by the consumers and create favorable and lasting impressions.
2. **Message framing:** Should a marketer stress the benefits to be gained by using a specific product (Positive Message Framing) or the benefits to be lost by not using the product (Negative Message Framing)? Research suggests that the appropriate message framing decision depends on the consumer's attitudes and characteristics as well as the product itself.
3. **One-sided Versus Two-sided Messages:** Should marketers tell their audience only the good points about their products or should they also tell them the bad (or the commonplace)? Should they pretend that their products are unique, or should they acknowledge competing the products? These are very real strategy questions that marketers face every day, and the answers depend upon the nature of the competition the marketers face every day, and the answers depend on the nature of the competition. However, when competition does exist and when it is likely to be vocal, such advertisers tend to lose credibility with the consumer. If the audience is friendly (e.g.: if it uses the advertisers products), if it initially favors the communicator's position, or if it is not likely to hear an opposing argument, then one-sided

(supportive) message that stresses only favorable information is most effective. However, if the audience is critical or unfriendly (e.g., if it uses competitive products), or if it is well educated, or if it is likely to hear opposing claims, then a two-sided (reputable) message is likely to be more effective.

Two-sided advertising messages tend to be more credible than one-sided advertising messages because they acknowledge that the advertised brand had shortcomings. Two-sided messages can also be very effective when consumers are likely to see competitor's negative counter claims or when consumer attitudes towards the brand are already negative.

4. **Comparative Advertising:** Comparative advertising is a widely used marketing strategy in which a marketer claims product superiority for its brand over one or more explicitly named or implicitly identified competitors, either on an overall basis or on selected product attributes. Comparative advertising is useful for product positioning, target market selection, and brand-positioning strategies.
5. **Order Effects:** It is best to produce a commercial first or last? Should you give the bad news first or last? Communication researchers have found that the order in which a message is presented affects audience receptivity. For this reason, politicians and other professional communicators often jockey for position when they address an audience sequentially. They are aware that the first and the last speeches are more likely to be retained in the audience memory than those in between.
6. **Repetition:** Repetition is an important factor in learning. Thus, it is not surprising that repetition, or frequency of the ad, affects persuasion, ad recall, brand-name recall, and brand preferences. Multiple message exposures give consumers more opportunity to internalize products attributes, to develop more or stronger cue associations to develop more positive attitudes, and an increased willingness to resist competitive counter persuasion efforts. In low-involvement situations, individuals are more likely to regard message claims that are repeated frequently as more truthful than those repeated with less frequency. Different ads depicting different applications of the same promotional theme enhance the memory ability of the brand advertised.
7. **Advertising Appeals:** Sometimes objective, factual appeals are more effective in persuading a target audience. On the other hand, emotional appeals are more effective. It depends upon the kind of audience to be reached and their degree of involvement in the products category. In general, however, logical, reason-why appeals are more effective in persuading educated audiences and emotional appeals are more effective in persuading less- educated consumers. The following section examines the effectiveness of several frequently used emotional appeals.
8. **Fear appeals:** Fear is an emotional response to some actual or perceived threat or danger. Advertisers use fear appeals in some situations to evoke the desired emotional response and motivate audience to take steps to remove the treat. Some people humorously call these as 'slice-of-death' ads. Toothpaste, deodorants, helmets, anti-dandruff shampoos, life insurance and a large number of other products and services use fear appeals.

## Notes

In some situations, it appears to be quite reasonable for advertisers to consider using fear with explicit purpose of persuading the audience to elicit a favorable response. Fear is a powerful motivator, but only up to a point. Ad messages using fear appeals to have been used to promote social causes as well, such as wearing helmets while driving two-wheeler autos, safe driving, paying taxes, the dread of drugs, dangers of smoking and AIDS, etc.

9. **Humor appeals:** Humor generates feelings of amusement and pleasure and, for this reason it has a potential for the feeling to become associated with the brand and affect consumer attitudes towards the brand and probably its image. Humor can also affect information processing by attracting attention, improving brand name recall, creating pleasant mood and reducing the chances of counter-argument.
10. **Abrasive Advertising:** How effective an unpleasant or annoying ads are? The memory of an unpleasant commercial that antagonizes listeners or viewers may dissipate over time, leaving only the brand name in the minds of consumers.

All of us have at one time or other been repelled by so called agony commercials, which depict in diagrammatic detail with the internal and intestinal effects of heartburn, indigestion, clogged sinus cavities, hammer induced headaches, and the like. Pharmaceutical companies often run such commercials with great success that are not visible and thus elicit little sympathy from family and friends.

11. **Sex in advertising:** In our highly permissive society, sensual advertising seems to permeate the print media and the airwaves. Advertisers are increasingly trying to provoke attention with suggestive illustrations, crude language, and nudity in their efforts to appear 'hip' and contemporary. In today's advertising, there is a lot of explicit and daring sexual imagery, extending far beyond the traditional product categories of fashion and fragrance into such categories as shampoo, beer, cars and home construction.
12. **Audience Participation:** The provision of feedback changes the communication process from one-way to two-way communication. This is important to senders because it enables them to determine whether and how well communication has taken place. But feedback also is important to receivers because it enables them to participate, to be involved, to experience in some ways as the message itself. Participation by the receiver reinforces the message. An experienced communicator asks the questions and opinions of an audience to draw them into the discussion.

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### 3.13 Persuasion - Need and Importance

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Persuasion is an art of influencing the mind of the listener and hence it should be done with great care. Persuasion may therefore be defined as "an effort to influence the attitudes, feelings or beliefs of others or to influence action based on those attitudes, feeling or beliefs."

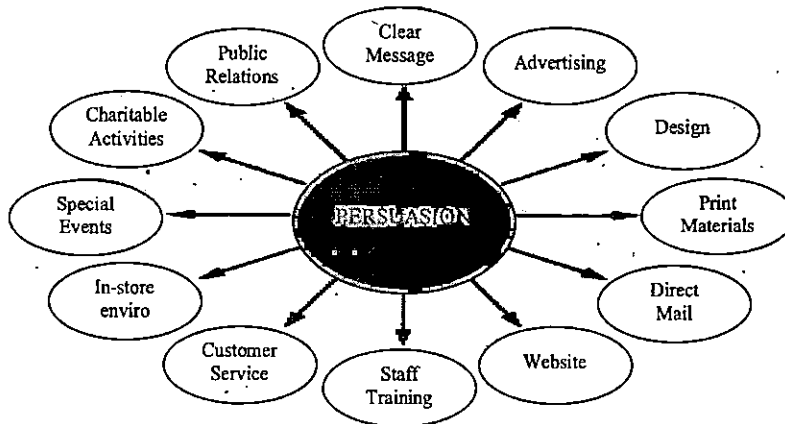
Persuasion is a communicative skill. It enables a persuader to present his point of view from the receiver's point of view and induce the receiver to act accordingly. Persuasion is very useful in internal management within an organization.

Persuasion as a skill requires.

- Knowledge about the receiver.

- Intellectual appeals to arouse the receiver's interest.
- Presentation of one's interests from the receiver's point of view.

### Wheel of Persuasion



### Notes

Persuasion marketing applies what we know about human psychology to develop techniques to market products or services. In this case, it specifically applies to the promotional aspect of the marketing mix, and builds on a customer's impulsive behavior to lead them to purchase.

Persuasion is part of every aspect of our lives. Politicians want our vote, businesses want us to buy their products, and people want us to like them. Even altruistic nonprofits want us to change our behaviors around environmental issues and public safety, or give them our money to help fight the hunger and disease.

This reality is not different for websites and other digital properties. Persuasion is a necessary component of good design, ensuring that users will engage with your product in the way you intended, leading to the outcome you intended.

Understanding persuasion will highlight the importance of developing strong messages and help you better incorporate and refine effective persuasive techniques into your design, and allow you to explain to others (potential clients, peers) how and why your design is effective at persuading users.

Persuasion has a bad reputation, the word itself often evokes thoughts of being swindled or pressured to do something we really don't want to do. But persuasion isn't inherently negative it's just a process of influence, for better or worse. Here are five ways of understanding persuasion:

1. **Persuasion is Communication:** At its core, persuasion needs a strong, clear message sent from one party to another.
2. **Persuasion is an attempt to influence:** Understanding your audience and what makes them tick makes your attempt more likely to succeed. Though the outcome is never guaranteed.
3. **Persuasion involves more than words:** Aesthetics, interactions, ease of use, and other factors can make a website or application more persuasive to potential users.
4. **Persuasion is not Coercion:** It is up to individuals to form or change their own attitudes. Utilizing dark patterns or purposely tricking a user into doing something they wouldn't otherwise do is not persuasion. It's being a moron.

5. **Persuasion can reinforce attitudes:** Your audience has opinions that need to be strengthened from time to time. If you don't preach to the choir, someone else will, and eventually your faithful followers will be led astray.

## Notes

### Elements of Persuasion Marketing Campaign

There are four primary elements of persuasion marketing: structured communication, storytelling, copy-writing, and neuro-marketing.

1. **Structured Communication :** Structured communication, like the "planned conversation" of interpersonal sales, is about controlling the order of the dialogue, or how information is presented to the consumer. The goal is to move a customer along his or her "impulse curve," initially encouraging a customer's impulse, and making a call to action after that impulse level has been raised to its highest point. In website design, it means that the first page the customer sees does not immediately seek a sale, but instead, presents the initial message and encourages further exploration of the website.
2. **Storytelling:** Storytelling uses a narrative framework to invoke a customer's emotional and subconscious responses, so that they can join or dominate their more analytic responses. Use of particular words and images evokes habitual emotional responses, such as affection, familiarity, empathy, and desire for triumph or resolution.
3. **Copy-writing:** Copy-writing is using the right words and phrases for headings, captions, product descriptions, and other text. For example, when people scan material (and most Internet pages are scanned before they're read), questions stand out more than statements, so "What is the best way to capture attention?" catches more attention than "How to capture attention." The persuasion marketer field-tests different kinds of copy, in order to determine which is most likely to produce the emotion or answer he or she's looking for.

Different words describing the same thing can have very different connotation. "Choices," for example, produces a positive emotional response, but "trade-offs" produces a negative one: Additionally, the copywriter and the marketer must remember that the fear of loss is more motivating for most people than the promise of gain. Thus "don't miss out" has more impact than "this can be yours."

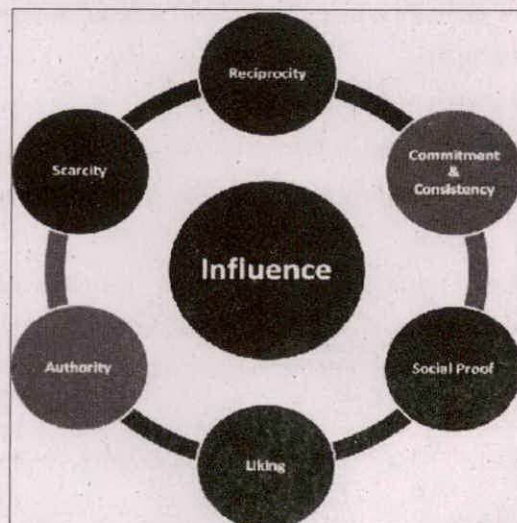
4. **Neuro-marketing:** The Neuromarketing is perhaps the most important component of persuasion marketing, applying psychology to the marketing message. Psychological research reveals information about the diverse factors that contribute to a decision and as much as 90 percent of that all takes place beyond our conscious reasoning.

For example, research demonstrates that visual and olfactory cues are important for "priming" a particular mood; therefore, grocery stores display flowers in the front in order to "prime" customers with the image of freshness. In terms of website design, it means using color scheme and particular visual imagery to improve visitors' response to the website.

Another major feature is testimony from other people. Businesses typically display customer testimony on their websites, developing a "wall of social proof" approach. Businesses post photos of happy and attractive customers. Therefore new customers are comfortable being associated with them.

## Weapons of Persuasion

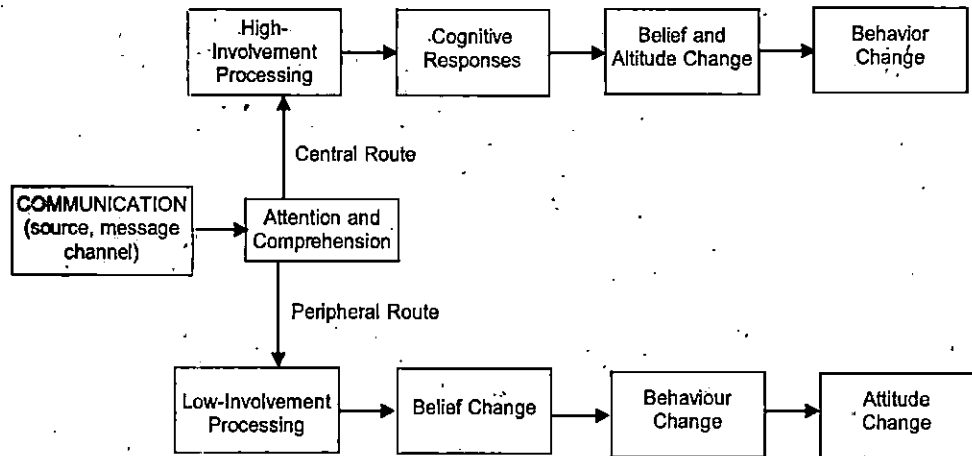
1. **Reciprocity:** Reciprocity is to give something to get something. Give your client something that makes him feel lucky. If a waiter gives you a candy together with a bill, you'll probably tip him. If he gives you the same bill and the same candy, but adds 'And this is for you, because you were such a cool client', the tip will be way bigger.
2. **Authority:** Buying something means trusting someone. Human beings, hence consumers, follow credible leaders. If a person called Peter tries to sell you an apartment, you will be less inclined to buy it from him than if he was introduced to you as a real estate professional with 22 years of experience in selling and buying apartments.
3. **Social Proof:** People tend to do what other people do. Instead of telling them what to do in a certain situation, it is easier to get someone to change their behavior by telling them what other people did in similar situations.
4. **Commitment:** Selling by involving makes people feel they are part of your community. If people have to say in what the brand, product or service brings to the market, people will buy you more. Start small with this and you'll see that once you get commitment from consumers, you can snowball your marketing actions. Commitment is the basis of a loyal relationship.
5. **Liking:** We tend to buy more from people who like us. We are narcissistic beings who easily buy from people who complement and appreciate us. Of course, the main question here is the authenticity. How can you authentically, naturally and believably thank and be grateful to your consumer? Try inviting them to an online closed community for example and ask their opinion and feedback on what you are doing.
6. **Scarcity:** People love to buy things other people cannot buy. We tend to rush for things that are rarely available. So the question here is 'How do I make my product look and feel rare and scarce?'. A powerful example is the concord example. The day when British Airways announced one round trip a day from London to New York instead of 2, sales actually went up spectacularly. So fewer flights at a higher cost resulted in a huge sales increase.



## ELM

## Notes

Elaboration Likelihood Model is developed by Richard E. Petty and John T. Cacioppo in 1980s. Persuasion is very much associated with our daily life. Persuasion occurs when readers, listeners or viewers learns a message from what they read, listen or watch. We remember the message as ideas and we will be persuaded by it. That is how we remember them. If we did not learn something, it is not possible to remember it and we will not be persuaded by it.



However learning may not be always combined with persuasion. For example there might be some advertisements that we hate. We don't want to learn or remember the message from the advertisement and we are not being persuaded by it. The Elaboration Likelihood Model (ELM) explains how persuasion message works in changing the attitude of reader or viewer. It is very much important for corporations and advertisement agencies, in designing their market strategies and understanding the attitudes of peoples.

What is elaboration likelihood model (ELM) of persuasion? This model elaborates how attitudes are formed and changed. The crux for this model is the "Elaboration Continuum" which varies from low elaboration to high elaboration or low thought to high thought. This model was developed by R.E Petty and J.T Cacioppo in 1980s. This model is used for developing brand equity and demand generation.

It distinguishes between two routes to persuasion;

- **Central Route:** It is where a subject or receiver considers an idea logically.
- **Peripheral Route:** It is where already existing ideas and superficial qualities are used for persuading people.

Actually marketing communication is related to 'Promotion' part of 4Ps or marketing mix (Price, Place, Promotion, and Product) which has attributed many trends in business like transition from customer service to customer relationship and transition of human resource to human solutions.

Taking example of ad "Olay Regenerist versus Expensive creams TV ad USA may 2009" follow the link at

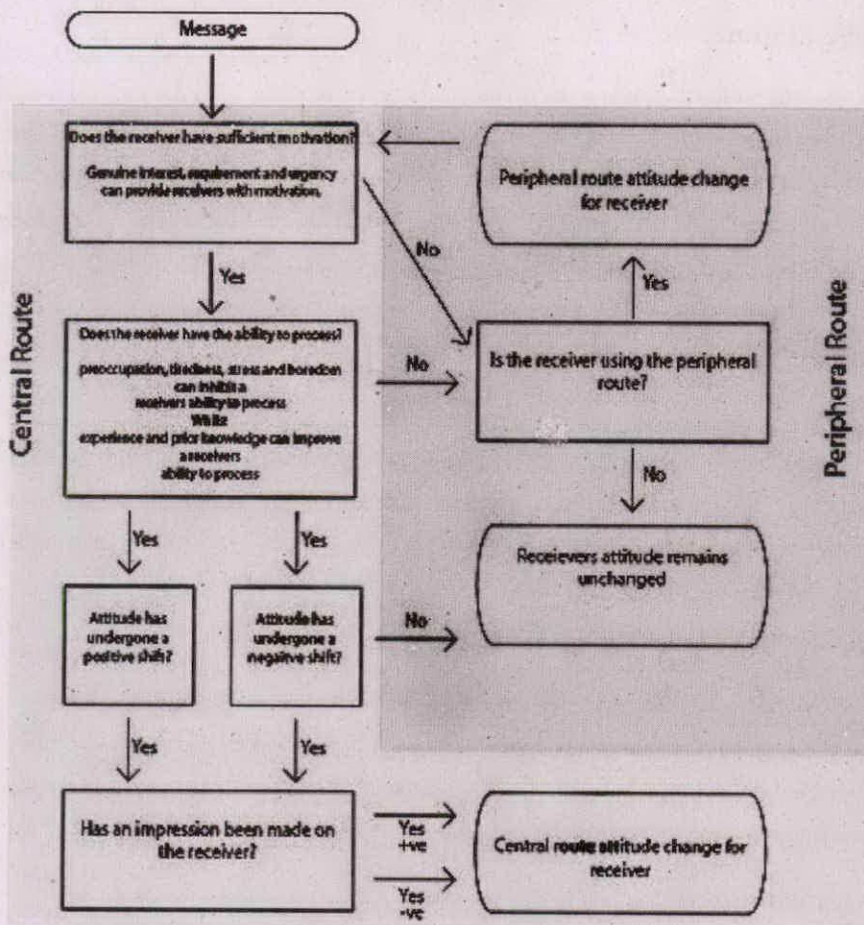
You tube <http://www.youtube.com/watch?v=0YXkfAPvRzM>

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While analyzing an ad, it is clear that it gives a logical price comparison with leading creams whose prices range from \$ 100 to \$700 whereas the Olay Regenerist's price is just \$ 32 which evokes logical thinking for the subject audience and a thinking standpoint against purchasing the costly creams. This is expressing the Central route for Elaboration Likelihood Model (ELM) of persuasion as it gives logical expression about pricing and its comparison to competing forces. The argument presented is very strong so it lies under central route of ELM of persuasion.

**Elaboration Likelihood Model Routes**

Persuasion is referred to as the action by which, convincing or causing someone to do something through reasoning or argument. The Elaboration Likelihood model proposes that each and every message is undergoing the process of persuasion in two different ways. They are called Central Route and Peripheral Route. Both of them are effective persuasion techniques, but each of them has its own guiding techniques to make them more operative.



**Central Route**

The process of persuasion through Central route is straight to the point and complete. The central route needs a thoughtful consideration of arguments which contains in the message. It requires more involvement from the part of reader or viewer. The receiver of the message carefully analyzes the message and thinks of it in every possible angle. When the receiver processes the message



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through the central route, his active participation is vital and also his motivation and ability to think. Simply, it can be said that the receiver should care about the message and subject matter. The central route is strong. A person who is distracted or having some problem with understanding the message may not be able to do the central processing. The disadvantage of this technique is that, if the receiver is not directly affected by the message he or she will ignore it.

**Example**

A woman who is very much interested in platinum jewels will be closely watching the advertisements of platinum jewels. She is fascinated with the new trends and tends to collect them. Here, she has the motivation for the subject matter and she cares about it. She carefully processes the message and thinks about it. And her husband may not be interested in jewels so he will be totally ignoring the message from advertisements about the jewels. Here, the woman processes the message in her central route and not her husband.

**Peripheral Route**

The peripheral route is weak and the involvement of the receiver will be low. The message sent through peripheral route is not analyzed cognitively. Here the receiver of the message is not sure whether to agree with the message or to disagree. The person may not be able to elaborate the message extensively, so in the end he will be persuaded by the factors which have nothing to do with the message. And this is where packing, marketing, advertising and PR does their job. Sometimes people may not be in a position to think about the message carefully. So they will look around for the next best option to be persuaded.

**Example**

Andy, a high school student went to book store to buy a note book for doing his homework. He sees many designs on the front cover of the notebook from various companies. He became confused, and then he saw a notebook with his favorite football player's picture in front cover. Without thinking much about it, he bought that notebook.

**A Tale of Two Paths**

Imagine two potential customers, both in need of a new television. Suzanne is a techno-phile and regular Amazon user, while Kevin rarely makes purchases online, and is mostly interested in finding a quality television at a good price. Amazon wants to persuade both users to purchase a television (any television) through its website.

**Central Route Processing**

While both users will have some level of central route processing (especially for pricing), it is more likely that Suzanne with her interest in technology will be attentive towards the messages and design. Assuming she agrees with what she sees, she'll be more inclined to purchase through Amazon versus a less persuasive competitor.

For Amazon, this is critical. Its competitors include stores where potential customers can interact face to face with knowledgeable sales reps. So, it has to make product information easy for

users to access by including multiple options for searching and sorting, offering detailed product descriptions, and providing in-depth product reviews written by fellow shoppers.

Suzanne searches for high-end TVs, filters them from high to low ratings, and reads the reviews. After making her decision, she uses the "Buy now with 1-Click" option, since all of her information is already up to date in Amazon's system. Amazon's reliability and service over the years have earned her trust.

Suzanne was not a hard sell for Amazon; this is due in part to years of persuasive factors that have shaped her buying habits. If central route processing has occurred in a positive direction, Suzanne is also likely to purchase from Amazon again in the future, while Amazon's competitors will have a harder time persuading her to purchase from them.

### *Peripheral Route Processing*

Amazon does not leave the casual user hanging when it comes to persuasive design. Many elements of its design are meant to appeal to peripheral route processing.

First, look at its use of visual hierarchy. The product page's focal point, a nice large photo of the product itself, is perfect for holding attention no reading necessary to see that gem. It also offers options to view the product from multiple angles. The numerous filtering options allow potential customers to choose from a broad range of categories that can serve as a shortcut to selecting a product they have little interest in researching in-depth (e.g. price, rating, age of product).

Let's say that Kevin, our less motivated potential customer, is curious to see how much TV he can get for his money. After searching for televisions in the impossible-to-miss search bar on the homepage, he immediately sorts the results by price from low to high. Next, using the filters offered on the left of the screen, he selects to view only TVs with four stars or more. (Why spend time reading a review when you can see four shiny stars at a glance?)

Kevin notices the percentage saved and the low-price guarantee that comes with his purchase. Additionally, free shipping is offered in bold type directly next to the price. Appealing to a user's pocketbook is an excellent form of peripheral route persuasion. This penny-pincher won't even have to pay for the convenience of having the product shipped to his front door.

Utilizing visual hierarchy at its finest, the second most eye-catching element of this page is the blatantly obvious "Add to Cart" button. You can guess how the scenario unfolds from here.

Notice that both routes lead to the same outcome and that design elements are not exclusive to one route or the other. People often process information using some level of both routes the routes. The routes can complement each other. For example, Suzanne would be more likely to process the information in the product description through the central route, but utilize the star-rating filter as a peripheral route shortcut to viewing TVs highly rated by like-minded shoppers. She was persuaded by elements from both routes. High-five to Amazon!

Suzanne is more likely to maintain her positive attitude towards making purchases on Amazon.com. Thanks to central route processing! Whereas Kevin will need some convincing in the future not to go to check out the big box store down the street (the free shipping should help!).

Persuasion goes hand-in-hand with messaging and design, but there are also ways to do it wrong. Distractions can undermine your persuasive techniques just as quickly as you can

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develop them. If your potential user encounters nine pop-ups, long loading time, or three pages of disclaimers to get to meat of your message, they are never going to choose to taste it. Distractions, whether physical, visual, or intangible, can temporarily halt the whole elaboration process.

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**Criticisms of the ELM**

The Elaboration Likelihood Model is one of the two dual processing models of persuasion. The other major model is called the Heuristic-Systematic Model, which shares much in common with the ELM. Together, these are the two main theories of processing that social psychologists look at to describe how attitudes are formed and changed in response to a persuasive message.

The Heuristic-Systematic Model emphasizes that people use mental shortcuts (heuristics) in decision-making. Instead of looking at the central route of processing and the peripheral route of processing, in this theory thoughtful and attentive decision-making is called systematic processing and automatic processing is called heuristic processing.

While there are two different theories, the fact that they are so similar in nature demonstrates that the ELM is widely believed and few social psychologists criticize its merit. The experiments that support the ELM have been replicated again and again in different situations and with various variables. Therefore, the Elaboration Model of persuasive is held as the leading theory to describe the processing of persuasive messages

**Elm Appeal**

Media by Appeal Strata Serve the ELM (Elaboration Likelihood Model) is a popular way of looking at how customers are persuaded by type of appeal. The ELM appeals are a great way of looking at how you might want to make your advertising media choices. But first a quick re-cap of the ELM persuasion model.

The ELM of persuasion by Petty and Caccioppo (1986) suggests that folks get persuaded by one of two routes in the mind the Central Route where you need to cognitively process the information in the ad and you think logically. The Peripheral Route is the emotional processing of information in the Advertising.

Media Mix by Appeal Type			
Advertising Media	Emotional Appeal (Peripheral Route)	Logical Appeal (Central Route)	Typical Products
TV	✓	✗	Breakfast cereal
Radio	✓	✗	Auto Dealer
Outdoor	✓	✗	Higher Education
Newspapers	✗	✓	Hospital/Medical
Leaflets/Direct Mail	✗	✓	Credit cards, insurance
Magazines	✗	✓	Diet plans
Internet Search	✗	✓	E-Commerce, Insurance, Real Estate
Internet Banner	✓	✗	All ?

If you are an advertiser, then you need to consider how your customer is likely to process the advertising message that you want to give them. The Media by Appeal graphic with this post is a simple way of looking at what media is best for your message:

1. **Television:** Television is great medium for reaching large audiences. If you advertise on TV, your Ads must tap something emotional in your audience. If it does, then your Ad might become viral on YouTube. The "non-thinking" nature of television is one reason that it is called the "idiot box." Somewhat unfair, because TV is very effective depending on your advertising objectives and budget.
2. **Radio:** Radio is great channel when you want to reach people somewhat emotionally. The person is driving to work and has the radio on. If your ad is memorable you can expect the person to go back to home or office and check you out on the Internet.
3. **Outdoor:** Outdoor is effective when you want to build awareness of your brand and have a simple message. When someone is driving fast and seeing your outdoor billboard. You do not want to explain how to make cake from your cake mix in six steps.
4. **Leaflets/Direct Mail:** Leaflets/Direct Mail can get more detailed. When people are looking for a pizza coupon. They might go through the leaflet you sent out last week. Direct Mail can get really heavy on logic and reading-understanding. Just think of all the material in a credit card mail offer.
5. **Magazines:** Magazines are wonderful for very narrow targeting and niche marketing. Someone who subscribes to a cooking magazine is really interested in reading your cake recipe details in a paid advertising.
6. **Internet Search:** Internet Search advertising is relatively recent and fits into the ELM appeal thinking fairly neatly in the logical appeal category. When you put out a Google AdWords search ad (or any other pay per click - PPC ad on Yahoo or Bing) it shows when someone is actually searching the Internet. You pay for the click and you know that the person came to your website. A bits like searching for the pizza coupon in the pile of leaflets only much easier.
7. **Internet Banner:** Internet Banner is more about emotional appeal first. You see the banner for cake mix in a baking web forum and you are taken to the cake mix website where a great offer is made. It is also possible for the banner ad to follow a prior interested customer through other websites as a sort of reminder. Technology allows the ad to follow you around including on Facebook as you traverse through the web.

All media have strengths and the advertiser needs to figure out what might work best for their target market and particular message using the ELM appeal thinking.

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### 3.14 Basic Definitions

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Historically, this concept appeared by strong development of the industry. Previously, manufacturers did not have any problems in marketing in realising their products, because a demand was higher than a supply. However, the growth of industrial productivity caused the excess of production that is supply outgrew the demand. For this reason, the market has changed from "upstream market" to "consumer market". "Manufacturers have changed the orientation (paradigms) "sell what is produced" to "how to produce in order to buy".

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In the past, manufacturers were focused on product (Eng. Focused product) and by employing sales managers (Eng. Salesman, salesperson) forced the entire sales team to "push" products on the market, sometimes even without taking into account the market needs. Belief in the omnipotent effects of advertising and promotional power has formed a number of provisions, concepts such as 4P (Eng. Product, Price, Promotion, Placement ).

Traditionally, marketing has been the term used for vendors (more manufacturers, producers), bringing it closer to customers, consumers and the process sometimes is mistakenly interpreted too narrowly. The economic crisis demanded to change paradigms and business theorists suggested to focus on the client (Eng. Focused client or client centered). The essence of this orientation is firstly, to determine what the clients need and then produce.

Eventually, concerning the systems theory, process approach and modern marketing prevailed to understand as 4-step process

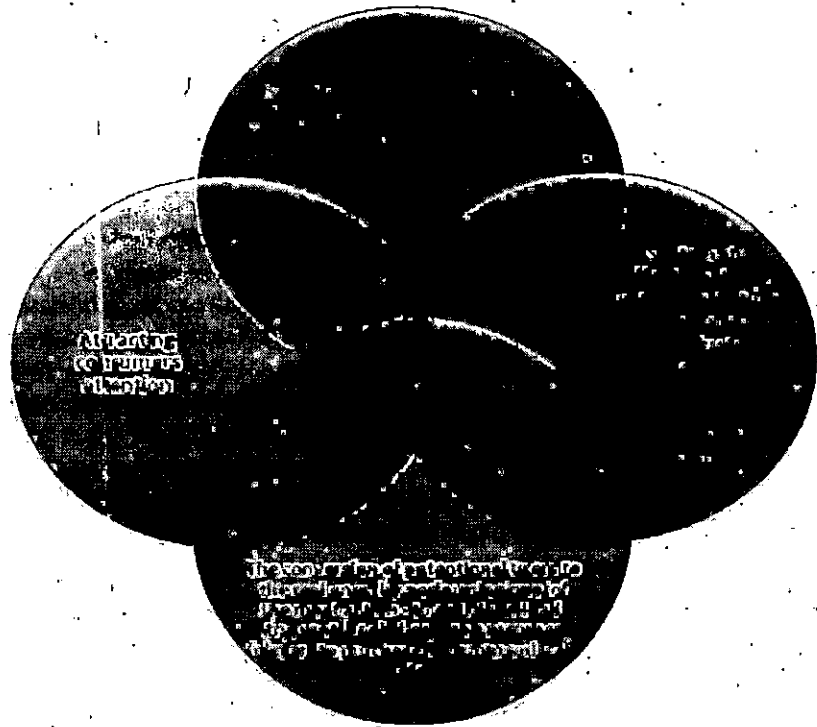


Figure 3.1. The steps of marketing process

### The impact of Internet marketing concepts and the complex of traditional marketing

In recent years, the use of the Internet in the retail trade has increased and this had a significant impact on many clients' buying process. One of the many problems that business people are interested today is the problem of growth and access to the Internet. This growth includes entertainment, e-commerce, e-banking and e-marketing. All signs point to both business and clients growing dependence on the Internet and its related processes in the whole world.

Another important feature of the Internet- the possibility to facilitate the information search for consumers. The process of product acquisition is encouraged by allowing users to achieve greater quantities and more detailed information, depending on the product features, price, and the

availability of a common value of the supply, especially when the Internet is used in conjunction of search of traditional marketing channels.

So far, in terms of e-marketing it has been suggested that the impact of the internet marketing was limited to simply creating a web site and using the Internet as a new tool for some support measures.

Internet leads to changes not only in business but also in marketing. The Internet as a tool shapes the differences between traditional and online marketing. Evaluation of the Internet as the main e-marketing tool, it is necessary to compare the traditional marketing mix and 4C (*consumer, cost, communication, convenience*) marketing model elements with new forms of these elements which are acquired online.



The examination of the affected Internet marketing became clear that the decision may have shifted from the manufacturer to the user side. Prevailing marketing situation, the manufacturer decide which products to produce, but now the consumer is a key element determining the decision. The main problem of these days is no longer the production of the product - the problem is communication, communication with the consumer. It take times to build contacts, because the user is not a machine that in certain periods comes on the market and buys the unit of a standardized product. User is a person who wants attention, helpful service, product installation, guarantee service, spare parts, etc. Purchasing decision is no longer a decision of buying an item; it is the solution to establish long-term relationships.

Long-term relationships with customers is becoming increasingly important for two reasons

- Marketing of the mass-market is gradually moving towards micromarketing.
- Most markets have already reached a mature phase, when there are not any new users anymore, so there is a need to share with current ones.

Organizations no longer have the ambition to attract more customers, while trying to retain and better serve existing ones. The latter business model is not a new thing - long applied to B2B (business-to-business) level, however a change in the rules of the game market, all organizations have realized for each individual customer / user importance. The users of today's organizations are standard statistical units that can be replaced by others, new ones. Marketing communications - is long-term customer relationship formation, maintenance, improvement, in order to satisfy the needs of users. Thus, the market focused on the customer and he is given the power to decide what, where and when to buy. With constant access not only to the company but also its competitors' offers and product information, the customer may encourage the company to meet its needs.

Dynamic Marketing frames. It discusses a number of ways, as it should be replaced by marketing, according to the basic provisions:

- Increased focus on user knowledge than ever before, and new consumer awareness creation.

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- Relations with users with the information they provide, which is stored in the user database.
- Supply-making, use of information technology and the Internet in order to enhance the product value of the perception of the product or to raise the price of the service and support quality.
- Product delivery to the consumer using ICT / Internet in order to ensure efficient sales and service delivery

The use of the Internet allows business users to communicate with clients and conversely interact with consumers at anytime and anywhere. Another important reason that makes e-marketing unique is that it is a "dimensional" because all the marketing phase take place simultaneously. Traditional marketing is the opposite - "linear" by nature, because marketing includes stages: marketing research, product development, customer complaints, etc.

Online marketing enables closer relationships with customers and better personal marketing. It is now generally accepted that the Internet did not change the basic principles of marketing management, however it is noticed a considerable impact on Internet marketing to individual elements that can have a significant impact on consumer behaviour.

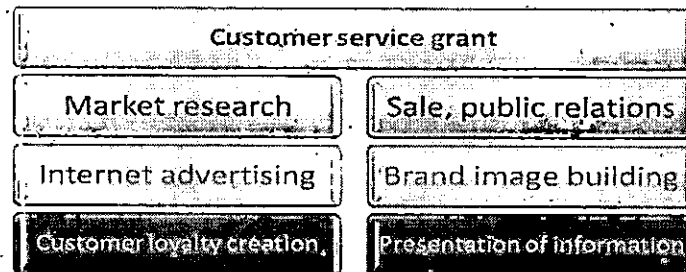


Figure 3.2. E-marketing aspects that are influenced by the Internet.

Marketing enables closer relationships with customers. It is generally agreed that the Internet did not change the basic principles of marketing management. But it is noticed a considerable impact on the Internet marketing to individual elements that can have a significant impact on a consumer behaviour. To understand better the impact that the Internet has on traditional marketing and consumer behaviour on the Internet, it is important to take into account changes related to the marketing complex and the 4P model.

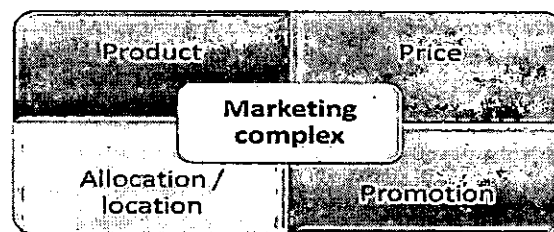


Figure 3.3. Marketing 4 P model

Internet impact marketing complex elements - **product**: - Internet prompted the addition of products (e.g., After-purchase service) and many new products only exist due to the Internet. - The Internet provides a faster setting of user needs, product testing, better product customization and shorter life cycle of a product.

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- Genuine product on the Internet has been replaced by product information which itself creates value for the consumer.
- In some e-business, information is collected about users; it is much more valuable than the most sold product or service. In the Internet networks, this phenomenon is known as data mining. This is the exact dimension that helps determine the suitability of the product for sale online.
- The Internet allows users to perform a detailed choice of a product / service and almost without any costs.
- Often, there are offered products or services on the Internet which can be digitized and available to the consumer online - directly to a computer.
- It is stated the importance of the Internet in developing new platforms for the new product innovation, with direct access to consumers, in order to collect information for the development of new products that meet consumers' needs.
- Some of the products, compared to others, have a higher demand on the Internet than in physical sales points (e.g. tickets).

INTERNET  
MARKETING  
PRODUCT

### Internet Impact on Marketing Complex Elements - Price

- Internet leads to greater price competition and leads to price standardization, the reduction of differences. Add to this the possibility to compare prices among all suppliers online.
- Product or service price reaches their limit costs / expenses by increasing competition. Organizations will have to adjust to new pricing models using the Internet.
- The critical element linked to the price - the exchange rate. If an organization wants to sell its products in international markets are required to publish the prices in the target currency, or allow the user to access the site installed automatic currency conversion system or post links to help carry out this action.
- Prices of perception affect user satisfaction with e-marketing time. Prices honesty can be a dominant factor in satisfaction and influence the desire to return to the website. So, in order to keep customers, e-merchants should not only provide the goods and services prices, additional charges, but also constantly updated to avoid misunderstandings.





## Notes

**Internet impact of marketing complex element - distribution / location:**

- Place on the Internet is understood as an online organization websites.
- Place on the Internet is identified as a product or service delivery channels. Product or service delivery: the organization itself performs delivery, uses third parties or directly delivers the product via the Internet (for informative, software, entertainment and financial services products).
- The Internet makes it possible in certain cases to avoid the intermediate links of organizations - mediators; cooperation is going on with competitors and suppliers - extended their pages offering products of competitors.
- E-business on the Internet sites are competing in quality, design, attractiveness of the proposals, a variety of product presentations and so on.
- Physical distribution of goods / delivery takes longer. The negative feature in online shopping is the time during which the purchase is coming from a seller to the customer. It is not valid for digital goods (movies, music, e-books, software, etc.) In order to reduce the influence of this factor in the case of physical production, a new niche is becoming popular for - express services which the main purpose is to deliver orders as quickly as possible.
- Time changes. In a traditional trade or other business very important are working hours. The influx of customers before the holidays, after work or at the weekends is not so important, because the Internet does not depend on time. The Internet has reduced its value because it can be used at any time of the day

**Internet Impact on Marketing Complex Elements - support**

- The Internet enables organizations to communicate interactively with consumers.
- The Internet enables to reach international customers much cheaper than using traditional media methods
- Companies can use various supporting techniques, e.g., to pay for the placement of links in websites which are popular among the company's target consumers and are less expensive option than advertising in traditional media channels.
- The possibility of free exchange "free" advertising to other sites.
- Speeches in online discussion forums that are related to the company's sales of goods or services or type of target market is a great way to attract potential visitors to the site with a probability to gain new consumers.

- Brand Management remains the most important factor in online marketing - it is very important to the company and its subsidiaries to have different sites that use different formats, visuals, messages and content.
- The use of e-marketing instruments - target marketing by e-mail; blog; SEO- search engine optimization ; social networks; banners.
- Internet customers, buying online prefer suppliers, from who have previously bought in the traditional way (not the Internet). Consumers buying online not the first time take preference for a well-known traditional offline merchant's website. The company wishing to move into e-business space should inform and prepare consumers to become e-customers.

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Generalized traditional and technology affected marketing are given in Table 3.1.

**Table 3.1. Traditional marketing and technology affected comparison**

Marketing area	Marketing actions	
	Traditional marketing	Internet marketing
Segmentation	Demographic	Behavioural
Advertisement	"Pushing"	"Pulling"
Support	Massive	Adapted
Pricing	Established by organizations	Established by users
Delivery channels	Through intermediaries	Directly
New products	Restrict	Focused on consumers

For more information about e-marketing complex, possible extensions and the addition of new elements presented - e-marketing complex.



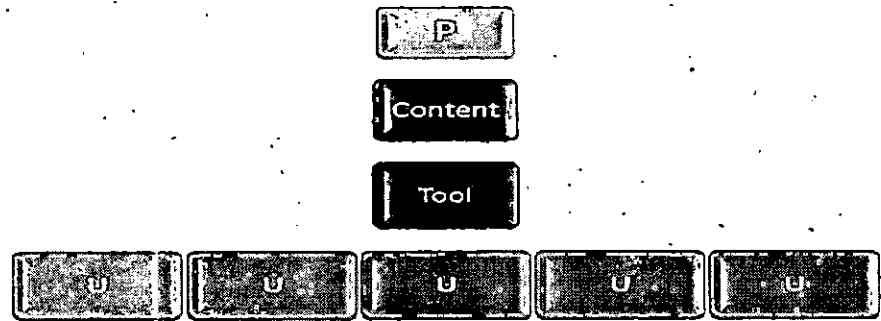
### 3.15 The Impact of the Internet Marketing Communication Process

Recently, a marketing concept is very often associated with communication. Marketing communication is more than a marketing function and covers all elements of the entire marketing support, which helps the organization to communicate with the target market players.

Traditional marketing has been applied to the case of simple communication option - **one-sided mass communication**.

Notes

The traditional way of advertising on television, radio and the press is one of many typical communication patterns - strategy. This type of mass communication is very popular, because have the ability to reach a wide audience. In the figure below (Fig. 21), are presented the recent communication model scheme.

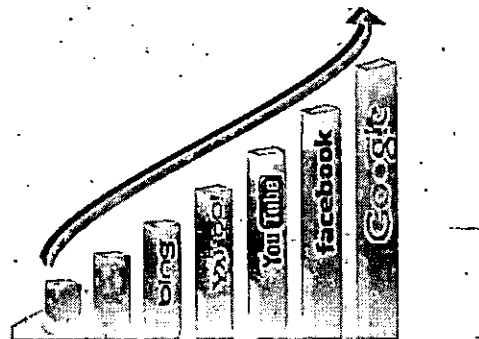


Marking: P - advertising provider; U user

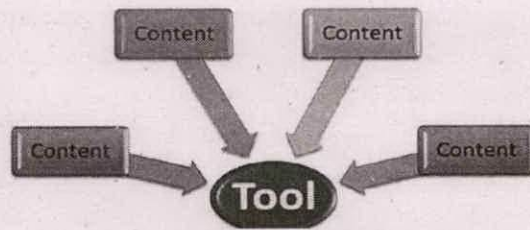
Figure 3.4. The traditional model is one to many communications

Recently, the market and the business took place in a number of related changes of information technology that led to another attitude towards communication and the exchange of the emergence. The Internet, which is a new form of communication, combines a large and extensive network, which covers different Internet users / consumers. In this case, both consumers and advertising suppliers may have a role in online information provider. Users have the ability to create web-sites, to publish articles in it or promote various products:

Thus, the Internet and related technologies, and the development is associated with the formation of the close link between consumers and advertisers. Users can freely collect and provide information to commercial sites, communicate with other users. Advertising providers may also collect and use the information obtained from the customers and information about the consumers. All this creates conditions for advertising messages profiling, segmentation of the audience and information about the goods in order to facilitate the search.



As well as advertising providers, through a variety of means, like email, mail, websites, video conferencing, etc., can provide consumers with information, entertainment and so on. All these involves a number of many new marketing communication model / system (Fig)



Marking: P - advertising provider; U- user

Figure 3.5. A number of many communication online models.

More and more companies are implementing their activities, moving to integrated marketing communications concept (Eng. IMC - Integrated Marketing Communications). The essence of this concept is to combine and integrate all marketing efforts and thereby achieve better results. This ensures a greater co-operation department of the company (general manager of communication, the overall budget responsibility), directional perception and common objectives. To achieve common goals of marketing, IMC uses the concept of marketing communications. A greater effect is achievable by using IMC synergies, which is not possible through individual communications. This leads to improve marketing performance at a lower cost.

IMC is traditionally divided into 4 communications.

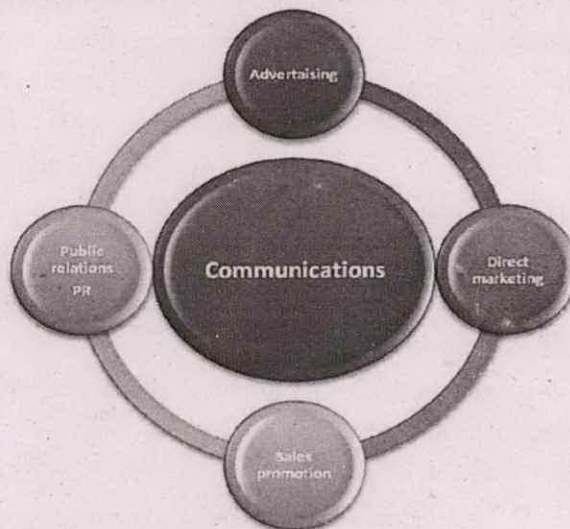


Figure 3.6. IMC communication



Telecommunications and the Internet can be distinguished as a separate communication channel. On the one hand, the Internet would be the fifth IMC communication, on the other - it combines four traditional marketing communications and significantly expands their opportunities.

Notes

## Notes

Internet - a strategically important decision. Internet users look for, learn about, choose, purchase. The entire sales process, from the user wish to the emergence of a transaction, can occur online. Therefore, communication with the (potential) consumers must be provided for each stage of the purchasing process. For this reason a lot of different online marketing channels are used: any e-marketing campaign or program, from search engine optimization (SEO), online payment, partner programs, e-mail advertising, mail, advertising bands to the latest web technology based online conferencing, blogs, audio and video broadcasting and Internet TV. These measures are intended not only to implement operative purposes (as sales increasing), but there are also strategically important steps toward new markets, a favourable image on the Internet or customer loyalty.

A large part of the Internet firms appreciate business advantages, opportunities and move to e-commerce space. Part of businesses move all trade into a "new space" This is especially true for service providers, who are interested in making orders and its execution carried out in the customer's premises. Other - exploiting e-commerce as an alternative possibility, by increasing numbers of users and sales.

E-marketing is not limited to geographic frames. By implementing marketing campaign online sometimes is difficult to choose the right tools. Therefore, it should be chosen by non-traditional distribution: advertising, PR, direct marketing and sales promotion, based on their goals. Internet tools are so closely related that are often difficult to classify. Campaigns use the advantage of promotion opportunities (discounts, loyalty programs), which cannot exist without PR measures on the Internet (blogs, e. letters information campaigns), the implementation of which may be based on the direct marketing (direct e-mail, letters, payments via the Internet) means.

There are distinguished integrated marketing communications (IMC) properties:

- Clearly identify whether marketing communications objectives are consistent with the organization's goals.
- The planned approach, which fully covers the marketing communication activities in a coherent and synergistic manner.
- The range of target audiences - is not limited only to users or potential customers, but there is communication with interested persons, —employees, shareholders, suppliers and others" as well as consumers.
- All forms of communication, which can form marketing communication activities, management. This includes any related communication, resulting from the organization's internal and external communications.
- In support of activities as well as they are involved in human resources management and effective integration.
- All products / brands and corporate marketing communications efforts in connection.
- Supporting measure range - are used to support all combinations elements.
- Messaging range - branded product or company sponsorship must arise from a simple coherent strategy. Integrated marketing communication efforts to ensure that all messages are formed in synergistic way to maximize each other's strengths, or at least minimize the resulting inconsistencies.

- Information transporters (media) range - used for a wide range of measures aimed at the dissemination of the report, not only to mass communication tools.

All the above mentioned features rarely occur at the same time, even in the most successful organizations, but it should not be seen as a drawback because in practice it is not always feasible to implement. The essential advantage of marketing communications integration is synergy which occurs through a variety of marketing communications aspects of each other co-operation, supportive and enforcing ways. In particular the advantages of integrated marketing communications are provided with its advantages.

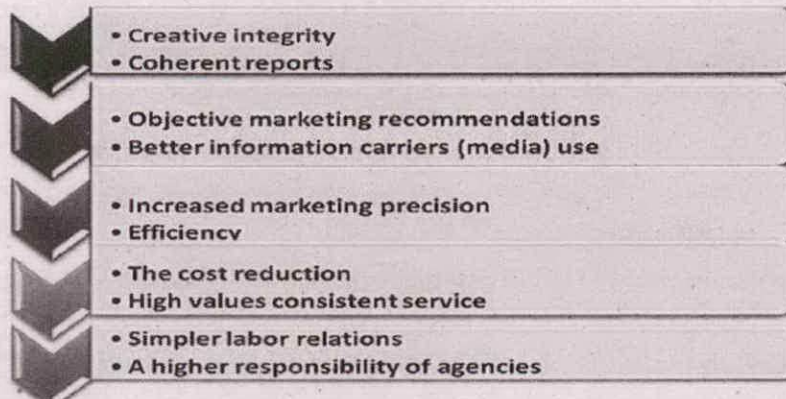


Figure 3.7. The benefits of integrated marketing communication.

The biggest impact on marketing communication is achieved when all its elements will be integrated into a single whole. Marketing complex elements should be integrated in such a way that they will work in harmony with each other. In other words give a synergy effect, it means allow to increase all efforts in marketing communications efficiency. Thus, the communication synergies effect is the fact that the complex means of communication (integrated communications), the efficiency of usage differs from each method and it's efficiency. This effect is visible, and the following formula 1:

$$E1 + E2 + E3 + E4 = E$$

E - The effectiveness of integrated marketing communication.

E1 - The effectiveness of public relations (opinion-forming)

E2 - The effectiveness of advertising.

E3 - The effectiveness of personal sales.

E4 - The effectiveness of sales promotion.

By planning an integrated marketing communications called (Eng. "spill-over") effect, it means that it is impossible to identify the individual communication effectiveness on using them together. Despite many factors that promote the development of integrated marketing communications, there are also barriers, where organizations inevitably face in order to adopt a new approach.

- *Beliefs.* In many cases, beliefs are a change brake.
- *Terminology.* There is no single terminology and a single support of element classification. It is often said about the same things, but are used different terms. This leads to a lot of miscommunication.

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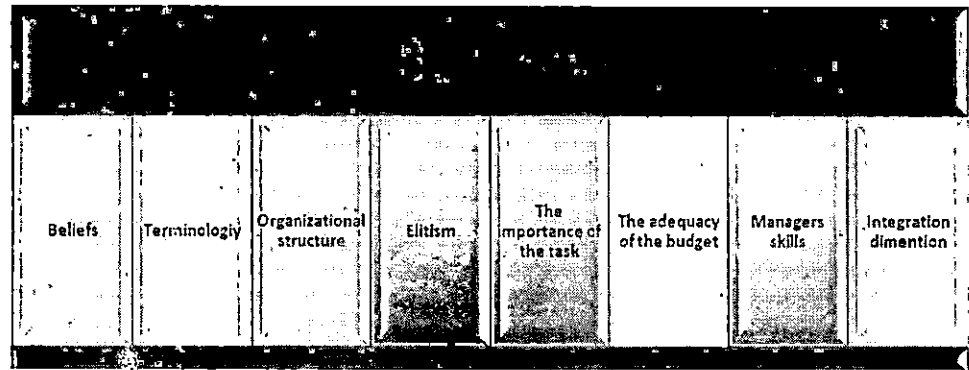


Figure 3.8. Integrated marketing communication development barriers

- *Organizational structure.* In many organizations, the structure can cause a number of problems in the management of IMC. Integration requires a crisis of change, conflict and management communication skills.
- *Elitism.* The specialist of each supporting element thinks that his sphere is the most important in a supporting complex. This creates a lot of conflict.
- *The importance of the task.* To achieve the integration effect, it is very difficult to determine the required influence of the organization. Nevertheless, in order to install the IMC it requires the engagement of the whole organization.
- *The adequacy of the budget.* Organizations often approve a budget that is focused on short-term effect and is much smaller than it should be to implement new methods of IMC
- *Managers' skills.* Interdisciplinary skills are obstacles to the IMC. IMC requires a wide range of skills, it is extremely important to be able to manage and use it effectively.
- *Integration dimension.* IMC Concept has many dimensions of integration, but the organizations very often are aware only of interdisciplinary integration. This is a wrong approach, which could lead to negative results of the IMC installation.

In marketing communication activities, coordination and integration are necessary to reach the consumer and enable organizations to compete in the market. Every tool of communication should not be treated as a separate stand-alone activity, but as whole interrelated marketing tools that complement each other. Each communication element is associated with each part of the preparation plan. Each piece should be linked with other parts that might lead to synergies.

IMC planning process can be understood as a never-ending, an ongoing planning. Planning and decision-making process similar to traditional marketing planning process, but here all the essential elements in the process (objectives, strategies, and tactics of the budget) is integrated. This process extends the analysis and evaluation cycle, which allows the former to evaluate the effectiveness of campaigns and improve future decisions.

The planning of marketing communications can be used in a variety of models. Traditional marketing uses the 4P marketing management framework which principles remain unchanged in the IMC concept. Abstract planning guidelines provide 5R model, which recognizes the consumer's market power and marketing systems interaction changes.

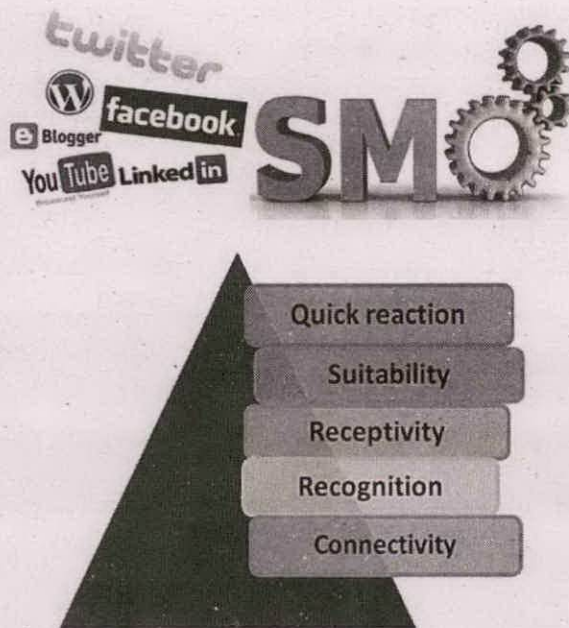


Figure 3.9. 5R model

1. **Quick reaction**- how quickly and effectively marketing manager can respond to user and customer requirements and needs. Most organizations are not prepared to fast response. In fact, they are ready not to speak, but to listen. In this case, the market, where marketing manager has been controlled, the reaction has not been very important. The new interoperable market reaction is necessary.
2. **Suitability**- occurs by how appropriate a marketing communication is for persons to whom it is addressed. This becomes an important issue when users expect and are invited to adopt the marketing communication rather than simply being disturbed. In addition, the appropriate communication is provided to the target audience, which is likely to receive and accept.
3. **Receptivity**- In a new interoperable market marketing challenge for communicators is achieved when users or future clients want to obtain information not necessarily when the marketing manager wants to provide information. So the challenge for a new market - communication is the time when "the customer wants to buy", not when the —salesman wants to sell." This changes the number of communication rules, such as efficiency and effectiveness through the choice of target setting, when consumers contact with the organization, but not when marketing leaders themselves send information and promotion.
4. **Recognition**- interacting market brands is becoming a necessity. It provides an instant trust and recognition. It functions quickly and effectively, allowing consumers to make decisions based on the experiences or recommendations. Market brands often become the most important marketing asset of the organization where a lot of votes require attention or where a wide range of alternatives are possible.
5. **Connectivity**- it is not a big problem that the new market will be based on communication. This value is common for both customers and organizations. The ongoing "give and take" between the customer and the organization, where each part "wins" in each exchange process, will be the objective of marketing , rather than one-time sale. The marketing organization



more no longer can force users to obey. This will be the consumer who determines the duration, intensity and depth of the relationship, which is trying to build an organization.

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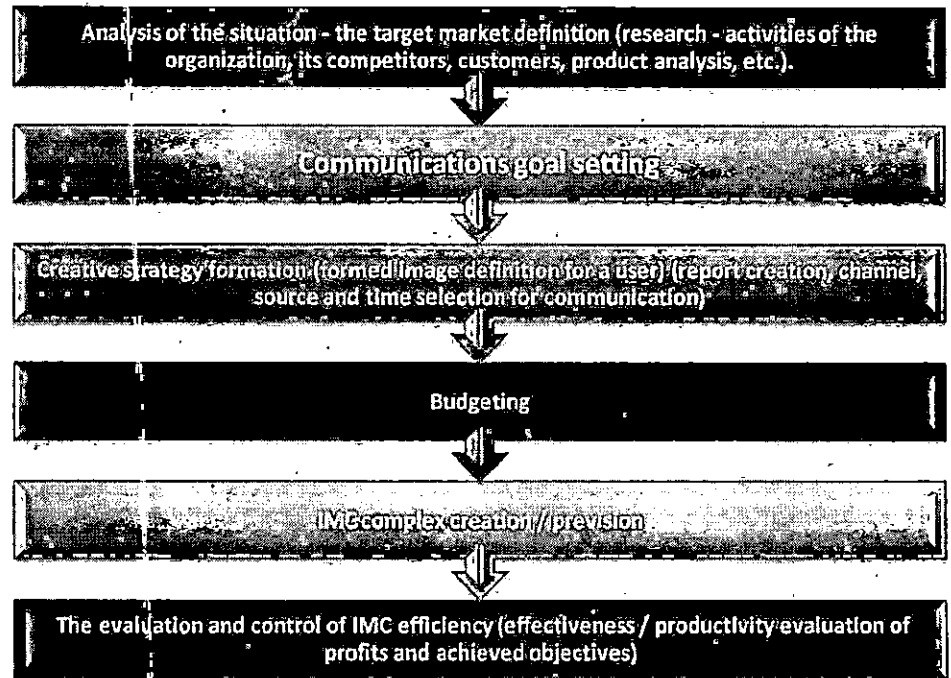


Figure 3.10. The stages of integrated marketing communication process.

In order to simplify the planning of communication is used "5K" pattern - formed on the basis of questions:

- Who are our target customers?
- What do we need to achieve them?
- How should we communicate?
- Where should we communicate?
- When should communicate?



All activities of the organization (including communication and marketing) directly and / or indirectly influence by various environmental variables, and ongoing environmental survey and its analysis is a very important process of each organization's well-being. Both the communication process as well as a whole business activity takes place in one or another environmental context. Environment forms a communication context in which operates all communications of marketing. Therefore, the creation of IMC plans is essential to carry out full and detailed analysis of all the relevant environmental factors that can affect the success of the communicative process. All organizations' influencing environmental factors in their broad sense are divided into micro

(immediate, direct environment, in which occurs marketing communication, the microenvironment considered to be one of the key factors, that influence the marketing communication effectiveness) and macro (environment, which is functioning organization that includes internal and external factors), which form the communication context.

In one or another case, the most attention has been focused on marketing communications macro environment that has changed dramatically in the last decade. Creating IMC plans it is important to take into account the environmental changes, which directly affects the IMC - computer technology, communication technology, social changes, increased market segmentation significance, variable marketing role and expectations of production systems, technology changes, international competition and the market, the marketing communications industry structure, changes in the organization and management, marketing communication production changes in technology, marketing communications industry regulatory changes.

The integral use of sources increase efficiency and allows users to achieve better positions in the subconscious of the market distribution period. Also, this way, companies reduce the cost of management, staff, marketing and sales budget account.



## Notes

### 3.16 Research - E-market Segmentation Features

**The concept of segmentation, the process and basic criteria.** The market is characterized by different users or groups, which differ not only in terms of the needs, desires, habits or interests, but also for its financial strength. This situation leads to certain difficulties to the organization presenting products on the market - i.e. the organization's target consumer, to whom, how and at what price to offer a product or service, which should be applied to the marketing strategy and marketing activities, or pay off the investment in sponsorship and many other issues.

All this affects the need for the market to break down, i.e. segmented into separate parts - segments of the market, it is more appropriate to identify and recognize users who have the same or a similar response to ongoing marketing efforts and ultimately possess similar consumer behaviour. Thus, segmentation makes possible to better satisfied the needs of users and the needs, which create a strong competitive advantage not only by the organizations as a market participant, but also the production situation of other products or services in the same market or in a part of it and thus significantly increase sales and generate higher profits.

There are 3 main market segmentation related concepts:

- *Market segmentation* - the market is splitting into separate groups of customers, some customers (consumers) react similar or equally to marketing efforts.
- *Market Segment* - this part of the market where consumers have similar needs, desires, values and purchasing behaviour.

- **Target market** - a market part of (consumer group), in which an organization directs its marketing efforts.

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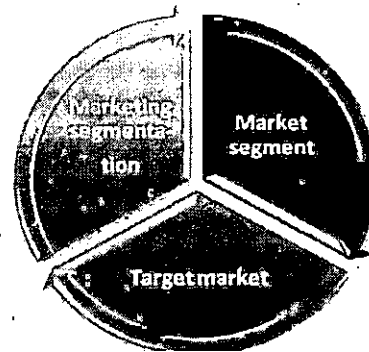
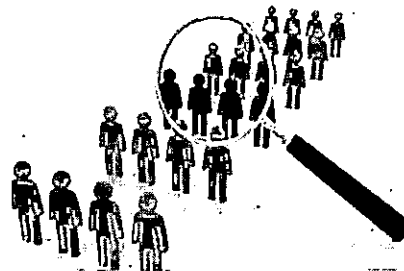


Figure 3.11. The main concept of market segmentation

The *target market* can be twofold - firstly, it is a consumer or group of organizations, which are the most appropriate for organizational goals. Secondly, the proposed packages of production or output variation which can the best meet the needs of different user groups. It is impossible to satisfy all the needs of the market, so it is necessary to decide which market segments are relevant and targeted and which are irrelevant. The next step is to assess the profitability of the segments i.e. potential. So, the essence of market segmentation is to identify groups of consumers or market share, which has the same or similar needs or consumption habits. Market's segmentation goal is far as possible to ensure that resources, which will be directed to those users or organizations from which they can expect the highest returns.

### Requirements Segmentation

- Market segment of users needs to be like.
- Market has to be segmented by the principle in order to collect the information from the separate segments.
- The segments must be clearly defined and easily measurable.
- Market segments must have growth, profitability and expansion opportunities.
- Segment has to be easily available of support and product distribution operations.



There is no single and the best segmentation model and method, but in practice usually segmentation based on criteria that are presented in Figure .

E-trade-i.e. in case of e-market, the bigger parts of consumers do not have membership. Therefore are hard to evaluate, due to lack of data, geographic, demographic and psychographic market segmentation criteria. But e-market is characterized by the fact of the data collection about

consumers' habits and actions, and in this case, it is the most appropriate segmentation criteria of consumer behaviour.

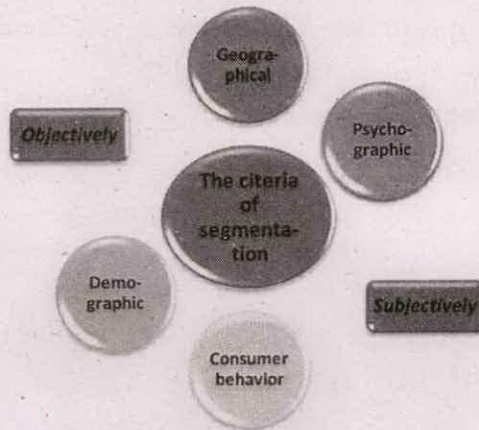


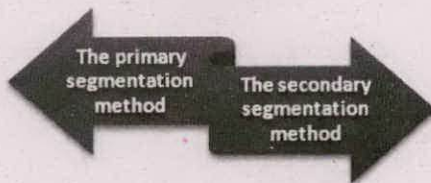
Figure 3.12. Market segmentation criteria

The organization, shaping marketing strategy and marketing activities in e-space has to segment customers by their behaviour and understand how consumers make decisions in the e-market. The advantage is that digital technology makes it possible to segment customers in real time - this is the process where is identified each web site user and compared with the types of segments about the information to whom it is stored on the database. According to this system it can shape and adapt differentiated pricing.

Segmentation - an important method of market research, consumer research and *marketing process of policy-making basis*. Market segmentation process and its stages are described below:

- Stage 1. The Single Market - different users
- Stage 2. Market segments analysis and search
- Stage 3. Reduction alternatives of market
- Stage 4. Setting /selection of target segmentation market segments
- Stage 5. Marketing strategies and measures
- Stage 6. Conservation of competitive position formation of the targeted market segments in targeted market segments

**Segmentation principles and methods.** In practice segmentation is based on two fundamental principles - consumer demands and situations, which are used for production analysis.



- Primary segmentation method.

This method is based on market segmentation by consumer behaviour characteristics, demographic or psychographic indicators (emphasizing lifestyle). The next step - assessing the attractiveness of each segment, during which all the users are divided into homogeneous (similar to each other according to certain criteria) groups.

Notes

- *The secondary segmentation method.*

This method is based on a market study to assess consumers' attitudes and reactions to a number of similar variables; they are assigned to a certain, already formed segment. Thus are identified target market segments.

### Notes

There are provided some segmentation criteria in practical activity



Figure 3.13. Geographical segmentation criteria



Figure 3.14. Demographic segmentation criteria



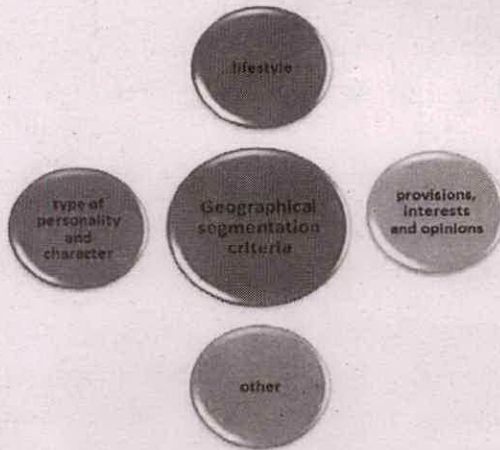


Figure 3.15. Psychographic segmentation criteria

According to the fact that the best way to segment e-customers is according to their behaviour, so mainly it will be focused on the last analysis. By the evaluation of internet users, according to the researches it is noted that, they have a higher income and have higher education.

*Segmentation by consumer behaviour.* By this method internet users are divided by their view, the available information, reaction to the production and consumption / usage. There are distinguished 3 market's segmentation principles / criteria according to a consumer behaviour in cyber space:

- by loyalty;
- by the search of benefits;
- by the use of case.

*Segmentation by customer loyalty.* Distinguishes 4 main groups of users:

- Loyal

This group of users, who in each case of purchase, uses the same product or service brand, is treated as a loyal group of users. In order to better understand the group behaviour is indicated - AAAAA (A - a particular brand). -partially or sometimes loyal;

This group of consumers, who tend to buy not one, but several different brands of products. In most cases this type of users prefer a particular brand, but in rare cases also tried other brands as well. This group marking behaviour - AABBAAB (A and B - different brands).

- loyal in a certain period of time;

This group of users, which for a long time use a production of a specific brand, but it in the long term change to the other, i.e., a new one, and generally have not revert to the previous (used before). This group marking behaviour - AAABBBCCC (A, B and C - different brands).

- Not loyal;

This group of users who do not have addictions to a specific product brand, they often change brands, and mostly it influences of good proposals of the production, good price, promotions and so on. This group marking behaviour - DBA ABC (A, B, C and D - different brands).

*Segmentation by the search value.* Each user make a decision to purchase a product or service does it due to a clear experienced benefit, which does not necessarily relate only to the product and its qualities. There are distinguished 4 types of consumer in e-market.

## Notes

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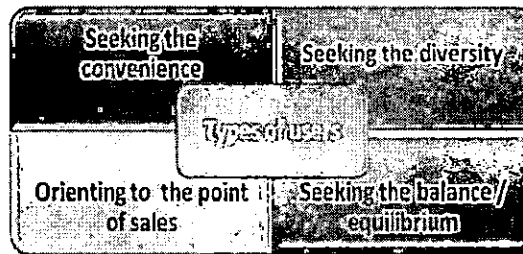


Figure 3.16. Consumer types of e-market

- These consumers look for the convenience.

For this type of users the most important reason to buy in e-space, i.e. in e-markets - the purchase of production convenience. They are not motivated by the physical environment and the desire to get the product immediately.

- These are the customers who look for the diversity.

For this type of users the most important reason to buy in e-space - the purchase of output with the ability to evaluate simply and easily all the alternatives as well as the diversity of production and price perspective.

- These are the customers that focus on the selling points. For this type of users the lowest motivation is to purchase products online. There are two of the most important moments for them - fast purchase and obtaining goods immediately. Mostly they will be encouraged by digital products (software, e-books, music, etc., when immediately paid can download the product directly to a computer) purchase in e-space.
- These are the customers who seek for the balance / equilibrium. These types of customers by their purchasing behaviour are included to individuals for whom the most important is the convenience of production purchase and the variety with a minimum effort.

Consumer types of market-level impact to some works of these motives - *shopping convenience, the demand for information, social communication, shopping joy, demand for diversity and rapid acquisition needs.*

*Segmentation by the use of case.* In this case, the consumer behaviour in e-space is affecting by factors such as: online spending time, place, where the Internet is used (at home, at work - depending on a place are different visited site), the speed of Internet access (lower speed results in less data downloads, lower revised the amount of information etc.) and others.

It is noted that Internet users are active in different ways and for this reason, Internet users spend not the same time while browsing Web sites. So the time spent on the Internet can be treated as one of the criteria that is used for market segmentation. There are several groups of users.

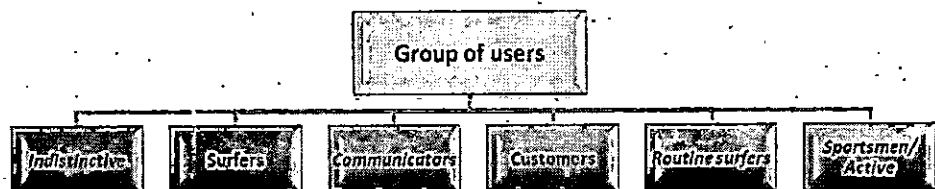


Figure 3.17. Groups of users

Notes

- *Indistinctive* - these are consumers who are focused on the simplicity, convenience and speed. They spend a lot of time on the internet and most of the shopping purchase in e-space. For this type of customers the most important thing of the websites is functionality.
- *Surfers* - are the customers who are interested in relevant innovations on the Internet. Their Internet browsing principle is based on visiting a lot of web sites, but in each of them they spend relatively little time. For this type of consumers it is important a high-quality website content and appealing design.
- *Communicators*- tend to communicate. These are users who look for new sensations online. They are more internet novices who are relevant to the website interaction - dating, chat rooms, e-mail, etc.
- *Customers* - are users who are focused on online purchases. These users spend very little time on browsing the Internet.
- *Routine surfers* - are consumers who spend a lot of time in specific web sites in order to find valuable information.
- *Sportsmen/ Active* - these are consumers who are interested in the interactive content - the most entertaining type of web site, that are characterized by dynamics, exclusiveness and colourfulness. Consumer behaviour on the Internet is identified by the help of these variables:
  - Duration of one session - the entire time user spent online.
  - Length of time spent in one website.
  - Time spent on the Internet by websites categories (sports, leisure, entertainment, news and so on.) expressed as a percentage / ratio.
  - Time spent on the websites of similar content, the ratio of the total time online.

Based on the information above, according to the use of case there are distinguished these consumer segments that are presented in Figure 3.18.

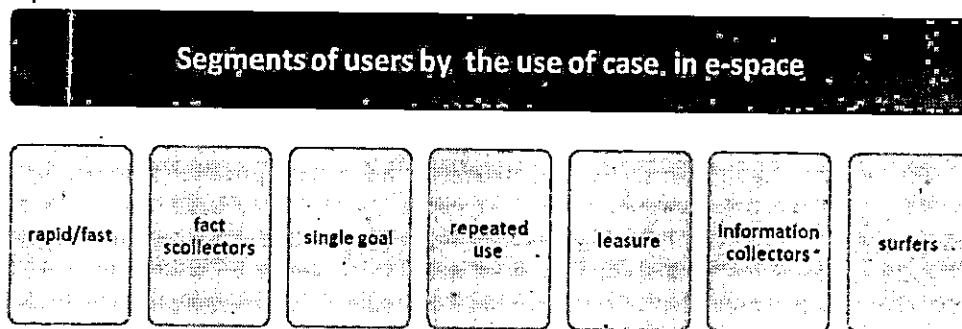


Figure 3.18. E-market segmentation by the use of case on the Internet

*Rapid/fast* - consumer group that is characterized by the shortest time spending online. Their purpose in web browsing - to collect relevant information about sports scores, news titles, the financial results of the markets, share values, sending e-mails and so on. The website, which has interactive content and requires the attention of consumers (commercial, recreational / leisure character), these users are not interested in.



## Notes

*Facts collectors* - the group of users that are interested in specific information on the Internet. They use the most common and well-known websites on the market and focus on the essential information.

*Single goal* - the group of users who surf the internet with the purpose of finding specific information or purchase a particular product or service.

*For repeated use* - the group of users that constantly browse the same web sites, having the same interest - e.g. financial transactions, weather reports, forums and discussions, music portals and others.

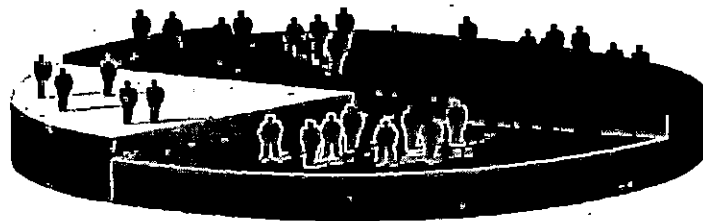
*Leisure* - the group of users who are most interested in online news, e-gaming, entertainment and so on. For this type of users surfing the Internet is their pastime.

*Information collectors* - the group of users, which are characterized by analytics - collect the information interested in the subject and generally do not use one, but several web sites. The goal of this type of consumer - collection of qualified information, they are interested in a website offering only qualified content.

*Surfers* - the group of users who spend the most of time online. This type of users surf various content of websites, which only attracts their attention - e-shop, virtual communities, blogs, news portals, articles portals and others.

It is noted that the user, as a web surfer, may have a number of features and access to multiple segments. Users entering the entertainment, information collectors and surfers segments - are more likely to purchase goods and services in e-market.

So, in this case it is recommended not to separate strictly Internet users according to one segmentation criteria, but is much more appropriate to combine several in a complex. According to the research, Internet customers were divided into the following segments - *users who like buying, online researchers, suspicious-learning and business customers*. Do not like buying online are those - *the fearful surfers who avoid buying, confused between technology and look for entertainment*.



### 3.17 Research - Marketing Research

Marketing research and its benefits are undisputed facts - the results of markets survey provide information that is the basis of identified opportunities and problems of marketing actions formation, development, marketing actions and evaluation of their performance and so on.

It is noted that the market is rapidly intensifying technological development and its use, resulted in large flows of information (trade scanners, the internet, loyalty programs, credit and debit cards, etc.), also it has contributed to the marketing research developments. Online data collection, storage and processing system allows to store and manage a large amount of information / data about the market and its trends, consumers and competitors.

There are distinguished primary and secondary market research.

Primary data collection methods. Primary data - very important when deciding on a new product or service, and research is supposed to determine whether it will be accepted and purchased by specific groups of consumers. Recently conducted an intensive online research contributed to the primary data collection simplifying and speeding up. There are used various methods in primary data collection.

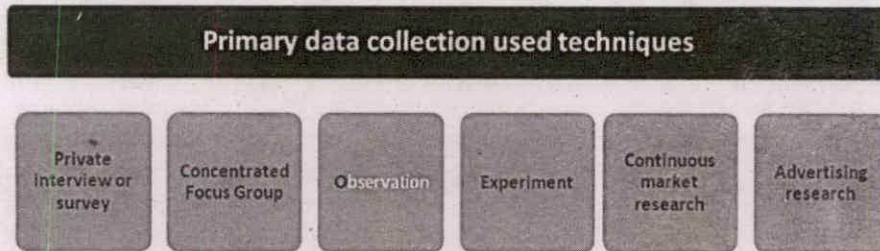


Figure 3.19. Primary data collection used techniques

All of these methods are available in e-space, with the exception of the personal interview. However, setting in motion the technology of video-conferencing, this method also will be possible in e-way.

*Private interview or survey* - the most widely used method of marketing research in data collection. There are distinguished 4 main ways of the survey:



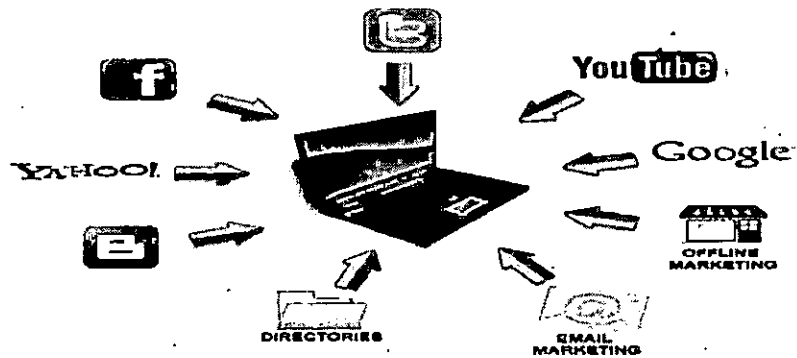
There are distinguished the main computer / Internet survey methods.

- Personal computer surveys. By using this method, the interviewer sees the questions and the sequence of the answers, for which the respondents have to answers. Interviewer receives a reply from the respondents and entered himself into the database. Computer generates the next question according to the entered answer that is presented to the respondent
- Online survey - is carried out by sending the form with the survey questions on a web page server. Users or random visitors or users directed to a website through online advertising, e-mail, etc., are involved in the survey. Responses to the survey are automatically generated and stored in a database for analysis.
- Computer-telephone surveys. The telephone analogue for a computer personal interviews.

*The Internet Focused Group.* This is a survey research method to identify targeted customers, their needs, habits, opinions, and so on. There are formed from 6 to 12 groups. Survey is headed by a person that based on a survey plan. The data is collected both in video and audio formats, which are processed later.

The digitization of this research is possible by two "online" means:

- Video conference via the Internet.
- Web chat software in a secure web portal



*Monitoring implementation methods.* Monitoring - a classic research implementation method, with the Internet help, makes possible to follow users / visitors of e-businesses websites. Monitoring is carried out in 3 different ways:

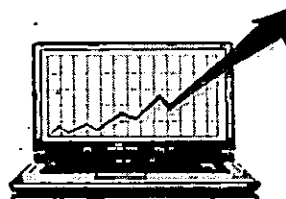
**Auditing:** For example, shops auditing as well as consumer-flow structure and scope of shopping centers, grocery stores and so on.

- Recording devices. This is a range of counters that record the reactions of the various ads.
- Customer behaviour monitoring. Includes technology from the hidden video cameras, fake customers to customer behaviour and habits monitoring website.

ICT use in monitoring researches may be carried out by using directly the technology or can be used as an auxiliary tool in this type of research in a traditional way.

### Experimental techniques

- Computer simulation. The computer can simulate the behaviour of consumers, which may occur in real life.
- Experimental/trial marketing. Practice shows that many products are unnoticed as they become available in the market, so it is very important to carry out targeted test marketing. Trial marketing is widely used in the retail consumer market, but they are lack in the industrial and financial services markets. Many banks and insurance companies still do not perform the test marketing before delivering new services to the market. Trial marketing has also some drawbacks - slow and costly, and can alert the competitors about the prepared new products:
- Simulated trial marketing. Possible scenarios can be simulated by a computer after the introduction of the product, using virtual reality. The main advantage of this method - it cannot warn competitors.
- An experimental/ trial marketing is based on scanning which relies on barcode scanning and high-speed response to producers. Using this method, the success of new products in the market can be measured very quickly.

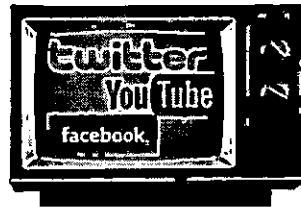


Continuous marketing research. *Uninterrupted* marketing research. It is the assessment of marketing trend according to certain patterns over a long period of time. There are distinguished 3 main benefits of continuous marketing research.

Consumer purchases panel. Allow users to follow purchases and consumption. Data collection makes it easy for barcode use - it virtually enables to update information in real-time.

- Telephone / Internet panels. The information is obtained through the surveys by telephone / internet.

Advertising research. Used to evaluate the effectiveness of advertising - it is advertising content research; advertising effectiveness research; advertising media research.



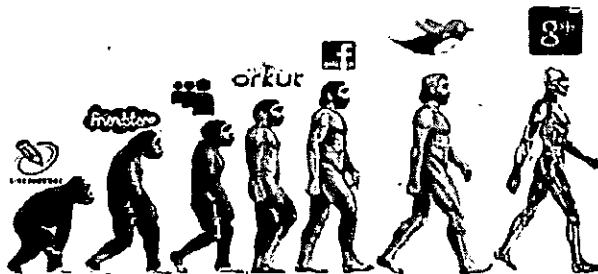
Television and radio research. Currently, most of the researches are done on TV by using e-tools, which are connected to the TV and keep a record what channels and when are viewed. Paper hearing journals are still used in radio research where users note when and what kind of radio station they listen to.

Public Relations Research. Information technologies are being used now in the public relations researchers. Most of these technologies are based on neural networks, which allow to analyze the words, sentences, the structure and determine the satisfaction of consumer, related to a specific product. The analysis of the texts and articles using IT, improves consistency and stability of the researches. Secondary data collection methods.

In contrast to traditional methods, technologies (the Internet) ensure data reliability, novelty and etc.. The Internet makes it possible to obtain a large amount of information, most of which is free. There are several techniques used:

- A large part of on-line information is indexed and found in such a way. In some cases, the index is made with the help of program, called "spider", which is responsible for the search in a website and catalogue information sites by e-network. Consumers can look for the tips using a general-purpose search engines - [www.altavista.com](http://www.altavista.com), [www.excite.com](http://www.excite.com), [www.yahoo.com](http://www.yahoo.com) and others. The search engine for the most appropriate online information choice- [www.google.com](http://www.google.com).

Information and assessments on products, services and websites can be found on the following web portals - [www.e-buyersguide.com](http://www.e-buyersguide.com), [www.amazon.com](http://www.amazon.com) and etc.



## Notes

- News groups archives - another way to collect secondary data. This is a discussion forum website. Information is archived and used for data analysis and processing.

### 3.18 Summary

#### Notes

Personality sways consumers' lifestyle choice, while lifestyle not only influences their opinions and attitudes towards products and services in general but also motivates them to take certain activities, which may bring about the need or desire to purchase relevant products and services.

The needs of studying consumer behavior have significant bearing on marketing decisions. It yields important information and insight into what consumers are thinking. With these insights, marketing firms may enhance their particular marketing campaigns to successfully connect with consumers.

The social environment can include both the mainstream culture (e.g., Americans are more likely to have corn flakes or ham and eggs for breakfast than to have rice, which is preferred in many Asian countries) and a sub-culture (e.g., rap music often appeals to a segment within the population that seeks to distinguish itself from the mainstream population). Thus, sneaker manufacturers are eager to have their products worn by admired athletes. Finally, consumer behavior is influenced by learning – you try a hamburger and make sure that it satisfies your hunger and tastes good, and the next time you are hungry, you may consider another hamburger.

Consumer behavior refers to the selection, acquisition and consumption of goods and services to meet their needs. There are different processes involved in consumer behavior. Initially, the consumer tries to find what products you would like to consume, and then select only those products that promise greater utility. After selecting the products, the consumer makes an estimate of available funds that can happen.

Studies of the relationship between marketing and consumer behavior provides companies with information about their target audiences that they can use when developing ad campaigns. Focus groups are a method of consumer research that involves small groups of people in which a product is discussed. This provides a small sample of how people will react to the product and what elements they find the most valuable.

Marketer's need to remember that although consumers in a chosen demographic may be coming from the same subculture, social class and occupation, they will usually have very different lifestyles. It is our job to understand these lifestyles so we can tailor our messaging method as best as possible to convince the consumer that our products and services have the right value they are looking for. Recall, a lifestyle is a consumer's pattern of living, and is expressed within their activities, interests and opinions. Activities, Interests, and Opinions (AIO) are commonly referred to as AIO Dimensions.

Marketing communication helps to develop brand awareness, which means that consumers translate product information into perceptions about the product's attributes and its position within the larger market. Businesses also use marketing communication to retain the product's current customer base, and to cement relationships with customers and suppliers, notes "Reference for

Business." Marketing communication strategy defines the business's plan for product information dissemination and brand awareness development.

### 3.19 Glossary

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- **Motivation:** Motivation relates to consumers' desire to obtain a certain product or service, such as having the plan to purchase a product for a long time or being prompted to buy a product by an advertisement on media.
- **Region Bounded:** The consumer behaviour varies across states, regions and countries. For instance, the behaviour of urban consumers is different from that of rural consumers. Normally, rural consumers are conservative (traditional) in their buying behaviour.
- **Standard of Living:** Consumer buying behaviour may lead to higher standard of living. The more a person buys the goods and services, the higher is the standard of living.
- **Cultures:** Changing population demographics around the world affect the way marketing campaigns are designed. Understanding cultural nuances and subtleties may allow marketers to help further define their particular target market.
- **Radio:** Radio is great channel when you want to reach people somewhat emotionally. The person is driving to work and has the radio on. If your ad is memorable you can expect the person to go back to home or office and check you out on the Internet.
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### 3.20 Review Questions

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1. What are internal influences on consumer buying behaviours?
2. Define the nature of Consumer Behaviour.
3. Why we need to study consumer behaviour?
4. Which factors influence consumer behaviour the most?
5. What are external influences on consumer buying behaviours?
6. Explain in detail changing trends in consumer behaviour.
7. What is "VALS"? What are the key characteristics of VALS?
8. What are the Components of marketing communication?
9. Describe in detail the process of marketing communication.
10. What are the most important Weapons of Persuasion?
11. Define "Message". Explain its strategies and structure presentation.
12. Define "Persuasion". What are the ways of understanding persuasion?
13. Describe in detail the term "ELM" with criticism.
14. Write short Notes on:
  - (a) Social factors
  2. Perception
  3. Psychological Factors

Notes.

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4. Survivors
5. Persuasion
6. ELM
15. What is the components of marketing communication?
16. Describe the process of marketing communication.
17. Define the Persuasion - Need and Importance.
18. What is the Impact of the Internet Marketing Communication Process?
19. Define Research - E-market Segmentation Features.
20. Describe the Research - Marketing Research

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### 3.21 Further Readings

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- Smith P. R., Chaffey Dave, (2003), Marketing excellence – The Heart of Business, Viva Books
- Strauss Judy, Frost Raymond, (2002) e-Marketing, 2nd Ed., Free Press

**DIFFERENTIATION AND POSITIONING STRATEGIES**

Notes

**(Structure)**

- 4.1 Learning Objectives
- 4.2 Introduction
- 4.3 The Concept of Differentiation
- 4.4 Differentiation Opportunities According to the Type of Industry
- 4.5 Major Differentiating Variables Available to Firms
- 4.6 Why a Positioning Strategy is Adopted by Companies?
- 4.7 The Concept of Positioning (product) and the Positioning Strategy
- 4.8 Types of Differences That a Company Can Promote
- 4.9 Positioning Errors That a Company Should Avoid
- 4.10 The Concept of Perceptual Map
- 4.11 Alternative Positioning Strategies Available to a Firm
- 4.12 Deciding on the Differences to Promote
- 4.13 Key Terms and Concepts
- 4.14 A CRM Model
- 4.15 Understanding Customers
- 4.16 CRM and Data
- 4.17 Customer Data
- 4.18 The Benefits of CRM
- 4.19 Social CRM
- 4.20 Step-by-step Guide to Implementing a CRM Strategy
- 4.21 Tools of the Trade
- 4.22 The Bigger Picture
- 4.23 Summary
- 4.24 Glossary
- 4.25 Review Questions
- 4.26 Further Readings

**4.1 Learning Objectives**

After studying the chapter, students will be able to:

- Define the concept of differentiation;
- Explain how differentiation opportunities vary with the type of industry;



- Identify the major service differentiators;
- Describe how a company can differentiate its offer using personnel;
- Understand the concept of image differentiation;
- Define positioning and describe positioning strategy;
- Identify the types of differences that a company can promote;
- Understand the concept of perceptual map;
- Recognize the different positioning strategies that a firm can pursue.

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## 4.2 Introduction

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As a practical matter all sellers' offerings are differentiated from those of their competition. Differentiation may be based upon certain characteristics of the product itself. It may also exist with respect to the conditions surrounding its sale. A company's product may also be differentiated by the images of its personnel as well as the type of distribution channel it uses. Any differentiation by a firm gives it a partial monopoly.

To get a competitive edge firms try to position their products differently in the minds of customers. A company can position its product through a number of positioning strategies. Positioning is done making the product different from the competing products and convincing customers of these differences. Care should be taken by the firm to avoid the errors involved in positioning.

CRM- customer relationship management- has existed since people first started selling things. The first shopkeeper who stopped to chat with his customers, who remembered their names, and perhaps gave them a small 'freebie' for continually using his services, was practicing a form of customer relationship marketing by making customers feel special. He was also probably seeing the favourable impact on his bottom line.

Today, with businesses becoming more digitally remote, and person-to-person contact becoming more scarce, CRM is more important than ever. We need to build and maintain relationships with our customers. A faceless company is not personable or engaging - it has to work harder to fill the gap between attracting and retaining customers (and their good will). The relationship a customer builds with a company is often the reason they return - but building it today is more difficult than ever, in a society where data is protected, customers are smart and exercise their right to choose, and a competitor can be just a click away.

CRM is a customer-focused approach to business based on fostering long-term, meaningful relationships. CRM is not about immediate profit. It's about the lifetime value of a customer- the purchases they will make in future, the positive word of mouth they will generate on your behalf and the loyalty they will show your brand. Effective CRM enables businesses to collaborate with customers to inform overall business strategies, drive business processes, support brand development and maximise ROI.

There is a truism that a happy customer tells one person, but an unhappy customer tells ten. With your customers' voices being heard on blogs, forums, review sites and social media, they can talk really loudly and impact your business much more easily.

In this chapter, you will learn:

- ❖ Why CRM is essential for any business
- ❖ The role that customers play in shaping and steering your business
- ❖ The various approaches and mindsets that are applied in CRM
- ❖ How to collect, store, analyse and update your essential CRM data

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### 4.3 The Concept of Differentiation

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A firm may face considerable competition in the marketplace with a whole market approach. A large market nearly always attracts competitors. To operate effectively, then, the marketing executive will commonly use a strategy of differentiation - making consumers believe the firm's offer is different (i.e., better) than those of the competitors. A general class of product is differentiated if any significant basis exists for distinguishing the goods (or services) of one seller from those of another. Such a basis may be real or fancied, so long as it is of any importance whatever to buyers, and leads to a preference for one variety of a product over another. Philip Kotler has defined differentiation as "the act of designing a set of meaningful differences to distinguish the company's offering from competitors' offerings". Because the differences are often more imaginary than real, the strategy involves promoting a distinction in terms of quality, value, or some other factor. Differentiation, then, may be based upon certain characteristics of the product itself, such as exclusive patented features; trade names; peculiarities of the package or container, if any; or singularly in quality, design, color, or style. It may also exist with respect to the conditions surrounding its sale. In retail trade to take only one instance, these conditions include such factors as the convenience of the seller's or channel members' locations, the general tone and character of his establishment, his way of doing business, his reputation for fair dealing, courtesy, efficiency, and all personal links which attach his customers either to himself or to those employed by him. In so far as these and other intangible factors vary from seller to seller, the offer in each case is different, for buyers take them into account, more or less, and may be regarded as purchasing them along with the commodity itself. When these two aspects of differentiation are held in mind, it is evident that virtually all product offerings are differentiated, at least slightly, and that over a wide range of economic activity, differentiation is of considerable importance.

There is more to the concept of differentiation than the differences in quality, design, patents, trade names, and other features that often distinguish one similar product from another. Such differences are planned by manufacturers and have their source in the production function even though they are planned to establish some level of market superiority. Differentiation is often used to build superiority in the market, but all firms recognize the differences which they can exploit that have their sources in the tastes and preferences of consumers. In other words, what we know about the economic and noneconomic aspects of buyer behavior gives a firm an opportunity to strengthen its market advantage by developing real or fictional distinctions about its market offer. If such differentiation exists, even though it be slight, buyers will be paired with sellers, not by chance and at random, but according to their preferences. Products, services, image, status connotations, quality, distribution channels used, and any economic or noneconomic factor are all illustrations of the firm's attempt to create and foster the concept of differentiation.

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### 4.4 Differentiation Opportunities According to the Type of Industry

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## Notes

By this time you are aware of the concept of differentiation. Opportunities for differentiation vary according to the type of industry. There are four types of industries identified by the Boston Consulting Group (BCG). These types are based on the sizes of the industry and the number of competitive advantages available to them. Figure on the next page shows the BCG competitive advantage matrix. According to the matrix there are four types of industry based on the size and differential advantages available to the industries. They are: the volume industry; the stalemated industry; the fragmented industry; and the specialized industry. Let us now have some idea on them:

- **The Volume Industry:** If an industry can gain only a few but large competitive advantages, it can be termed as a volume industry. There could be quite a number of examples of such an industry. One of such industries is building material industry. Such an industry can pursue policy of establishing itself as cost-leader or unique one in terms of service or quality. If it is successful in its policy, it skims the cream and can gain substantially. How much profit the company will be able to make out of pursuing such policies depends on the market share captured by it or the size of the firm.

**Number of Approaches to Achieve Advantage**

		Few	Many
Size of the Advantage	Large	<b>Volume</b>	<b>Specialized</b>
	Small	<b>Stalemated</b>	<b>Fragmented</b>

**Figure 4.1. The Boston Consulting Group Competitive Advantage**

Source: Kotler, *Philip Marketing Management, Millennium edition*, p. 288.

- **The Stalemated Industry:** If an industry enjoys only a few competitive advantages of small sizes it can be called a stalemated industry. Same as the volume industry, there are quite a number of examples of stalemated industry that can be cited. One of such an industry is oil industry. An oil company can hardly differentiate its product with that of competing company. It is also very difficult to reduce the costs of oil extraction. The ways in which it can differentiate its offer are recruiting highly capable salespeople, offer credit facilities and so on. But, the company should remember that these measures will be able to give only a little competitive advantage to it. In a stalemated industry, the market share of a particular firm is not related to the profitability of the said firm.
- **The Fragmented Industry:** If a particular industry enjoys many competitive advantages of small sizes, it is termed as the fragmented industry. Examples of fragmented industry

are quite large. A fast food shop can be cited as one of the examples. The fast food shop can differentiate its offer in quite a number of ways. But, such differentiation cannot yield a proportionate revenue since market share cannot be expanded extensively. In a fragmented industry, profitability is unrelated to the size of the firm in question. It is possible for firms of any size either to make profit or to incur loss.

Notes

- **The Specialized Industry:** If an industry enjoys quite a large number of differentiation advantages it can be called a specialized industry. One important requirements for an industry to be considered as a specialized industry is that each of the differentiation opportunities must be large enough to yield the company a healthy profit. Any firm making specialized items or marketing specialty goods aimed at selected market segment (s) is a part of the specialized industry. The profitability in such an industry is not related to the size of a firm. Both small and large companies can be profitable in a specialized industry.

Companies differ in their potential maneuverability along five dimensions as identified by Milind Lele. The dimensions are: target market, product, channels, price, and promotion. Which of the above dimension a company will move depends on its position in the industry and the structure of the industry. In order to decide on the dimension, a company initially estimates the return for each potential maneuver, and finally selects one that promises the highest return.

### 4.5 Major Differentiating Variables Available to Firms

You are already aware of four types of industries based on the number of available competitive advantages and their size. You also know that there are five dimensions of a company's potential maneuverability. You should now know, precisely, how a company can differentiate its offer from those of its competitors' offers. The dimensions along which a company can differentiate its offer are: products, services, personnel, channel, and image. We shall now examine the above mentioned dimensions at some length. For a bird's eye view on these dimensions you may look at the table below:

Table 4.1. Major Differentiating Variables

	Major Differentiating Variables				
	Product	Services	Personnel	Channel	Image
Differentiation Variables	Form	Ordering ease	Competence	Coverage	Symbols
	Features	Delivery	Courtesy	Expertise	Media
	Performance	Installation	Credibility	Performance	Atmosphere
	Conformance	Customer	Reliability		Events
	Durability	training	Responsiveness		
	Reparability	Customer consulting	Communication		
	Reparability				
	Style	Maintenance and repair			
Design	Miscellaneous				

Source: Kotler, Philip, *Marketing Management, Millennium edition*, p. 288.

#### A. Product Differentiation

## Notes

Product differentiation is the path chosen by most brand leaders in any industry. The fact that cellulose tape became known as 'Sellotape' and the vacuum cleaners are referred to as 'Hoovers' is a great credit to the originators. They become natural first choice brands against which all competitors are judged. Maturing markets mean increasing competition for market share, and use of marketing research and experimentation to find strategic ways to segment existing large volume markets, and to differentiate products. To operate effectively, then, the marketing executive will commonly use a strategy of product differentiation. Product differentiation provides one basis on which a marketer can appeal to selective buying motives. A general class of product is differentiated if any significant basis exists for distinguishing the goods or services of one seller from those of another. Thus products are differentiated if the consumer believes that they are different. It is very difficult for marketers to differentiate standardized products. There are examples of firms who have successfully differentiated the standardized products they are selling. Again, there are products which can easily be differentiated. Automobiles and furnitures are two products which have successfully been differentiated by their manufacturers. If a product is a distinct item, such as an automobile, significant changes can be made in its design or performance. If a product is of generic type, such as gasoline or sugar, consumers are less likely to perceive differences among offerings of various manufacturers. Thus, each manufacturer would be advised to engage in a strategy of product differentiation. A manufacturer can basically differentiate based on the features, performance, conformance, durability, reliability, reparability, style, and design of his product. Let us now have a look at each of them:

- **Features:** A product serves a basic function. The basic function can be supplemented by adding some characteristics to the product. The characteristics that supplement the basic function of the product can be termed as features. Marketers now a days offer their product with varying features by adding characteristics to them in order to attract customers of new segments. In addition to the basic product, a company can create additional versions by adding new characteristics to attract new groups. A wrist watch manufacturer can offer additional features such as alarm, calculator, memory book and so on. Thus the company hopes to attract new customer segments. A company can skin the cream by establishing itself as a pioneer in adding new features to its products. But such move must be a tactical one to succeed. Identifying and selecting new features to add is a difficult job, though not impossible. There are quite a number of ways of identifying and selecting new features such as interviewing recent customers. Such an interview may include questions on consumers' preferences for the particular product brand, strengths of the product, problems customers face with the product, suggestions on product improvement, price perception, reactions on other customers' suggestions and so on. Thus a company can have idea on features that may be added to differentiate his product with those of competitors. The company, now, has to decide on which features it can and should add with the existing ones. Decision may be arrived at by equating the cost involvement with customers' perceived value. Each of the new features should thus be equated to decide finally which one (s) to be added. Consider the following example to understand the equation. Say, for example, a wrist watch

manufacturer is considering three possible improvements. They are shown in table - 5.2. Alarm, for example, would cost the company Tk. 50 per watch. It was found from the interview/survey of customers that customers value an alarm facility at Tk.150. The manufacturer could therefore generate Tk.3 of incremental customer satisfaction for every Tk 1 increase in the cost of it. Calculator, say, would cost the company Tk. 75 per watch and customers, for example, value that Tk. 300. Memory book on the otherhand, costs Tk 125 per watch to add and customers value that Tk. 250. Looking at these three equations, it can be concluded that by adding calculating facilities the company can gain most, i.e. customers can be satisfied more by offering an additional features as calculator.

Notes

Table 4.2. Meaning Customers Effectiveness Value

Product	Features	Company cost per unit (a)	Customers perceived value (b)	Customer effectiveness value (c = b ÷ a)
Wrist watch	Alarm	35	105	3
	Calculator	75	300	4
	Memory book	125	250	2

After the above equations are found, the next logical step is to estimate the size of market that is to be attracted by the new additional feature, calculating the time to be required to add the feature, and anticipating competitors' reactions. Final decision should be taken based on the above analysis.

- **Performance:** A product may perform at low, average, high, or superior level. At a time it usually performs at any one of the above levels. Product's performance relates to the level at which it performs. It is found from different studies that higher quality products generate higher revenue and higher return on investment. A producer of higher quality product can also charge a high or premium price from the customers yet able to attract more customers. Particularly in high ticket items, price is perceived to be an indicator of quality. Monroe, surveying the literature of price perception, reports that a significant number of studies do substantiate a perception of price-quality relationship. There is also price snobbery. One cosmetic product, for example, showed a poor market performance at a low price but, when reintroduced at a higher price did well. The inverse price-demand relationship (the less it costs, the more people will buy it) is a cornerstone of classical economics, but there also appears to be much evidence of the high price-desirability relationship for some products.

You already know that in case of a high quality product, a manufacturer can charge a premium price and able to earn more profit. This is possible by creating a set of loyal customers who purchase repeatedly and convince others to buy. The cost of production and delivery of high quality items are not proportionately high in comparison with the cost of low quality items, and, as a result high quality items yield more profit. Despite

## Notes

the positive relationship between quality and profit, it is not advisable for a marketer to design high performance quality level for all time. If market gets sour, manufacturer's return will diminish, and it is therefore, logical for a firm to design performance level based on the target market's requirements as well as the performance levels maintained by the competitors.



There are three strategies available to a firm to manage performance quality with the elapse of time. The manufacturer can improve the performance quality on regular basis and can expect capturing additional market share as well as higher profit, The other option is to maintain quality at a particular level at all time. The last option is to reduce quality as time passes to cope up with the rising cost of production or to increase the profit figure.

- **Conformance:** Based on buyers' expectations, manufacturers may produce items of identical nature that conform to the specifications of the producer. Conformance quality is the degree to which all the produced units are identical and meet the promised target specifications. For example, a television manufacturer claims that a particular model of television sets show picture clearly within seconds of switching on. If every television set does so it is said to have high conformance quality and able to satisfy customers greatly. If otherwise happens, i.e., if some of the sets of the said model do not show picture within 5 seconds, customers are likely to be frustrated and will develop negative attitude toward the company.
- **Durability:** By durability we mean the expected life of a product. It is considered very important in most product types as well as to most customers. They expect that the product should last long if used under normal and unusual conditions. If a product is perceived to be durable customers do not mind paying a premium price. If a product is priced disproportionately high or perceived obsolete by the buyers they will not be willing to pay a premium price. Thus, while charging higher price for a long-lived product, a marketer should keep in mind the nature of the product, i.e., whether there is rapid technological change or not.
- **Reliability:** Reliability relates to the functional performance of the product. If buyers

perceive that the product will perform well without trouble, they will be ready to pay a higher price. Positive perception of buyers about the reliability of the product thus gives the seller a competitive edge.

- **Reparability:** If a product can easily be repaired in case of improper performance or function, it is perceived positively by customers. In such a case, buyers again will be ready to pay a higher price considering the convenience of fixing the product. A particular brand of television, for example, is considered to be highly repairable if it is made of parts that are widely available and of standard quality and can be replaced easily.
- **Style:** Style is a reflection of social and cultural forces. 'A style is a distinctive manner of construction or presentation in any art, product, or endeavor. Thus we have styles in automobiles (sedans, station wagons), in bathing suits (one-piece, bikini), in furniture, and in dancing (waltz, "break"). If a product is styled outstandingly, the seller finds no difficulty selling the product at a high price since there are groups of customers who always look for styles. Style could be used very effectively as a differentiation variable. While deciding to exploit style as a differentiation tool marketer should keep in mind that it should not be compromised with convenience of use. If it is so the result could be otherwise. One of the styling weapons used widely in contemporary marketing practice is packaging. Attractive package easily draws attention of buyers and lot of buyers in many different kinds of products take buying decision based on packaging.
- **Design:** Good design can also form the basis of product differentiation. This is perhaps more readily appreciated in physical products, and the success of companies such as Gucci clothing and accessories, Braun consumer durables, or Olivetti office equipment spring readily to mind as examples of companies where design is closely associated with both distinctiveness and quality. Design refers to the arrangements of items that collectively form a product. Good design provides three important aids to the consumer: it represents the 'perceived value' of the product, it enables the company to create a 'personality' for its products, and by judicious periodical alterations in designing, it creates demand through 'replacement' with more fashionable new designs. It now appears that good designs improve the marketability of a product and ensure more profit to the firms. But, as a matter of fact, many companies are yet to invest in improving designs of their products. It is also a common picture in many companies to consider style and design synonymously and designers also receive little attention. On the other side, there are companies as well as countries that are leading the world in the field of design. Before deciding to invest in design activities, management should be convinced of its desirability. It should take into account, the corresponding return. If the return figure seems frustrating, the company should give a second thought. One of the German companies, Braun, producing various small appliances is regarded as leader in fashion in its field. Braun has suggested 10 principles of good design that may help a company to bring success in design activities. The principles are mentioned below:

Principle-1 : Good design is innovative.

Principle-2 : Good design enhances the usefulness of a product.

## Notes



- Principle-3 : Good design is aesthetic.
- Principle-4 : Good design displays the logical structure of a product its, form follows its function.
- Principle-5 : Good design is unobtrusive.
- Principle-6 : Good design is honest.
- Principle-7 : Good design is enduring.
- Principle-8 : Good design is consistent right down to details.
- Principle-9 : Good design is ecologically conscious.
- Principle-10 : Good design is minimal design.

## B. Service Differentiation

A company side by side the product differentiation, can also rely on service differentiation. By adding more value-adding services as well as by improving their quality, a company can differentiate its offer based on services. There are situations, when companies have little scope of differentiating the tangible product. In such situations, a company can pursue the policy of service differentiation. Ordering ease, delivery, installation, customer training, customer consulting, maintenance and repair are some of the important service differentiation variables.

### Service Differentiation Variables

- **Ordering Ease:** It relates to the convenience or comfort that customers enjoy while ordering the product. There are companies that offer customers facilities to order products sitting at home with the punch of a computer button. There are other companies that either send their sales people regularly to customers' door-steps to collect orders or phone them to receive orders.
- **Delivery:** The process of delivery is known as distribution, and it involves both the selection of suitable channels for distribution and the physical movement of items associated with the marketing of the product. Delivery is an important means of differentiation of company's service. Customers' prefer prompt and timely delivery and a company can build its image as a fast and timely deliverer of products.
- **Installation:** The term installation is used with reference to fixing the product so that it becomes operational. Certain types of products required to be installed or put in place by expert personnel. If not, they may malfunction. Customers of such products expect that it be installed by the seller. A lift or a generator, for example should be installed and make operational by concerned technical person. What type of installation facilities are offered by the sellers on such items determine their image in the market.
- **Customer Training:** Many products have become so advanced that buyers need assistance in learning how to properly use them. This service will become more important as home computers and other high-technology products begin to significantly penetrate consumer markets. Companies may have their training centres or can maintain an efficient and trained group of personnel responsible for training buyers or their representatives on

product use/operation. IBM, for example, has established consumer service telephone lines to answer customer questions.

- **Customer Consulting:** Companies may supply different relevant data, information, or offer advisory services on different aspects to customers. This is referred to as customer consulting. It may be offered free of cost or for a price. A company, for example, may advise its customers on setting up distribution system either free or against a fee. By offering different relevant and remotely relevant services free of cost or at a reasonable price may help the company differentiate its offer.
- **Maintenance and Repair:** Despite the advances in technology, no product is designed to last forever. Marketing executives have begun to recognize the importance of having a good repair network since poor maintenance has been a continuing source of consumer dissatisfaction and complaint. Increasingly intense competition has made this area of service improvement more attractive. Companies like Rang's Electronics and Singer Bangladesh are having their repair stations to provide customers with the repair service.
- **Other Services:** There could be many other services that a company may add to its offer as differentiable variables. Examples could be credit program as "BUY NOW, PAY LATER", express and implied warranties and so on. These can give a company the competitive advantage and ensure its long-term existence in the market.

### **C. Differentiation in Terms of Personnel**

The creation of a particular image or personality for a company or its products is a particularly astute form of marketing. It can better be used by companies in which physical design can play little part. Such differentiation can give a company a competitive edge. In this case, the marketer aims to create an 'aura' for the product. It distinguishes the product from its competitors in indefinable ways. In the airline industry, for example, before deregulation, when differentiation under IATA regulations was virtually excluded, certain airlines were able to develop distinct 'personalities'. Thus, an airline may develop an image of a friendly, easy-going airline quite distinctive from other airlines operating on the same routes. Certain hotels are renowned for their atmosphere giving them a unique quality that cannot be captured by their competitors. While creating personality an organization should consider six characteristics to be possessed by their staff. The characteristics are: competence, courtesy, credibility, reliability, responsiveness, and communication.

### **D. Channel Differentiation**

Distribution channel is another variable that a company may use to differentiate its offer. A company can distribute its products either directly or through the use of middlemen. While deciding on this, it should take into consideration, customer characteristics, company characteristics, product characteristics, and the environmental characteristics. In channel design decision, the above factors should be combined in such a way that customers consider it different and attractive. Successful implementation of such decision may again give company a strong competitive advantage.

### **E. Image Differentiation**

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The concept of image has become important in marketing strategy. The image is the final impression of a product or company that a customer receives through both his physical senses and psychological experiences. There are six basic kinds of images - corporate, product, brand, wholesaler, retailer, and the customer's self-image - all of which are inter-dependant.

The corporate image transcends all other types of images, for a company with a poor image will have difficulty in gaining optimal market penetration for its product. The corporate image depends upon the selection of the advertising media and the quality of public relations program. The customer must feel that the company's major objective is to satisfy customer demand.

The product image depends upon the image-building operation of the several companies making the same product line. A product may be considered as being for young people or for the elderly; as connoting high or low social status; as being feminine or masculine. Associations helping to build product image for an industry should try to communicate that the product has good quality and is dependable.

Complementing the corporate and product images is the brand image. Once a product line has been accepted by the public, each company making that product tries to have its own brand accepted. Brand acceptance depends upon packaging, labeling, brand name, identification, advertising, and the promotional efforts of a company. The corporate image of the company can help or hurt brand acceptance, and hearsay evidence of neighbors or friends may modify a brand's acceptance by customers.

Even if the other images in the several steps of the channel of distribution are acceptable, a sales barrier may arise if the wholesaler's image is poor. If a product is carried by a retailer whose image is poor, the sales of the product to customers will not reach optimal level.

The customer's self-image is a very important factor in marketing. The self-image is the role the customer believes he is portraying or the way he believes others regard him. Self-image is composed of basic physiological, sociological, and psychological elements. No matter how good the corporate, product, and outlet images may be, if they do not conform to the self image of individuals in a market segment, acceptance of a brand will be negatively affected.

While deciding to exploit image as a differentiation variable, a company should be careful about the way it is communicated to the customers, media used to communicate, symbols used, nature and characteristics of customers as well as products and all other image components. Successful operation here can place a company on to a distinctive position.

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#### 4.6 Why a Positioning Strategy is Adopted by Companies?

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In the previous lesson you were given ideas on differentiation. You have seen there that a company can try to differentiate its product in many different ways. No matter how a company tries to differentiate its product, it will not be considered different if customers do not perceive it different. Adopting a policy of differentiating product involves cost to the company, and it expects to realize such costs by increased sales. But, there is no guarantee that sale will go up unless customers act positively. To act positively, customers look for something in a product that is claimed by its seller as different. A company, should therefore, be careful in selecting ways of differentiation and provide for the following criteria in its offer:

- **Importance:** If a product is able to deliver highly valued benefit to majority of the

customers, it will be considered important by them.

- **Distinctive:** A product will be considered distinctive by the buyers if it offers something not offered by the competing brands.
- **Superior:** If the difference seems to be better by the customers compared to other ways obtaining the same benefit they consider it superior.
- **Communicable:** Marketer should develop such a difference which can easily be intimidated to market, and market should be able to visualize that easily.
- **Preemptive:** If the difference cannot easily be copied by the competing firms, it is considered to possess the preemptive feature.
- **Affordable:** Differentiation, you know, costs to the company and the company realize that from customers. It should, therefore, consider whether customers are in a position to bear the same. If they can, such differentiation is called affordable.
- **Profitable:** To work out a differentiation company needs to incur lot of costs. A company does so with the hope of making a sizable profit through increased sales. If sales do not increase proportionately to warrant company profit, such a differentiation cannot be called profitable.

Experiences say that quite a number of companies could not meet the above criteria in their differentiation. The reason may be that customers did not consider the product different, or the particular company failed to make a position of its product in the customers' own frame of reference. This resulted in the failure of and loss to the firms. To meet the need of a particular market segments, companies should therefore, differentiate their products on the basis of specific attributes or characteristics able to meet the needs of specialized market segments. To achieve this task, marketers use positioning. Position is a term that describes a product's objective or subjective characteristics in relation to competing brands. Positioning may be an attempt to differentiate a marketing offer from competitors. A positioning strategy may be used to:

- Differentiate a firm from its competitors in a mass-product market, or
- Position a firm to serve target customers in one or more product- market niches.

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#### **4.7 The Concept of Positioning (product) and the Positioning Strategy**

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Positioning is 'a process whereby a company establishes an image of its product in the minds of consumers relative to the image of competitors' product offerings.' Thus, the merging of product differentiation with market segmentation is called positioning (product positioning). The term product positioning refers to the decisions and activities that are directed toward trying to create and maintain a firm's intended product concept in customers' mind. It is therefore a strategy of establishing a position for a product in the consumer's frame of reference, differentiating it from others in the same category. Thus Napa, for example, became 'the extra-strength pain reliever' to distinguish it from simple paracetamol. When marketers introduce a product, they attempt to position it so that it seems to possess the characteristics most desired by the target market. This projected image is crucial. A product's position refers to the customers' concept of product's attributes relative to their concept of competitive brands. For example, 'Tibet' is positioned as

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fluoride toothpaste that fights decay, and 'White Plus' is positioned as whitening toothpaste that increases the user's sex appeal.

Product positioning is a part of a natural progression when market segmentation is used. Segmentation allows a firm to aim a given brand at only portion of the total market. Effective product positioning; helps to serve a specific market segment by creating a concept of the product's characteristics in the minds of customers in that market segment.

Typically, the product becomes the focal point of positioning strategy since distribution, prices, advertising, and personal selling all are working toward positioning the product in the eyes of the buyers. Thus, the designation *product positioning strategy* is often used. Since position can be achieved using a combination of marketing program factors, product positioning is the result of more than just the product. The product becomes a composite of the total marketing program.

A positioning strategy is the design of a marketing program consisting of the following decisions:

- The product or service offering
- How distribution will be accomplished
- Choice of a pricing strategy, and
- Selection of a promotional strategy.

These decisions represent a bundle of strategies. So the objective is to form an integrated program with each of the above components fulfilling its proper role in helping to position the firm in the product markets management chooses to serve. The result often distinguishes a company, product, or brand from its competitors due to customers' perceptions of the product or brand. The product, the method of distribution, the price, advertising and personal selling all help to establish these perceptions, as do the marketing program actions of competitors plus other uncontrollable factors. When a positioning strategy is properly selected, the needs of the people or organizations that comprise the target market are satisfied. The essence of a good positioning strategy is one that will deliver customer satisfaction to the firm's target market and also meet corporate and marketing objectives.

A firm can position a product to compete head-on with another brand, as Coca-Cola has done against Pepsi, or to avoid competition, as RC Lemon has done relative to other soft drink producers. Head-to-head competition may be a marketer's positioning objective if the product's performance characteristics are at least equal to competitive brands and if the product is lower priced. Head-to-head positioning may be appropriate even when the price is higher, if the product's performance characteristics are superior. Conversely, positioning to avoid competition may be best when the product's performance characteristics are not significantly different from competing brands. Also, positioning a brand to avoid competition may be appropriate when the brand has unique characteristics that are important to buyers as is the case of RC Lemon. The maker of RC Lemon is trying to position his product in buyers' minds as being in a category by itself.

If a product has been planned properly, its attributes and its brand image will give it the distinct appeal needed. Style, shape, construction, quality of work, color - all elements of the product component of the marketing mix - assist in creating the image and the appeal. If the

benefits can be easily identified by buyers, then, of course, they are more likely to purchase the product. When some preferred attributes are not being offered, then room exists for a new product or for repositioning of an existing product.

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## 4.8 Types of Differences That a Company Can Promote

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In order to be successful, a company should decide on the number and type (s) of differences that it is planning to promote. Let us now, have some idea on how a company can decide on this issue. There are differences in opinions among marketing experts and writers as to how many differences a company should promote. Some argue that it is always wise to find one suitable attribute and promote that aggressively highlighting company's strength in it. The need to invest distinctive benefits in a product gives rise to the concept of the Unique Selling Proposition, or USP. This is the feature or features in a product which offer unique benefits not found in those of its competitors. To understand the concept, let us take the example of holiday marketing companies. There are number of holiday companies specializing in the organization of package tours aimed at the young (18-30) travel market. While the product offered is similar in many respects, companies focusing on this market segment seek ways to differentiate their product from others. Thus for example, company 'A' may emphasize that their hotels are used exclusively by their customers, while company 'B' may place stress on the added adventure and, company 'C' may focus on the blatant sexual promise of their holidays. USP basically highlights on picking one attribute and trying to be number one in that attribute. There are many attributes available of which a company may pick one and try to establish it as number one on that, because number one always draws more attention than others. The attributes could be 'quality', 'service', 'price', 'value', 'reliability', 'safety', 'speed', 'customization', 'modern' etc.

There are situations when companies may need to go for double-benefit positioning. It happens when more than one firm claim to number one on the same dimension or attribute. Companies pursue double benefit positioning usually intend to find a special niche within the target market.

In some other occasion, companies may go for pursuing triple-benefit positioning strategy. Some toothpaste manufacturers are found to pursue this strategy by claiming that their products are able to serve three purposes. They try to convince market of the claimed benefits by developing toothpaste that squeeze out of the tube in three color stripe.

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## 4.9 Positioning Errors That a Company Should Avoid

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If a company emphasizes on more attributes while positioning its brand it may put itself in trouble. Emphasizing on too many attributes, or claiming to be best in many aspects create confusion in the minds of buyers resulting in distrust. This leads to a situation called a 'loss of clear positioning' by the marketing experts. By avoiding following four major positioning errors, a company can ensure clear positioning of its product:

- **Under-Positioning:** If buyers sense ambiguity about a company's claim, or if they are unable to differentiate the product from those of competing brands, we call this under-positioning. In such a situation a brand of a product is considered same as some

other brand.

- **Over-Positioning:** If buyers develop a very focus or insular/narrow image toward the brand, the brand is said to be over-positioned. Buyers here cannot believe the product having certain attributes or options.
- **Confused Positioning:** If buyers are found to be confused about the image either due to too many claims made by the seller or frequent changes brought in the positioning of the brand it is known as confused positioning.
- **Doubtful Positioning:** If buyers are found to be suspicious about the claims of the sellers it is called a doubtful positioning. It is due to the lack of conformance between the claims and the physical features of the product, price, or the manufacturer's image.

Positioning, thus, focuses on buyers' perceptions and preferences about the place a product occupies in a specified market. A positioning strategy is basically the design of a marketing program consisting of marketing mix decisions.

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#### 4.10 The Concept of Perceptual Map

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Perceptual mapping can help a company select its position and decide on the positioning strategy to be pursued. 'Perceptual mapping includes several techniques which generate a graphic representation of customers' perceptions of the characteristics of products or brands comprising a previously defined product market' 4. Such a map provides a picture of how a sample of people perceives competing products relative to each other or compared to an ideal product using two or more factors for comparison. A product possesses many characteristics. Out of these characteristics, only a few are considered important by the consumers in their decision making process. These are the attributes considered critical, and, used by the customers to differentiate among competitive offerings. Other characteristics are often related to basic performance and are presumed to be equal among all brands. The basic function of a refrigerator for example, is to preserve food, but in brand choice customers do not consider it important. Customers may consider, rather, features as an automatic icemaker, and decorator color panels very important in their brand choice..

You know that every market has a structure that can be expressed in terms of the crucial characteristics mentioned above. The locations of brands are determined by the strengths of the attributes they are perceived to possess by customers. If two brands are found closer in this space, they are likely to be perceived similar by the customers. These multidimensional configurations are known as perceptual maps.

Perceptual maps can be built using multidimensional scaling techniques. The procedures involve algorithms that start with some measure of similarity between pairs of products and work backward to find a geometric representation of the product category. These techniques position products that are perceived as similar close to one another while dissimilar products are placed far apart from each other. Figure on the next page is an example of a perceptual map showing the relationship among seven Southern California, USA, tourist attractions. Respondents were presented with series of triads. For each triad (e.g., Disneyland, Marineland, Knott's Berry Farm), the respondent had to choose the two attractions that were economically most similar and then the two that were least similar. The perceptual map constructed from these data is shown in the

above figure. Dots in the map represent seven tourist attractions. The satisfactions that people look for in tourist attractions are represented by the nine arrows. The map helps explain why Magic-Mountain, newest attraction, had been experiencing lower-than-expected attendance. Customers viewed Magic - Mountain simply as an imitation of the long-established and successful Disneyland attraction.

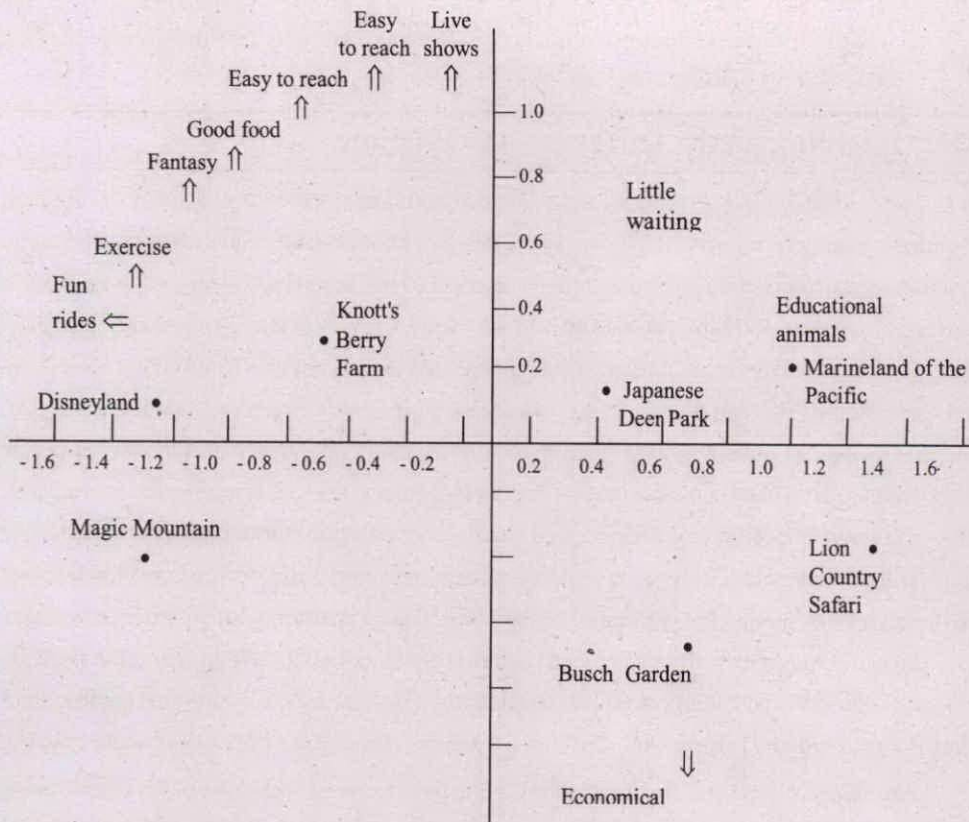


Figure 4.2. Perceptual Space for Major Tourist Attractions

Source: Kotler Philip, *Marketing Management, Analysis, Planning, Implementation, and Control*. Millennium edition. p. 301.

**Activity:** Develop a perceptual map for a soft drink manufacturer and analyze his position in the map.

### 4.11 Alternative Positioning Strategies Available to a Firm

Perceptual map can help a company identify different positioning strategies available and select the appropriate one. A company can pursue one of the following positioning strategies:

- **Attribute Positioning:** If a company positions itself in terms of certain attribute such as years of experience it has, its size or so on, it is called attribute positioning.
- **Benefit Positioning:** In the benefit positioning the company tries to establish its brand as offering best benefit in one or more areas.
- **Use/Application Positioning:** If the product is positioned as best in certain use or application, it is called use/application positioning.
- **User Positioning:** User positioning is that where product is positioned as best for certain

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user group/segment.

- **Competitor Positioning:** In competitor positioning, a producer tries to establish his product as superior than his competitor/s.
- **Product Category Positioning:** In the product category positioning, a product is positioned as best/leader in particular product category.
- **Quality/price Positioning:** In quality positioning, the seller tries to, give market the idea that his product offers best value to consumers money.

#### 4.12 Deciding on the Differences to Promote

How do you decide now, which difference (s) you should promote to position your product in consumers' frame of reference? To decide on this you should, *first* of all, identify alternative positioning platforms. *Second*, you should compare your relative standing on each of them with your major competitor. *Third*, you should find out the importance of improving standing on each of the platform. *Fourth*, you should calculate whether you are in a position to afford improvements and also how fast you can do that. Next, you assess your major competitor's ability to improve standing on each of the previously identified platform. Based on the above analysis, you decide which difference (s) you should promote - whether technology, or, quality, or service, or any other. After you arrive at positioning decision, you should undertake measures to communicate that to your target market. How do you do that? Obviously, you communicate your position through marketing mix elements. For example, you have decided to position your product as a quality one. You can communicate this by exploiting one of the elements of marketing mix - the price. By charging high price you can give market an idea that your product is of superior quality, since there is a price-quality relationship. Customers perceive higher priced brand as quality product.

**Final words on positioning decision :** During the process of taking decision on positioning strategy, you should ask yourself a number of questions. Your final move should be absolutely based on the answers to these following questions :

**Question-1 :** What position, if any, do we already own in the prospect's mind?

**Question-2 :** What position do we want to own?

**Question-3 :** What companies must be out-gunned if we are to establish that position?

**Question-4 :** Do we have enough marketing money to occupy and hold the position?

**Question-5 :** Do we have the guts to stick with one consistent positioning concept?

**Question-6 :** Does our creative approach match our positioning strategy?.

The name of the marketing game in many industries is "positioning". In such a game you can survive only if you are a better player.

#### 4.13 Key Terms and Concepts

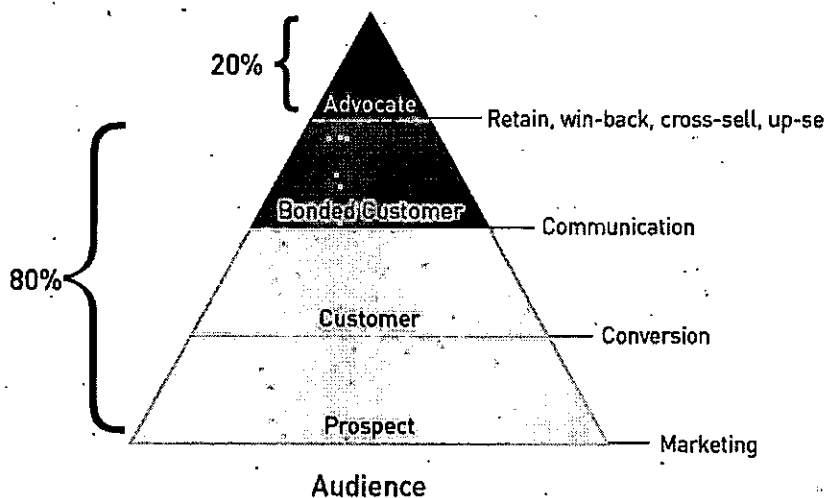
Term	Definition
Customer	A person who buys or uses goods or services, with whom a company should develop a relationship.

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Customer-centric	Placing the customer at the centre of an organisation's business planning and execution.
Customer-driven	Allowing and encouraging customers drive the direction of a business.
Customer lifetime value (CLV)	The profitability of a customer over their entire relationship with the business.
Customer relationship management (CRM)	A strategy for managing a company's relationships with clients and potential clients. It often makes use of technology to automate the sales, marketing, customer service and technical processes of an organisation.
Data	Statistics and facts collected for analysis.
Data mining	The process of analysing data to discover unknown patterns or connections.
Key performance indicator (KPI)	A metric that shows whether an objective is being achieved.
Metric	A defined unit of measurement.
Model	A strategic visual representation of a process that a company adheres to.
Prospect	A potential customer.
Stakeholder	A person or organisation with an interest in how a resource is managed.

**4.14 A CRM Model**

Many companies that practice CRM rely on a simple model to guide them strategically- in many cases, this sums up exactly what CRM is about. Here is a simple model that demonstrates this:



**Figure 4.3. A simple CRM model can provide strategic guidance.**

As you can see, a good CRM strategy turns strangers into customers, customers into friends, and friends into advocates for your business.

## 4.15 Understanding Customers

### Notes

Customers can be seen as the most important stakeholders in a business. Without customers purchasing goods or services, most businesses would not have a revenue stream. But it can be difficult to shift from realising this important fact to implementing it in day-to-day business decisions and strategy.

A successful relationship with a customer is based on meeting or even exceeding their needs. It is in determining what problems the customer has, and in providing solutions, sometimes before the problem occurs. It depends on continually giving the customer a reason to transact with your company above any other.

CRM should not only mean implementing customer-centric processes and consider technology, but embracing customer-driven processes. Through innovations in digital technologies, enhanced customer engagement and the introduction of account. Even statements and bills are touchpoints - and need to be managed carefully to ensure that the brand continues its relationship with the customer successfully.

### Customer Touchpoints

Consumer touchpoints are all the points at which brands touch consumers' lives during their relationship. This is the starting point for all CRM - a brand needs to speak with one voice across all of these touchpoints and deliver a rewarding experience every time it interacts with its customers. Touchpoints can be brand initiated (for example, a brand sending an email newsletter) or customer initiated (for example, the customer making a purchase in a store).

People don't start out as customers; they begin as prospects- people who merely view a business's offering. Once a prospect has expressed interest, CRM can help to convert them into a customer. Some people will always shop on price - they need to be converted to loyal customers. Here brand perception and service are often the differentiators. Consider the prospect who walks into a car dealership and is given outstanding service. In this case, CRM - in the form of an aware and trained sales force -can help turn a prospect into a customer.

A consumer touchpoint can be as simple as a print or banner ad. It can also be as multifaceted as a conversation between a call centre agent and a customer. It can be a timely tweet, or an outbound email giving the customer details about their account. Even statements and bills are touchpoints - and need to be managed carefully to ensure that the brand continues its relationship with the customer successfully.

Customer touchpoints can generally be divided into three spheres or phases.

Pre-purchase or pre-usage covers the various ways brands and prospects interact before the prospect decides to conduct business with a company. The brand's goals here are to:

- Gain customers
- Heighten brand awareness
- Shape brand perceptions- to highlight the benefits it offers over competitors
- Indicate how the brand provides value and fulfils the needs and wants of consumers
- Educate consumers about products and services

Purchase or usage covers the touchpoints at which the customer decides to purchase a product, use a service or convert according to set criteria, and initiates the brand -customer relationship. The key goals are to:

- Instil confidence
- Deliver value
- Reinforce the purchase decision
- Heighten brand perceptions

Post-purchase or usage covers all the post-sale interactions between the brand and customer. Now, the brand wants to:

- Develop a relationship
- Maximise the customer experience
- Deliver on the brand promise
- Increase brand loyalty
- Remain top of mind
- Invite repeat purchases

## **Customer Loyalty**

The main objective of any CRM strategy should be to gain customer loyalty over the long term. But what is loyalty? This may mean different things for different organisations. Ultimately, it is about acquiring and retaining customers who:

- Have a projected lifetime value that makes them a valuable prospect to your business.
- Buy a variety of your products or use your services repeatedly during their time as a customer.
- Share their positive experiences with others.
- Provide honest feedback on these products and services, and their experiences.

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## **4.16 CRM and Data**

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Data is central to the success of CRM initiatives. **Knowing who your customer is and what they want** makes a CRM strategy successful. Data gathering can begin even before your prospect becomes a customer. Matching a prospect's profile to the product or offer is the first step.

But data on its own is meaningless if it is not analysed and acted upon. Through analysis, data can be turned into insights, which can then inform the various CRM processes and, indeed, the business itself.

Data should be used to drive consumer loyalty across all possible touchpoints. Consider the consumer who shops on her store card at a retail outlet. Her transactions are recorded against her card - she is sent offers that detail the latest fashion trends and earns points on her card shopping for these. At some point, her transactional data shows that she has started shopping for baby clothes - she can now be cross-sold products to do with babies, and rewarded with double points when she buys them. Now she is upping her spend in the store, cross-shopping for both

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herself and her family and being rewarded for this, thus ensuring that the retail outlet is offering her value and retaining her business.

## 4.17 Customer Data

### Notes

A good CRM programme begins with data. Who are my customers and what do they want? Why did they choose me in the first place? How many of them are active, and continue doing business with me? Why do the others stop?

Often, you will need to research this information. If the company has a database, conducting surveys, focus groups or dipstick telephonic research can help you get an idea. Consider that an Audi Q7 driver is vastly different to an Audi A1 driver, for instance. They both pick the brand for the same reasons, but their motivations behind choosing the products vastly differ.

Data can give you these insights. It can enable a company to create real value for the customer and thereby gain true loyalty. There is little point in running a customer insights survey, looking at the results and saying "that's interesting" without putting into action any changes suggested by the results. It also means customers are less likely to take part in surveys going forward, and quite rightly so- what's in it for them? Conversely, if you do action changes, customers will feel increased ownership in the brand and its offering.

The actual database in which you choose to gather and collate data is also crucial. Remember that there are many facets to CRM, and the quality and accessibility of the data will have a major impact on how well these processes run.

When looking at data, it is essential to keep in mind the Pareto principle. The Pareto principle, or 80/20 rule, holds that in many situations approximately 80% of profits are delivered by 20% of customers. Also keep in mind that 20% of customers are responsible for 80% of problems related to service and supply (Koch, 2008).

This means designing solutions with efforts directed at the 20% of customers who generate the most profits. To do this, you should segment customers effectively.

You'll also want to consider the exact data to collect. While this will depend largely on your business objectives, here are some considerations:

- Information should be commercially relevant.
- Capture additional contact details from the customer at every interaction- on purchases, contracts, negotiations, quotes, conversations and so on.
- Capture any information you send out to the customer.
- Consider anything that adds value to the relationship.
- Note any legal implications around capturing data, particularly web-based behavioural data, as the user's privacy must always be taken into account.

### Where and how to Gather CRM Data

CRM data is gathered from a variety of touchpoints. Let's look at some of the possible opportunities for CRM data capture and analysis. Each avenue discussed below collects a range of data from whichever touchpoints the business deems valuable.

### ***Traditional CRM System Data***

Most traditional CRM systems are used to capture data for sales, support and marketing purposes. On top of simply creating a central repository for data access, these systems and their related databases also offer basic analytics. The actual range of data collected within the traditional CRM system is dictated by the CRM objectives. For instance, data could include:

- Demographic details on potential leads, current leads and contacts, such as age, gender, income, etc.
- Quotes, sales, purchase orders and invoices (transactional data)
- Psychographic data on contacts such as customer values, attitudes, interests, etc.
- Service and support records
- Customer reviews or satisfaction surveys
- Web registration data
- Shipping and fulfilment dates, such as when orders were shipped and delivered

### ***Data Mining***

Data mining involves analysing data to discover unknown patterns or connections. It is usually conducted on large data sets and looks for patterns that are not obvious. Data is analysed with statistical algorithms that look for correlations. It is used by businesses to better understand customers and their behaviour, and then to use this data to make more informed business decisions. For instance, women might traditionally be shopping for nappies during the week. But on the weekend, men become the primary nappy-shoppers. The things that they choose to purchase on the weekend, such as beer or chips, might dictate different product placement in a store over a weekend.

### ***Analytics Data***

Analytics data is generally captured through specialised analytics software packages. These packages can be used to measure most, if not all, digital marketing campaigns. Web analytics should always look at the various campaigns being run. For example, generating high traffic volumes by employing CRM marketing tactics like email marketing can prove to be a pointless and costly exercise if the visitors that you drive to the site are leaving without achieving one (or more) of your website's goals.

### ***Social Media Monitoring Data***

There are many social media metrics that are important to monitor, measure and analyse, and some of these can provide valuable insights for CRM implementation. This can cover everything from quantitative data about number of fans and interactions, to qualitative data about the sentiment towards your brand in the social space.

### ***Collating and Organising your Data***

Typically, you'll find that a business has:

- One or more databases- e.g. email, customer, mobile, or callcentre databases.
- A point of sale system where product purchase data is stored.

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- Various forms of web data -from display or search networks, keyword research, site analytics, social media or email marketing.
- Social media profiles on sites like Twitter, Face book or Linked in (which can also be considered databases of sorts).

CRM software can be used to automate lead and sales processes, and to collect all of this customer information in a centralised place, allowing a company to get a holistic view of the customer- from this, meaningful data insights can emerge.

Organisations can be large, and a customer often speaks to several members of the organisation, depending on the nature of the communication. It would be extremely frustrating for the customer to have to explain all previous dealings with the organisation each time, and equally frustrating for an organisation not to know who has spoken previously with a customer and what was dealt with. This could be a touchpoint at which a company falls down, and leaves a less than positive impression with the customer.

Fortunately, there are many technological options that help to record all this information in one place. Most of these services can also schedule elements of the sales process, and set reminders where appropriate for follow-up action.

Some notable examples include Salesforce ( [www.salesforce.com](http://www.salesforce.com)), Genius ([www.genius.com](http://www.genius.com)) and Highrise ([www.highrisehq.com](http://www.highrisehq.com)) from 37signals. Bespoke technology tailored to business problems can have remarkable results.

### Keeping Data Fresh

Call it what you will, but "stale", "outdated" or "unhealthy" data doesn't benefit anyone. Some generic older data can help you assess trends over time, but identifiable customer data is usually useless if not up to date. People move house, update their contact numbers and email addresses, change jobs. They earn more or less, stop working, start working, have kids, retire. All of these mean that their needs change, and their contactability changes, so maintaining a customer relationship and delivering the things they want becomes impossible.

So, how do you keep your data fresh?

For generic data (like web analytics) you must continuously monitor trends and note what causes changes over time. This is also useful for monitoring trends and identifying gaps in data when a business evolves. For instance, if you know that you generally receive increased website and store visits during December, but your sales drop, you know that you need to gather more data around your inventory and in-store environment during that time.

Keeping identifiable data current means you need to facilitate regular dialogue with contacts on your database. Whether it's through a call centre, an online prompt or a quick question at your in-store point of sale, there needs to be a plan for updating details at regular intervals.

### Analysing Data for Marketing

One of the most powerful features of interactions and transactions over the Internet is that everything is tracked and recorded (see the Data Analytics and Conversion Optimisation chapters). This provides a wealth of data that can be analysed to make business decisions.

For CRM, this means that the customer acquisition source can be recorded and analysed against sales data. This leads to a very accurate return on investment (ROI) calculation and indicates where CRM and marketing efforts should be focused.

ROI stands for return on investment - and it's key to understanding whether marketing efforts have been successful. Here's a simple example: Company A sells accounting software and makes R 10 000 on each product it sells. It sends an email to its customer base- people who have bought a previous version of the software and might be interested in upgrading. The campaign has an overall cost of R100 000. Of the 5 000 people who receive the email, 10% decide to buy. That means it cost R200 to acquire each of the 500 customers. The company has made R5 million- an ROI of 50:1.

The key to effective use of technology in CRM is integration. Ensure that all channels can be tracked, and that information is usable to all parties within an organisation. Knowing where your customers come from, but not what they purchase, is pointless: these two metrics need to be compared in order to produce actionable insights.

## Notes

- Analysing CRM data can aid marketing initiatives in a variety of ways:
  - Campaign analysis- find out which marketing campaigns are leading to the best returns so you can refine them and increase ROI
  - Personalisation- customise your communications to each customer
  - Event monitoring -tie offline events, like shows or sales, to your online interactions and sales
  - Predictive modelling - predict a customer's future behaviour and meet this need at the right time
  - Improved customer segmentation, including:
    - ❖ Customer lifetime value (CLV) analysis - predicting each customer's lifetime value and managing each segment appropriately (for example, offering special deals and discounts)
    - ❖ Advanced customer profiles that identify certain behaviours, such as big spenders or those who look for bargains by attending sales. This information can be used to tailor marketing communications accordingly.
    - ❖ Customer prioritisation - target small groups of customers with customised products and service offerings that are aligned to meet customer needs, rather than simply generic current offerings. You should craft specialised retention strategies for customers with the highest CLV
    - ❖ Identifying brand influencers and advocates. Consider the realm of social media, where influencers are central to the spread of content. Brands are increasingly prioritising relationship building with social media influencers to build brand advocates who will help market the business for them. By identifying which customers are providing the most value and positively influencing others to become customers, you can focus efforts towards them and increase their loyalty, creating true brand advocates.



*Understanding Customer Lifetime Value*

## Notes

CLV is the profitability of a customer over their entire relationship with the business. Businesses need to look at long-term customer satisfaction and relationship management, rather than short-term campaigns and quick wins -this approach leads to increased value over the entire lifetime of a customer and means that CLV is a metric central to any CRM initiative.

It's important to look at your customer base and segment them according to how often they purchase and how much they spend with your company. Very often, customers who spend more cost more to acquire, but they might also stay with the company for longer. Referrals made by a customer can also be included as part of the revenue generated by the customer.

The key is to understand these costs and then target your CRM strategies appropriately. CLV lets you decide what a particular type of customer is really worth to your business, and then lets you decide how much you are willing to spend to win or retain them.

For example, a potential customer looking to purchase a digital camera is likely to search on Google for cameras. As a company selling digital cameras, your excellent search advert and compelling offer attract the potential customer, who clicks through to your website. Impressed with your product offering, the user purchases a camera from you, and signs up to your email newsletter as part of the payment process.

Analysing the amount spent on your search campaign against the sales attributed to the campaign will give the cost per acquisition of each sale. In this case, this is the cost of acquiring the new customer.

As the user's now signed up to your newsletter, each month you send her compelling information about products she might be interested in. These newsletters could be focused on her obvious interest in photography, and highlight additional products she can use with her new camera. The costs associated with sending these emails are the costs of maintaining the relationship with the customer. When she purchases from you again, these costs can be measured against the repeat sales likely to be made over the course of the customer's lifetime.

Assuming that a customer buys a new camera every three years, moves up from a basic model to a more expensive model, perhaps buys a video recorder at a certain point- all of these allow a company to calculate a lifetime value and ensure that their spending on a particular customer is justified.

*CRM Loyalty Programs*

There is a difference between CRM and loyalty programmes - often loyalty programmes actively seek to maintain customers by rewarding them with a hard currency, like points. Loyalty programmes are designed to develop and maintain customer relationships over a sustained period of time by rewarding them for every interaction with the brand - for instance, you may earn points on a purchase, for shopping on certain days, completing a survey, or choosing to receive a statement by email.

Consider health insurer Discovery and their Vitality program: it aims to keep customers healthy by rewarding them for health-related behaviours like exercising, having regular check-

ups, stopping smoking and buying fresh foods. By doing so, it reduces the burden of ill-health on the medical aid itself.

Not all loyalty programmes are created equal. Many brands have embraced them as a way to improve their sales, and consumers have come to believe that they are simply a way of extorting more money from them.

To create an effective loyalty programme, consider the following:

- **carefully calculate the earning and redemption rates of points** - a loyalty programme needs to give the appearance of realvalue, while working within the company's profit projections
- **Loyalty programmes are about engagement** - you need to find a way to partner with the customer
- **rewards are key to success** - you need to reward the customer in a way that is real and desirable
- **Customer care is important** - technology allows for effective real-time conversations
- **data is central to success** - you need to maintain accurate records in one central place
- **digital allows for innovation** -this can apply to new payment technology, digital communications channels and more
- **Trust is pivotal to success** - customers need to know that their data is being protected and that you will honour your commitments
- **Loyalty programmes are not quick wins** - consider up-front how the programme might come to a close or you risk alienating and disappointing customers and undoing any positive results

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## 4.18 The Benefits of CRM

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At its core, effective CRM promises the following:

- Increased revenue and profitability
- Improved customer satisfaction and loyalty
- Improved service delivery and operational efficiencies
- Decreased acquisition costs- keeping churn low through CRM offsets the need to spend as much on acquisition of new clients, while retention of existing ones is cheaper for obvious reasons

Maintaining good customer relationships is critical to the success of a business. The cost associated with acquiring a new customer is generally far higher than the cost of maintaining an existing customer relationship. While an investment in a CRM communication programme or platform can be large, these costs are often offset over the increased revenue generated by encouraging repeat business.

## Putting a value on CRM

Broadly, CRM can be looked at from:

- **A marketing perspective** - increasing the number of people who know about your service or product
- **A cost perspective** - decreasing the amount you spend on customers; it costs more to attract a new customer than maintain an existing one
- **A sales perspective** - turning the people who know about your service or product into people who have made a purchase
- **A service perspective** - ensuring people who have interacted with you are satisfied and delighted.

Effective CRM can also create a powerful new marketing and referral force for a company: its happy customers. Delighting customers fosters positive word of mouth.

The first step to any CRM initiative is to understand the value of a customer relationship to a business.

$$\text{Relationship value} = \text{Revenue generated by customer} - \text{Cost}$$

## CRM Implementations

CRM should infuse every aspect of a business (in the same way that marketing should be integral to everything you do), but it is useful to look at the different ways CRM is implemented.

### Marketing

- Conduct personalised targeting and profiling across a range of marketing channels such as telemarketing, email marketing, social media marketing and campaign management projects.
- Place the right mix of a company's products and services in front of each customer at the right time.
- Understand what customers do and want, matching that knowledge to product and service information and measuring success.

### Sales

- Ensure the customer receives the correct product.
- Ensure correct sales-related processes are carried out within the organisation. This could include
  - Client or campaign management
  - Sales configuration (for configuring products, pricing, etc.)
  - Call management
  - Contact management
  - Ad management

## Notes

- Sales force automation (including territory)
- Account and lead management systems
- Enable all parties in the transaction to interact with one another.
- Include systems that put sales reps directly in touch with customers at the point of sale.

## Notes

### *Service and Service Fulfilment*

- Improve the service you give to current customers through:
  - ❖ Email response management
  - ❖ Socialmedia support systems
  - ❖ Telephony capabilities such as automatic calldistribution
  - ❖ Computer-telephony integration
  - ❖ Queue/workflow management
  - ❖ Interactive voice response and predictive dialling
- Include the development of problem resolution systems, workflow automation and field service dispatch systems

### *Services Invoked by the Customer*

- Create and manage systems or capabilities that can be directly invoked by the customer:
  - ❖ Web self-service
  - ❖ Search
  - ❖ Instant messaging
  - ❖ Email queries
  - ❖ Voice over IP (VoIP)
  - ❖ Browser and application sharing
  - ❖ Conferencing
  - ❖ "Callme" capabilities
  - ❖ Socialmedia support
  - ❖ Online forums

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## 4.19 Social CRM

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Widespread socialmedia usage means that CRM has to be conducted in this forum in order to deliver an all-round experience for the customer. Not only should social media be integrated into any existing CRM strategy and looked at from a touchpoint and channel perspective, but socialmedia can also be used to drive CRM.

CRM should embrace the social customer- effectively summed up by social CRM expert Paul Greenberg as follows:

- "Social customers are not the customers of yore. They trust their peers, are connected via the web and mobile devices to those peers as much of a day as they would like. They expect information to be available to them on demand ... They require transparency and authenticity from their peers and the companies they choose to deal with" (Greenberg, 2010).
- Social media platforms allow customers to easily share their brand experience (good or bad) with their online social connections, who in turn can share this experience on. This means a potential word-of-mouth audience of millions could witness a single user's brand experience and weigh in on the situation. Social customers place a great deal of value on the opinions of their peers, and are more likely to look favourably on a brand, product or service if a peer has recommended or praised it. In fact, the 2012 Edelman Trust Barometer, an annual trust and credibility survey, saw trust in social media increase by 75%, noting that respondents are placing more and more importance on information gathered from this space (Edelman, 2012).
- Brands have realised that they need to leverage this in their CRM strategies and now understand that communication is not one way (from brand to consumer), or even two way (between consumer and brand) but multi-directional (brand to consumer, consumer to brand, consumer to consumer).
- The convergence of social media with CRM has been termed social CRM or CRM 2.0, and has developed into a field on its own.

### Social CRM and Support

Social customers are increasingly turning to social media channels for support. With the immediate accessibility offered through mobile devices, they see this as a convenient channel to communicate with brands. This means that brands need to respond quickly and transparently to consumers' questions, gripes and even compliments. A support query going unanswered on Twitter, for instance, is likely to cause frustration for the consumer, and prompt them to take a situation that is already visible to other consumers even further, potentially causing a brand crisis.

Brands should carefully consider whether all social media channels are appropriate for them, and be prepared for any eventuality. Brands that are well liked will generally have positive responses on social media, those that receive a mediocre response from consumers will have a bit of a mixed bag, but those that have a lot of support issues are likely to experience very large numbers of complaints that need to be addressed.

Social support staff should have access to all the historical data relating to customer issues - such as all the data collected about previous complaints and reference numbers. In this way, they can respond directly to the consumer in the social channel that they've selected and escalate the problem appropriately.

### Social CRM and Online Monitoring

Social CRM can also make use of online reputation management and monitoring tools. Online monitoring, or reputation management, entails knowing what is being said about your organisation and ensuring that you are leading the conversation.

By using these tools, brands can rate and sort these mentions based on their sentiment. This allows them to effectively test the temperature of the online community's feeling towards the brand, which can then guide any future action.

### Customer-centric vs. Customer-driven Organisations

Effective CRM places the customer's needs first in all dealings with the brand. However, there is a vast difference between a customer-centric organisation and a customer-driven one.

Placing the customer at the centre of an organisation's business planning and execution is different to having customers drive the direction of a business. Many new, web-based businesses rely on the latter, and actively encourage customers to take the lead and add value to the business.

Services such as Flickr ([www.flickr.com](http://www.flickr.com)) and Twitter ([www.twitter.com](http://www.twitter.com)) are user driven rather than user-centric. They provide tools that enable users to make the service their own, often by allowing outside developers to create supplementary services. So, Flickr users can export their images and use them to make custom business cards on Moo ([www.moo.com](http://www.moo.com)). There are many auxiliary services based on Twitter such as analysis services ([www.klout.com](http://www.klout.com)) and access services ([www.twhirl.org](http://www.twhirl.org)).

Savvy organisations can also provide tools to customers to drive their business, passing on tasks to customers that might ordinarily have been performed by the organisation. For example, many airlines now allow travellers to check in online prior to arriving at the airport. As more travellers elect to check themselves in, staff costs for airlines can be reduced. The travellers are doing the job for free (and are getting a better experience tool).

#### PLEASE CHECK IN ONLINE NOW

It's nearly time for your trip but before you go you need to [check in online](#). Once you've checked in, remember to print your boarding passes and bring them with you to the airport.

If you've checked in online in the last 24 hrs, please ignore this reminder and we look forward to welcoming you on board soon

If you are not the passenger on this flight, please forward this email to the person travelling so they can check in online.

#### SOME REMINDERS



##### ON TIME

Make sure you allow yourself enough time to get to the airport. We recommend arriving at least 2 hours before you depart so you can get through security and to the boarding gate on time. Gates close 30 minutes prior to flight so please don't be late.



##### GETTING THERE

You can check travel info on our website. Or you can do it with our new [app](#) and [mobile site](#), perfect for checking your [booking](#) on the move.



##### PARKING

If you require parking at London Gatwick, check out options [here](#).



##### AIRPORT HOTELS

If you need to stay in a hotel near London Gatwick the night before, check out options [here](#).



#### BAGGAGE ALLOWANCE

**CABIN BAG**  
You can bring on board 1 bag measuring 56x45x25cm.

**HOLD BAGS**  
You can purchase hold allowance of 20kg per person.

**BUGGIES AND CAR SEATS**  
Can be brought on board, and families with children can bring two items

[FIND OUT MORE](#)

### Notes

Figure 4.4. A CRM email reminder to check in for a flight, from airline EasyJet

Customer-centric strategy, on the other hand, uses data to present the best possible experience to the customer. Amazon's collaborative filtering is an example of a customer-centric approach. Using customer data, Amazon will share products that you are more likely to prefer.

## Notes

## What Other Customers Are Looking At Right Now

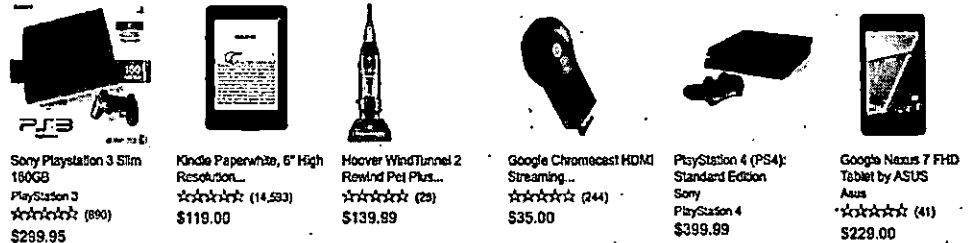


Figure 4.5. Amazon provides recommendations based on what customers with similar profiles are looking at

Customer-centric experiences are about personalisation: using data to create a tailored experience for the customer. Customer-driven experiences are about customisation: providing the tools that let a customer tailor their own experience.

## 4.20 Step-by-step Guide to Implementing a CRM Strategy

### Step 1: Conduct a Business Needs Analysis

A major part of determining where to begin with a CRM implementation is having a clear understanding of the business needs, and where CRM would most benefit the organisation. CRM touches on sales, marketing, customer service and support both online and offline. It's important to review the needs of each business area so that you can determine your strategy for CRM.

Ideally you should have individual goals for each department - and all members within the organisation should buy in to the strategy in order to drive it successfully, from the highest rank to the lowest. Implementing successful CRM across the organisation is a process, with stakeholders making decisions collectively and sharing their views and needs. Decisions should be based on realistic budgets and resources and full calculations carried out before any kind of loyalty currency is decided upon.

### Step 2: Understand Customer Needs

CRM is about the customer. You might have identified a range of business needs, but what about the needs of the customer?

Two elements of CRM in particular- service delivery and customer support -are actually all about meeting the needs of the customer. And what's the best way of determining customer needs? By asking them, of course. There are various ways to find out what customers want, but in all of them, it is important to listen. Use online monitoring tools and insights from social media to gather a more rounded view of what your customers think, feel and want. Look at past behaviour, churn rates, successes -a detailed data mining exercise could also be on the cards, as you will need to understand which of your customers is the most valuable and why.

### Step 3. Set Objectives and Measurements of Success

CRM is a long-term commitment and you need to consider a long-term approach. Depending on the business needs, your objectives and success measures could include:

- Increasing customer numbers
- Increasing profitability per customer
- Increasing market share
- Improving responses to campaigns
- Raising customer satisfaction
- Improving end-to-end integration of the sales process cycle

The metrics you select for measurement will depend on these objectives. There are numerous metrics that you can choose from when measuring your performance, and the actual metrics you choose are generally referred to as your key performance indicators (KPIs).

#### **Step 4. Determine how you will implement CRM**

Once you've identified all of the objectives of your CRM implementation, you will need to determine how you are actually going to roll it out. What channels will you use? What touchpoints will you leverage? What data will you need for this? And what tools will you need to gather this data and implement your initiatives across these channels? How will you address the shift and communicate with your internal stakeholders before you launch the initiative to your external ones?

You will need to make choices based on what is available to you, or what you intend on embracing. The digital space offers a range of innovative spaces for CRM delivery; you simply need to get creative in your execution.

#### **Step 5. Choose the Right Tools**

There are lots of excellent CRM tools available, but these are useless without a clear CRM strategy in place. You can only select your tools once you know what your objectives are, what touchpoints and channels you are going to utilise and what data you need to collect and analyse.

CRM systems that gather information on customer preferences and needs, as well as information on competitors and in the industry in general, let organisations focus on providing customer solutions instead of simply pushing products.

We've outlined a host of options in the Tools of the Trade section below.

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### **4.21 Tools of the Trade**

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#### **Collaborative CRM Tools**

Collaborative CRM refers to a process that combines customer data across all facets of a company. For example, queries regularly submitted to the technical support or customer service arm of a business can be used to inform product development and website content. Instead of various departments collecting their own customer data and using this in isolation, data is collated so that all channels make informed decisions based on the holistic customer experience.

MindTouch ([www.mindtouch.com](http://www.mindtouch.com)) is an example of a CRM product that offers collaborative authoring. This means that multiple users can simultaneously edit shared documents while maintaining an audit trail and version control.

## Notes



## Social CRM Tools

Social CRM tools perform a number of functions, from standardising the collection of data from social media channels to automatically posting links and accepting friend requests. These tools can also be used to identify customer sentiment within social media channels.

BrandsEye [ [www.brandseye.com](http://www.brandseye.com) ], Radian6 [ [www.radian6.com](http://www.radian6.com) ] and Simplify360 [ [www.simplify360.com](http://www.simplify360.com) ] are examples of social CRM listening tools that collect data on brand mentions across social media channels online, in real time.

## Operational CRM Tools

Operational CRM tools deal with the most obvious channels that relate to customers: the front end of a business and its customer service. From a web technology point of view, operational CRM informs the website a customer sees as well as their entire online user experience.

Two examples of operational CRM tools are OnContact [ [www.oncontact.com](http://www.oncontact.com) ] and Zoho CRM [ [www.zoho.com/crm](http://www.zoho.com/crm) ].

## Sales and Marketing Automation CRM Tools

Sales force automation uses CRM software to manage sales cycles and to collect customer sales data. The software enables businesses to track leads, schedule transactions and communications with potential and existing customers, and generate detailed reporting on the sales process.

Marketing automation tools identify current customers and use their response information to manage email marketing lists. The tools can also identify prospects, as well as unhappy customers.

HubSpot [ [www.hubspot.com](http://www.hubspot.com) ] offers a marketing automation tool that allows companies to generate and send behaviour-driven emails.

## Analytical CRM Tools

Analytical CRM tools allow companies to record, save and investigate customer data to better understand customers through their behaviour. For instance, data collected about the nature of visits to your website can be used to make informed decisions about where to focus attention based on customer behaviour. Past purchasing behaviour of customers can be analysed to predict future purchasing behaviour. Data can be used to segment customers and tailor communications.

These tools can help target marketing campaigns at customers and predict future sales and customer spending.

KXEN ( [www.kxen.com](http://www.kxen.com) ) is a popular analytical CRM tool with the ability to forecast customer behaviour and shed light on customer preferences and spending power. It also allows you to tailor marketing campaigns to specific customers, segmented by various demographics.

### CASE STUDY: Fuji Xerox

#### One-line Summary

Fuji Xerox Thailand uses a traditional CRM system to improve their sales process.



## **The Problem**

Due to organisational growth and an increase in services offered, Fuji Xerox Thailand needed to find a more efficient way to gather and store customer data. The company was also under pressure to provide better business forecasting, which relied heavily on their ability to analyse accurate customer data (Sundae Solutions, 2012).

To achieve this, they decided to invest in a CRM system that would allow them to centrally store information and capture everything in one place.

Up until that point, they had used Excel spreadsheets and paper systems to record data, which lead to inaccuracies due to:

- Human error in recording in customer details
- Individual records being kept within different divisions

For the company this meant a loss of sales due to long turn-around times on quotes or discount requests. It also meant that information silos created obstacles to formulating long-term business strategies (Sundae Solutions, 2012).

## **The Solution**

By implementing an integrated CRM system, namely the Sage CRM solution, they created a centralised repository for information. Fuji Xerox also needed a system that would integrate well with their existing systems. These included an Oracle ERP system at the backend (Sundae Solutions, 2012).

The Oracle ERP system is an enterprise resource planning software solution that enables businesses to manage all facets of their organisation from development to manufacturing and sales. The company was also using Microsoft Office on their desktops, which means the system needed to integrate with Outlook calendars and email (Sundae Solutions, 2012). The system offered contact and customer management functionality as well as sales force automation, and placed the focus on the customer and their needs (Sundae Solutions, 2012). By implementing a CRM system of this nature, Fuji Xerox essentially enabled the sales team to manage their sales pipeline effectively.

Generally, CRM systems allow organisations to choose the exact sales process journey to follow by inputting information such as:

- The industry
- How long the sales cycle is
- The qualifying criteria for a sale
- The nature of the sales and how big they are
- How many team members are involved in the process
- What experience they have in their field
- How much managers need to be involved

## **The results**

Through the new system, the sales team was empowered with information. This meant:

## **Notes**

## Notes

- More efficient sales management
- Speedier quotations
- Improved approvals processes

In the past, sales representatives could only submit quotes or discounts for approval to their managers back at the office, which would take a few days and decrease the likelihood of sales conversions. The new system meant sales representatives had software that would simulate cost, profit and discounts immediately. This meant quick preparation of quotes and confidence in knowing that these were accurate and made sound business sense. The new CRM solution also meant quicker response times to sales and support queries, improving customer experience (Sundae Solutions, 2012). After implementing the system, the Fuji Xerox sales teams saw an 8% improvement in customer satisfaction ratings. There was also clear revenue growth as a result of the initiative (Sundae Solutions, 2012).

## 4.22 The Bigger Picture

Managing customer relationships should be built into every marketing tactic and activity you perform, especially if your organisation has adopted CRM as an ongoing strategy to drive customer retention. In the digital space, here are some to watch out for.

Successful email marketing is built on two very basic customer needs: privacy and permission. The very first step in using email to communicate with a customer is gaining their permission. Data mining and segmenting customer databases allows email marketing to be tailored and personalised. Email is often the primary point of contact for service-related messages.

Online advertising is a double-edged sword when it comes to CRM. It can be a very effective acquisition tool for new customers, but intrusive advertising can attract attention for all the wrong reasons. Effective online advertising speaks to customers' needs and presents solutions to them, attracting attention without being overly intrusive. The key is to be relevant and useful wherever possible.

Affiliate marketing started by making the most of existing relationships other parties have with potential customers. Affiliate marketing can be an excellent sales and acquisition channel, but is not without its problems from a CRM perspective. Another entity is acquiring leads on your behalf, which can mean a loss of control. Search engine optimisation and search advertising start with customer intent. Existing customer data can indicate where to focus search engine marketing efforts, especially when it comes to analysing how well a website caters to the intent indicated by a customer's search term.

Social media marketing is based on customer needs and preferences. It is also a powerful tool for turning delighted customers (who are expressive online) into advocates for an organisation. Social media creates new communication channels for an organisation, enabling discussions and customer service to take place where the customer feels most comfortable.

Effective web development and design starts with understanding and catering for customer needs, and should focus on the experience of the web user. Designing for customers first and foremost gives web visitors a seamless experience - CRM data can tell you what your customers need, and web experiences can support the customer journey. Web designers and developers can

also create sophisticated customer service portals to manage CRM, such as the Nike+ support page: [nikeplus.nike.com/plus/support](http://nikeplus.nike.com/plus/support).

Through all of the digital marketing tactics, effective analytics is the most useful CRM tool. It allows each channel to be measured on its merits, and the customers acquired by each channel can be analysed.

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### 4.23 Summary

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A general class of product is differentiated if any significant basis exists for distinguishing the goods (or services) of one seller from those of another. Such a basis may be real or fancied, so long as it is of any importance whatever to buyers, and leads to a preference for one variety of a product over another. Philip Kotler has defined differentiation as "the act of designing a set of meaningful differences to distinguish the company's offering from competitors' offerings". Because the differences are often more imaginary than real, the strategy involves promoting a distinction in terms of quality, value, or some other factor. Differentiation, then, may be based upon certain characteristics of the product itself, such as exclusive patented features; trade names; peculiarities of the package or container, if any; or singularly in quality, design, color, or style. It may also exist with respect to the conditions surrounding its sale. In retail trade to take only one instance, these conditions include such factors as the convenience of the seller's or channel members' locations, the general tone and character of his establishment, his way of doing business, his reputation for fair dealing, courtesy, efficiency, and all personal links which attach his customers either to himself or to those employed by him. In so far as these and other intangible factors vary from seller to seller, the offer in each case is different, for buyers take them into account, more or less, and may be regarded as purchasing them along with the commodity itself.

Positioning is 'a process whereby a company establishes an image of its product in the minds of consumers relative to the image of competitors' product offerings.' Thus, the merging of product differentiation with market segmentation is called positioning (product positioning). The term product positioning refers to the decisions and activities that are directed toward trying to create and maintain a firm's intended product concept in customers' mind. It is therefore a strategy of establishing a position for a product in the consumer's frame of reference, differentiating it from others in the same category. Thus Napa, for example, became 'the extra-strength pain reliever' to distinguish it from simple paracetamol. When marketers introduce a product, they attempt to position it so that it seems to possess the characteristics most desired by the target market.

Customer relationship management is the cornerstone of your interactions with customers. Digital technology makes the process of discovering key insights seamless, effective and very useful, but CRM cannot be restricted to only digital channels as customer interactions happen offline too.

There are many benefits to implementing a CRM strategy - from reduced customer service costs to happier customers and more tailored and effective communications. Naturally, understanding customers is the biggest outcome of CRM - and this understanding leads to meeting their needs much more effectively, which in turn has direct bottom-line benefits for the brand.

There are many facets to CRM that you should consider before deciding how you will approach it. The key ones are:

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- Brand touchpoints – how do customers interact with the brand, and vice versa?
- The tools you need for your business – operational CRM, analytical CRM, collaborative CRM and sales force automation are the main categories.
- What channels are available to you to communicate with your clients?
- Implementations – CRM can be implemented for sales, marketing and customer support and service fulfilment.
- What are the steps you need to take within your organisation to ensure a successful CRM strategy?
- What cost are you looking at – and what return on investment are you expecting?
- Your long-term aims – CRM is never a short-term solution.
- What are your data capabilities and needs – are you gathering the correct data, storing it correctly, updating it constantly and then analysing it for insights?

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#### 4.24 Glossary

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- **Features:** A product serves a basic function. The basic function can be supplemented by adding some characteristics to the product. The characteristics that supplement the basic function of the product can be termed as features.
- **Performance:** A product may perform at low, average, high, or superior level. At a time it usually performs at any one of the above levels. Product's performance relates to the level at which it performs.
- **Importance:** If a product is able to deliver highly valued benefit to majority of the customers, it will be considered important by them.
- **Profitable:** To work out a differentiation company needs to incur lot of costs. A company does so with the hope of making a sizable profit through increased sales. If sales do not increase proportionately to warrant company profit, such a differentiation cannot be called profitable.
- **Over-Positioning:** If buyers develop a very focus or insular/narrow image toward the brand, the brand is said to be over-positioned. Buyers here cannot believe the product having certain attributes or options.

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#### 4.25 Review Questions

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1. Explain the differentiation Opportunities According to the Type of Industry.
2. Describe the Major Differentiating Variables Available to Firms.
3. Define the Why a Positioning Strategy is Adopted by Companies?
4. Explain the Concept of Positioning (product) and the Positioning Strategy.
5. What is the Types of Differences That a Company Can Promote?
6. Describe the Positioning Errors That a Company Should Avoid.
7. What is the Concept of Perceptual Map
8. Define the Alternative Positioning Strategies Available to a Firm.
9. Explain the deciding on the differences to Promote Define the concept of differentiation.

Analyze different tools used for competitive differentiation.

10. Define product positioning. Narrate the product positioning strategy.
11. What are the different types of differences that a company can promote? Discuss the positioning errors that a company should avoid.
12. What type of CRM solution did Fuji Xerox implement?
13. Which pitfalls and problems did the new CRM system solve?
14. What other potential improvements could the CRM system make in the long term?
15. How do you think CRM changed or evolved as social media rose to popularity?
16. Why do customers respond so positively to personalised communication?
17. What ethical problems do you think customers might raise with regards to behavioural tracking?

Notes

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#### **4.26 Further Readings**

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## BOP MARKETS

## Notes

## (Structure)

- 5.1 Learning Objectives
- 5.2 Introduction
- 5.3 Definition of BOP
- 5.4 Potential of BOP
- 5.5 Acceptability
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**5.1 Learning Objectives**

After studying the chapter, students will be able to:

- Why CRM is essential for any business;
- The role that customers play in shaping and steering your business;
- The various approaches and mindsets that are applied in CRM;
- How to collect, store, analyse and update your essential CRM data.

**5.2 Introduction**

This chapter concerns the bottom of the economic pyramid, how it is defined and its potential. It will begin with a definition of poverty in the BOP market. It is important that this term gets defined first, so that it can be of assistance in determining the nature and the scope of the market. This will lead to the explanation of the BOP market and the potential it has.

This chapter concerns the marketing mix directed towards the BOP market. The marketing managers are divided over identifying a suitable marketing strategy for the BOP segment. There is said to be a connection in consumers buying preferences between the four P's of marketing

and the marketing challenges the BOP market faces (Evalueserve, 2008). The marketing challenges are as followed:

- **Acceptability:** The extent to which consumers and others in the value chain are willing to consume, distribute or sell a product or service. In BOP markets, there is often a need to offer products and services that are adapted to the unique needs of both consumers and distributors (Anderson & Billou, 2007).
- **Affordability:** The degree to which a company's goods or services are affordable to BOP consumers. Many low-income consumers in developing countries survive on daily wages, meaning that cash-flow can be a problem. Companies need to be able to deliver offerings at an appropriate price which enables consumption by even the poorest consumers (Anderson & Billou, 2007).
- **Awareness:** The degree to which consumers are aware of a product or service. With many BOP consumers largely unreachable to conventional advertising media, building awareness can be a significant challenge for companies. To overcome these constraints companies must explore alternative communication channels (Anderson & Billou, 2007).
- **Availability:** The extent to which consumers are able to acquire and use a product or service. Distribution channels in BOP markets can be fragmented or non-existent and the task of simply getting products to people can be a major hurdle to overcome. Companies need to explore alternative methods of delivering their products and services to even the most isolated BOP communities (Anderson & Billou, 2007).

One can briefly see the development from the four P's to the four A's here. Consumer buying behavior has in general evolved, let alone in the developing world; one of the noticeable changes has been the gradual evolution from the mass consumer markets of the 60's towards increasingly global, segmented, customized and personalized markets of today where innovation, customization, relationships building and networking is important (Constantinides, 2006). These developments on the market and the sheer possibilities of the BOP market have prompted the development of new theoretical approaches dealing with specific rather than general marketing problems and situations, and in this case it is the new marketing mix approach towards the BOP market.

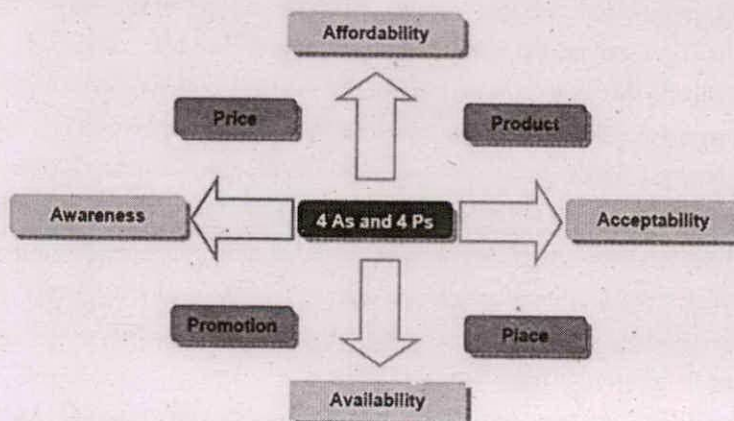


Figure 5.1. Link between four P's of marketing and four A's

Source: Evalueserve Analysis (Evalueserve, 2008)

## Notes



The relationship between the four Ps of marketing (product, price, place and promotion) and the four marketing challenges (awareness, availability, accessibility and affordability) provides the following marketing framework:

## Notes

The figure quickly shows the connections between the four P's and the four A's. It will be further explained how these are interrelated and how the four A's can help to identify a more appropriate marketing mix for the BOP. Some of the theory is drawn from relevant articles and analyzed, some of it is of course extracted from the three cases from Chapter and analyzed according to the four A's.

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### 5.3 Definition of BOP

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#### Poverty

The definition of poverty has been a debate for many years. In this thesis poverty will be defined as a multifaceted phenomenon having three main dimensions. First, poverty is the lack of income and assets needed to attain basic necessities, such as food, shelter, clothing and fuel. Second, poverty means the lack of access to basic services that directly affect the material welfare of the poor, such as public health, education, safe drinking water, sanitation, infrastructure and security. Third, poverty means the social, cultural and political exclusion of its victims, and includes such issues as gender, racial and ethnic discrimination, and lack of civil rights (Karnani, 2011).

The definition of poverty is straightforward in theory. However, to identify the poor people, and measure the number of poor people has proven hard in reality.

Income is perhaps the most important measurement of poverty; it is also relatively easy to measure quantitatively. Poverty is therefore often measured in monetary terms and defined as consumption below a certain benchmark. Countries have varying definitions of poverty, and comparing them can be difficult. National poverty lines tend to have higher purchasing power in rich countries, where the standard used is more generous than in poor countries. There are also regional differences, for instance a person can be poor by global standards, but not compared to his countrymen or neighbors. In order to compare poverty across countries, a consistent international poverty line must be used to measure poverty. Poverty measures based on an international poverty line attempts to hold the real value of the poverty line constant across countries, including when making comparisons over time (World Bank, 2011). It is well known that income comparisons based on market exchange rates tend to understate real income (or real purchasing power) in developing countries. Market exchange rates can be expected to eventually compare purchasing power only over internationally traded goods. But there are also non-traded goods, such as services, which are cheaper in countries with lower wages. Purchasing power parity (PPP) rates adjust for this difference, which allows more valid income comparisons, and are therefore used instead of market exchange rates in measuring global poverty. The poverty line is then converted to local currency using the PPP rates, and the local consumer price indices are then used to adjust for inflation (Karnani, 2011).

So where is the poverty line drawn? For poor people the difference in \$1 and \$2 per day is significant and can make a huge impact on their lives. People below the extreme poverty line of \$1 per day cannot meet basic needs for survival; nutrition, health care, safe drinking water,

sanitation, education, adequate shelter, and clothing. Yet this definition of extreme poverty is probably too conservative. Another commonly used standard, which is more representative of the middle-income (but still at developing economies), is \$2 per day. At this level basic survival needs are met, but just barely (Karnani, 2011). People who survive on less than \$2 per day have very different needs and priorities than people of the developed world, who sometimes consume more than four times as much.

Overall, whether using \$1, \$1.25, \$1.45 or \$2, these measures have generally been accepted as the international standard for poverty. In this thesis the poverty line will be at \$2, because in reality it is the growing middle class of developing economies that is the attractive market. It is also important that MNCs estimate the size and the purchasing power of the market, to be able to set the price right and not out of reach of their target audience.

### Bottom of the Pyramid

The bottom of the pyramid has also been defined several times by several different people. This untapped market and its opportunities have caught the attention of numerous companies across the world. While low income may have provoked companies to stay away from this segment, the sheer size of the market is likely to drive product innovation and profit in the coming years (Evaluerve, 2008).

Prahalad was one of the first who saw the potential of the market. In his book *"The Fortune at the Bottom of the Pyramid"* he provided 12 principles of innovation in the BOP market, which are useful for MNCs when entering and operating in the BOP (Prahalad, 2004). See Appendix 1. These principles are also useful in the context of marketing, as Prahalad argues that the MNCs need to adapt their existing product to the poor consumers, they have to understand the needs of this market in order to innovate on the product, rather than pushing irrelevant products upon it. It does not necessarily mean cheap innovations, because the poor are also value conscious consumers and would be willing to pay for products that are relevant for them, which could in the end create profits for the MNCs as a result of the aggregated purchasing power.

According to the Hammond et al. study (Hammond, Kramer, Katz, Tran, & Walker, 2007), it is said that the BOP is estimated to have 4 billion people with incomes below \$3,000 per annum in local purchasing power. Also that BOP markets are predominantly rural with the majority living in Africa, South Asia, Eastern Europe, Latin America and the Caribbean. As well as the BOP itself is not a homogenous segment and incomes can vary across regions and countries. Figure shows the economic pyramid, estimating the BOP market according to Hammond et al. The pyramid demonstrates that, the market opportunity are not lying on the wealthy few in the developing world, but the huge number of aspiring poor who are to join the market economy for the first time. At the very top of the pyramid there is only a small fraction of global consumers corresponding to the affluent market in the developed countries, and this is where most MNCs originate (Prahalad & Hart, 2000). Therefore most MNC managers' views on business are accustomed by their knowledge and familiarity with Tier 1 consumers. At the bottom of the pyramid, there is the emerging BOP consumer, where the majority live in rural areas (Prahalad & Hart, 2000). Because of the MNCs familiarities with the top, Tier 3 and 4 have largely been invisible to the corporate sector.

## Notes

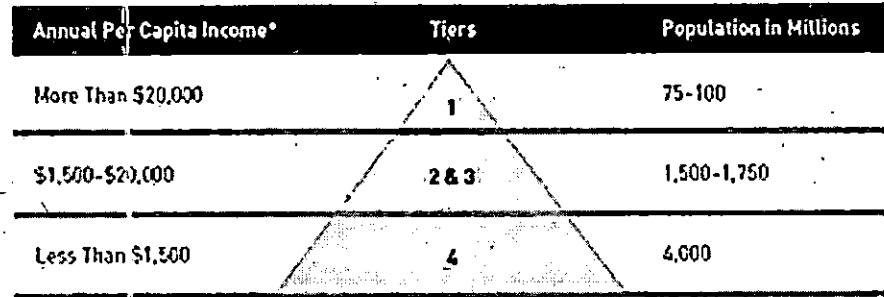


Figure 5.2. The world economic pyramid (based on purchasing power parity in U.S. \$)

Source: U.N. World Development Reports

The number 4 billion, is a bit overestimated, because the newest (which is not that new) report from World Bank shows that there are 2,582 million people in the world living for less than \$2 a day, and 1,398 million people in the world living for less than \$1.25 a day (see also Appendix 2 for a country specification) (World Bank, 2005). One of the reasons for the overestimation could be that there are different definitions of the poverty line, as previously mentioned, which can push the BOP market size upwards.

The market is nevertheless large, and the BOP approach implies that MNCs can make a fortune by selling to the poor who have been neglected as potential consumers, and that the consumption choices available to the poor can be increased by targeting various products and services, and by lowering the prices but not the quality. As a market, the BOP provides a new growth opportunity for the private sector and a venue for innovations. But old business models won't work. Tapping into markets at the BOP can provide MNCs with access to a fast growing population that is potentially the most exciting growth opportunity of the future (London & Hart, 2004). Serving the BOP consumers will demand innovations in technology, products and services, and business models.

### Expenditure in BOP

One of the most comprehensive and in-depth studies that quantifies expenditures and spending among the world's poor is also the one by Hammond et al. (Hammond, Kramer,

Katz, Tran, & Walker, 2007). An understanding of what and how much is spent on each category can be the starting point to examine where there is need for products and services. Especially because of the reluctance the MNCs have towards investing in the market. The MNCs assume that poor people with such low incomes have little to spend on good and service and that the money that they do have goes to basic need like food and shelter (Pralhad & Hammond, 2002). Below are shown consumer expenditures in various sectors or categories, given in the Hammond et al. study.

- Food \$2,895 billion (58 percent).
- Energy \$ 433 billion (9 percent).
- Housing; \$ 332 billion (7 percent).

- Transportation \$179 billion (4 percent).
- Health \$158 billion (3 percent).
- Information and Technology \$51 billion (although the report estimates it could be double of this by the time it was printed given rapid growth rates) (1 percent).
- Water \$20 billion (0.4 percent).
- Other \$932 billion (18 percent).

It is obvious that in the BOP the first needs that require to be taken care of, are the basic needs which Maslow (1943) displayed in a pyramid covering five steps, starting at the bottom with psychological needs, covering the obvious and basic need of survival (air, food, water, shelter, sex, sleep) (Maslow, 1943). The needs of the BOP are made up of the most basic needs, and once the lowest level of needs have been met, people can move on to the next level of needs. The Hammond study gives an idea of what poor people spend their money on beside the basic needs. The full overview can be seen in Appendix 3. This gives a counterargument to Karnani who says that the poor people do not have necessity for these categories of needs (Subrahmanyam & Gomez-Arias, 2008). Yet addressing these unmet needs of the BOP market is essential for raising welfare, productivity, income and thereby consumption. Moreover understanding the strengths and weakness of Maslow's pyramid of needs is also important for MNCs, since evaluating the different needs, values, drives and priorities of people, influences the marketing strategy.

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## 5.4 Potential of BOP

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At present, BOP consumers spend the majority of their income on food, beverage, tobacco, transportation and housing. However, by 2025, the spending on food, beverage and tobacco is estimated to decline as the poor's disposable income increases. Meanwhile the spending on transportation, healthcare, personal products and services, recreation and education are likely to increase gradually (Evaluesserve, 2008). The size of the BOP market is expected to expand at a faster rate than that of the top of the pyramid. The changing spending pattern has required a change in marketing strategies to be able to unlock the full potential of the BOP market (Evaluesserve, 2008). It is also a neglected market, which gives great growth opportunities, compared to the developed and saturated market. Therefore the potential and the opportunities of the BOP market are enormous for the private sector (as well as the public sector). The BOP marketing strategies need to focus not only on lowering price points for existing products and services, but also on creating and offering customized products to address the unmet needs of BOP consumers.

The 4 billion people at the BOP are, as mentioned, all those with incomes below \$3,000 per annum in local purchasing power. Their incomes in current U.S. dollars are less than \$3.35 a day in Brazil, \$2.11 in China, \$1.89 in Ghana, and \$1.56 in India. Together they have a significant purchasing power; the BOP constitutes a \$5 trillion global consumer market, which of course has large variations across regions, countries, and sectors in size and other characteristics (Hammond, Kramer, Katz, Tran, & Walker, 2007).

## Notes

**BOP market—\$5 trillion**

TOTAL BY INCOME SEGMENT

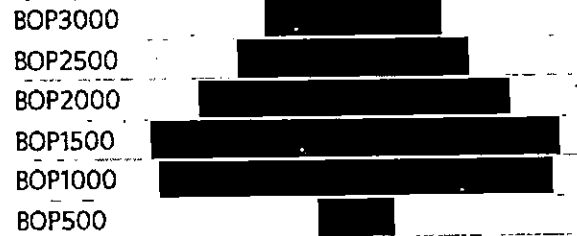


Figure 5.3. BOP global consumer market

Source: (Hammond, Kramer, Katz, Tran, & Walker, 2007).

The wealthier mid-market population segment, the 1.5-1.75 billion people with per capita incomes between \$3,000 and \$20,000, represents a \$12.5 trillion market globally. This market is largely urban, already relatively well served, and extremely competitive.

In contrast, BOP markets are often rural, very poorly served, dominated by the informal economy, and, as a result, relatively inefficient and uncompetitive. It is also a fact that the BOP population segments for the most part are not integrated into the global market economy and do not benefit from it. Engaging the BOP in economy is a critical part of any profit making and general growth strategy for an MNC (Hammond, Kramer, Katz, Tran, & Walker, 2007).

An analysis of the BOP market can help MNCs think more creatively about new products and services that meet BOP needs and about opportunities for market-based solutions. It is an important first step towards identifying business opportunities, considering business models, developing products and marketing strategies, and expanding investment in BOP markets. As earlier mentioned new empirical measures of the BOP consumer behavior and their aggregated purchasing power suggest significant opportunities for market-based approaches to better meet their needs. A market-based approach starts from the recognition that being poor does not eliminate commerce and market processes: nearly all poor households trade money or labor to meet some kind of a basic need. Therefore a market-based approach focuses on people as consumers and perhaps producers and on solutions that can make markets more efficient, competitive, and inclusive. It looks for solutions in the form of new products and new business models that can provide goods and services at affordable prices. Those solutions may involve market development efforts with elements similar to traditional development tools; mixed business strategies that incorporate consumer education; microloans, consumer finance, or cross-subsidies among different income groups; franchise or retail agent strategies that create jobs and raise incomes. Yet the solutions are ultimately market oriented and demand and profit driven and many successful MNCs are starting to adopt such strategies. Perhaps most important, traditional approaches do not point toward sustainable solutions, while a market-oriented approach will recognize that only sustainable solutions can scale to meet the needs of the BOP market (Hammond, Kramer, Katz, Tran, & Walker, 2007).

Business interest in BOP markets is rising. MNCs have been pioneers, especially in food and consumer products. But why are some companies succeeding in meeting BOP needs, and others are not? Successful companies operating in these markets use four broad strategies that appear to be critical:

## Notes

1. Focusing on the BOP with unique products, unique services, or unique technologies that are appropriate to BOP needs and that require completely reimagining the business, often through significant investment of money and management talent. Examples are found in such sectors as water (point-of-use systems), food (healthier products), finance (microfinance and low-cost remittance systems), housing, and energy.
2. Localizing value creation through franchising, through agent strategies that involve building local ecosystems of vendors or suppliers, or by treating the community as the consumer, all of which usually involve substantial investment in capacity building and training. Examples can be seen in health care (franchise and agent-based direct marketing), ICT (local phone entrepreneurs and resellers), food (agent-based distribution systems), water (community-based treatment systems), and energy (mini-hydropower systems).
3. Enabling access to goods or services, financially (through single-use or other packaging strategies that lower purchase barriers, prepaid or other innovative business models) or physically (through novel distribution strategies or deployment of low-cost technologies). Examples occur in food, and consumer products (in packaging goods and services in small unit sizes, or 'sachets') and in health care (such as cross-subsidies and community-based health insurance) and across many sectors, financing strategies that range from microloans to mortgages.
4. Unconventional partnering with governments, NGOs, or groups of multiple stakeholders to bring the necessary capabilities to the table. Examples are found in energy, transportation, health care, financial services, and food and consumer goods. (Hammond, Kramer, Katz, Tran, & Walker, 2007).

Companies often use more than one of these strategies successively, or in combination.

Moreover converting the very poor into active consumers will foster innovations in technologies and business models. It will challenge managerial (and public policy) assumptions about sustainable and competitive business development. Most importantly, conceiving such a huge market will force a reexamination of the price/quality/cost relationships for products and services, thereby perhaps demanding a new level of capital efficiency. It requires a total transformation of managerial practices in established MNCs in the BOP (Prahalad & Hart, 2000).

## 5.5 Acceptability

In the BOP market, the functionality of the product is a key success parameter. Therefore, a product that has worked well in traditional markets may not be acceptable to BOP consumers if the product functionality is not in line with their unmet needs (Evalueserve, 2008). MNCs should

focus on developing customized products to tap the BOP segment. Their need could be met via a creative blend of advanced technology and deep local insight.

## Notes

Drawing from the case Nestlé Brazil, one can see that the MNC has looked at the market and thought about what the needs were in terms of nutrition. They have noticed that BOP consumers have deficiencies of iron, zinc, iodine and vitamins, which made Nestlé add low-cost micronutrients to their products, without raising the price or lowering the quality.

Tata has noticed that there is a need for purified drinking water in the BOP, which made them make a product that is even cheaper than running water. The Swach can be used in households where there is no electricity or running water, and Tata has made sure that the purifier is safe for the poor, because it shuts down after its active life. These two are perfect examples on how companies have and should listen to the markets needs instead of pushing the needs of the industrialized market on to the BOP.

Functionality lies also in how the product is used by the consumer. For example, body soap is often used instead of shampoo or the other way around. While this is no safety hazard, it is an inappropriate use of the product. Either firms should develop products with alternative use or educate consumers on appropriate use (Prahalad & Hart, 2000). Tata saw the need for Tata Swach Smart Magic, because the consumers started using only the upper part of their purifier. Tata therefore made a new purifier, which still purifies water but into a traditional Indian holder, this alternation of the product also saved them cost and made the Tata Swach Smart Magic cheaper. Both consumer education and sustainable development are thus critical to shaping expectations at the BOP.

Also shared access to products is an opportunity. In the BOP a lot of people shared one product, e.g. the TV, this could also be done with some other products, which makes the costs for the individual consumer lower. Tata Swach can be shared between families and the in community.

Companies might also need to respond to specific national, regional, cultural or socioeconomic aspects, or even to address the unique requirements of local business practices (Anderson & Billou, 2007). As mentioned in the cases, Nestlé has adopted its products to local tastes, such as smoother instant coffee, enriched (powder) milk and cookies wrapped in smaller packages. To be able to suit the consumer's needs and to sell the product, it is essential to understand the local preferences and practices. When a company understands its market more, it can be more specialized in that market, and thereby have greater operational efficiency, and in the end smaller costs.

There are of course first mover advantages when launching a product in the BOP market. The consumer will, with the company's specific product, recognize the brand as the first on the market. The consumer will trust the company and be loyal, which is very important in the BOP market. There is also the fact that the company will learn the specific needs of the market and can make a more specific product. All of this will give the company a competitive advantage in regards to the competitor. Take SC Johnson venture CCS as an example of an MNC that have

distinguished themselves as a first mover on the market with their concept. SC Johnson has made a great deal of new consumers by improving cleanliness and protecting the health of the poor, and at the same time introducing them to the product with the CCS.

However when the product is initially launched and the consumers have gotten used to it after a while, then the other companies can slowly enter the market as well, but they will in addition to the knowledge of needs, have the advantage of the familiarity and acceptability of the product in the market. Therefore they will be able to slowly change their product with new or added functions, which might be closer to products and needs of the industrialized market, thereby making the acceptability of the westernized products easier. This creates competition in the market.

The challenge in serving BOP markets is to gain acceptability for the product; there is a necessity to offer products and services that are adapted to the unique needs of both consumers and distributors (Anderson & Billou, 2007). Thus the product must be altered so that it meets the needs of the poor and the requirement of the environment they are in. However the BOP market is ready to adopt new technologies that can improve their opportunities and the MNCs shouldn't hesitate to sell and market a bit more advanced technologies at the BOP, even before selling and marketing them to the developing markets (Prahalad & Hammond, 2002).

When comparing acceptability with the element product, one can see that the acceptance of the product is the heart of the marketing efforts. It is also clear that both in the developed and developing world one should take input from the consumers to be able to adapt the product to the particular market.

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## 5.6 Affordability

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Given the low disposable income of BOP consumers, pricing is key to higher product penetration. People in rural areas are not only price sensitive, but also quality conscious. Therefore, producing quality products at lower price points has posed a challenge for companies trying to protect their margins in cost (Evalueserve, 2008).

There are only three ways to reduce prices: reduce profits, reduce costs without reducing quality, and reduce costs by reducing quality (Karnani, 2007). To reduce profit, means that the company's must lower their margin, which is most unlikely. The only example of product reduction is in the product category of electronics, where the technology of production has improved so much that the margin has been able to stay at the same level, while the prices of the product have been reduced. There are no other product categories that have been able to make the same prosperity.

Garvin has developed a framework for analyzing quality, by considering these eight dimensions: performance, features, reliability, conformance, durability, serviceability, aesthetics, and perceived quality (Garvin, 1987). The consumer takes into account all these dimensions and reaches a subjective judgment of the overall quality of the product, and is, by definition, willing to pay a higher price for a product with higher quality - this is the price- quality trade-off.

## Notes



## Notes

Holding technology and company capabilities constant, it costs more to produce higher quality products – this is the cost-quality trade-off. To profitably serve the poor, the company needs to make the cost-quality trade-off in a manner consistent with the price-quality trade-off made by the target consumer (Karnani, 2007).

Contrary to Prahalad's BOP approach, it is often necessary to reduce quality in order to reduce costs; the challenge is to do this in such a way that the cost-quality trade-off is acceptable to poor consumers. The poor do like inexpensive, low-quality products, it's not because they cannot appreciate or do not want good quality, it is simply because they cannot afford the same quality products as the rich; so, they have a different price-quality trade-off. Insisting on not lowering quality hurts the poor by depriving them of a product they could afford and like to buy. Most often reducing costs while reducing quality, does not require a major technological prosperity (Karnani, 2007).

Some products like consumer and food products are more price elastic, and hence get substituted as their prices rise, and are thus sensitive to pack size. On the other hand a few other goods like medical products are less price elastic and hence less vulnerable to changes in price and pack sizes. The sachets are a good example of a smaller packet for smaller prices.

Sachets are actually cheaper, but only successful in some cases. The full potential of sachet marketing can only be realized as long as unit costs for the sachet are lower than that for the full-sized pack. Improvements in packaging technology and distribution efficiencies are the main drivers of cost reduction for sachet products. Nestlé has lowered their prices on their products, which of course include sachets, by new food flavors, new technologies, new distribution models and by targeting at the BOP consumers. In Table 3, the comparison between sachet and bottle costs can be seen. It is obvious that sachets give the poor a better opportunity to store the product, at a smaller price – this is also a good example of reducing costs without reducing quality.

**Table 5.1. Price differences between sachet and bottle cost for leading shampoo brands in India**

Shampoo brand	Company owning the brand	Unit cost (bottle) in Rs per ml (at MRP)	Unit cost (sachet) in Rs per ml (at MRP)	% Price differential
Clinic All Clear	HLL	0.508	0.313	38%
Clinic Plus	HLL	0.445	0.250	43%
Head & Shoulders	P&G	0.610	0.600	1.6%
Pantene Pro-V Normal Hair	P&G	0.560	0.400	29%
Sunsilk Fruitamins	HLL	0.475	0.250	47%
Sunsilk Black	HLL	0.495	0.250	50%

Source: [www.blonnet.com](http://www.blonnet.com) 2004, (Singh, Ang, & Sy-Changco, 2009)

As earlier mentioned BOP consumers have low disposable incomes and receive their income on a daily rather than weekly or monthly basis (Anderson & Billou, 2007), therefore MNCs have to ensure that products or services offered are affordable and match the consumer's cash-flows.

CCS direct home cleaning service cost usually less than \$ 0.25 per family per week, which is affordable when compared to a soda that cost the same. CCS costs are brought down by the local collaboration, which makes it possible to have such low cost of-service.

Prahalad states that poor live in expensive high cost economies, and as a consequence they actually pay more for certain products compared to richer consumers, and that there is a poverty premium on the poor. In his book he gives a price example of different items in the Mumbai slum area versus an urban area (Prahalad, 2004), see Table 5.2.

## Notes

Table 5.2. Poverty premium in Mumbai

Item	Dharavi (a slum outside Mumbai)	Warden Road (a higher income neighborhood outside Mumbai)	Poverty Premium
Credit (Annual Interest)	600-1,000%	12-18%	53.0
Municipal grade water (per cubic meter)	\$1.12	\$0.03	37.0
Phone Call (Per minute)	\$0.04-0.05	\$0.025	1.8
Diarrhea medication	\$20.00	\$2.00	10.0
Rice (per Kg)	\$0.28	\$0.24	1.2

Source: (Prahalad, 2004)

One can see that in this particular example the poor actually pay more than the rich. The poor don't have the privilege to scout around for better prices or the privilege of complaining. Sometimes it is not only the privilege, it is also the lack of knowledge, which is exploited by different suppliers/companies.

In the end, based on the international price policy, companies themselves define the market price of their products and services. Price definition uses three basic methods: cost-oriented, demand-oriented, and competition-oriented methods (Sele, 2006). Tata Swach is demand-oriented, because the company can see that there is a need for the product at the market, they are also competition-oriented because they have the lowest price on the market which consequently makes them cost-oriented. Other MNCs definitely think about these three methods when setting their price at the BOP. Moreover the factors that affect price determination differ from one country to the other and must therefore be revised on an individual basis (Sele, 2006).

When comparing affordability with the element price, one can see that both with the affluent and BOP consumer, it is important to set the price according to the perception of worth in the market. It is also important to think about the costs and breakeven points, because, as mentioned, price is the only one of the elements that brings in money.

## 5.7 Awareness

The cultural heterogeneity in rural and urban BOP consumers makes it difficult for marketing managers to create awareness. Additionally, low literacy rates, joined with limited reach of the

electronic media, are likely to act as a barrier to promotional efforts. Therefore regionalization of the product promotion is necessary, as it is seen in all the three cases.

In the impersonal promotion, the consumer must be exposed to the product in a way that they understand what the product is about and what kind of need the product will cover. As different cultures have different learning and understanding abilities the product must be presented according to the receiver. MNCs need to be very careful in choosing the vehicle to use for communication and they have to remember that unconventional marketing can save costs. Audio visuals are a very popular way to convey the message, the rich, traditional media forms such as folk dance and puppetry can also be used for high-impact product campaigns. Word-of-mouth is also a good form of advertising. In rural areas, there are some select opinion leaders who hold regular meetings with the community, these meetings are a common platform for all to discuss everyday issues, which could also be a good place to present and promote the product. Also if the message of the product is conveyed through local languages it leaves a powerful impact, e.g. Swachh which means pure in Hindi.

Further drawing from the case study about Swachh, their promotional approach was in the first place just to get consumers to use their product, to try to convert non-users into users. Swachh used a door to door approach, teaching, educating and demonstrating the water purifier to the consumers. Nestlé also uses a door to door approach, where local women sold Nestlé products in kits, the success of Nestlé is based on partnerships with the women and the knowledge they bring back about the consumers for future promotions. Nestlé also use marketing to positively influence consumer values and behavior and to edit their choices towards the healthier products.

With many BOP consumers largely inaccessible to conventional advertising media, building awareness is a challenge for companies wishing to serve low-income consumers in the developing world, take an example in India where only 41 per cent of poor rural households have access to TV (Anderson & Billou, 2007). To overcome these constraints, Tata Swachh invested heavily in billboards along roads, in urban areas and in rural communities.

The sales promotion offers in the BOP market is something a lot of companies use, for example certain detergent powders attaches a washing bucket for free to their products, so the BOP consumer can wash their laundry in it using the detergent. Others sell in bundles or attach more of the products to the sale.

Personal promotion can be drawn from the SC Johnson CCS case; their idea was to become a member of the community. They wanted to gain a better understanding of the environment and a closer relationship. This has enabled them to become partners and co-creators, with organizations and groups that have deep credibility and community roots.

Co-creation is a technique where the companies can tie up with the local vendors in the unorganized market to sell or promote their product and offerings to BOP consumers. The local vendor has a wider access to the market and has a deeper understanding of consumers' needs. Hence, a promotional strategy by a local vendor/seller is expected to be more successful than a direct effort of the company (Evalueserve, 2008).

When talking about promotion and marketing to the BOP, companies should take a long-term view on this market and focus on developing a sustainable and fitted business model, where

communication is the key to innovation and key to awareness towards the BOP consumer. This focus can give MNC a competitive advantage.

When comparing awareness with the element promotion, the key is communication. It is important that the methods of communication is blended well so that the message comes across understandable and targeted at the particular market, whether it is the affluent or the BOP market.

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## 5.8 Availability

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One of the biggest challenges of serving BOP markets is to ensure availability of products and services. Unlike in the developed world, distribution channels in these markets can be fragmented or non-existent and the simple fact of getting products to people can be a major difficulty to overcome (Anderson & Billou, 2007).

A strong distribution system is critical to any effective BOP market strategy. Reaching the poor is not easy, especially given the poor road infrastructure in the rural areas, this causes the distribution costs to increase, which sometimes makes them even higher than in the urban markets. Therefore, companies are finding it increasingly difficult to protect their margins in the BOP market (Evalueserve, 2008).

A MNC cannot alone create the commercial infrastructure at the BOP. Viable partnerships with local people and community agents who have the social capital to bring people together and build incentives should be emphasized. The involvement of local population in the distribution not only improves product distribution, but also encourages entrepreneurial aspirations, thereby creating more employment opportunities.

Drawing from the case study of SC Johnson's CCS it can clearly be seen that they operate across diverse infrastructure. CCS partners up with young entrepreneurs from different communities and start independent businesses, CCS also works with schools, NGOs and local government. This is a way to involve the local population in the distribution channel, it is not a traditional door-to-door selling, it is a direct-to-home service with SC Johnson products as inputs. This, not only get the community involved by employment, but it also teaches and educates them about the importance of hygiene. This gets them to trust SC Johnson products and makes them want to buy through the local collaborators. Otherwise CCS would have had a difficult time getting their product out in rural areas and getting people there to use them.

In Brazil, Nestlé collaborates with local distributors and wholesalers, who sell to small, local stores or directly to consumers. They also, as mentioned, partner with some micro distributors that hire women in the outskirts of the cities to sell their products door to door.

In addition the distribution system will have to adapt itself to satisfying demands for increased services at the consumer's convenience and be open to rapid consolidation across the supply chain. Involvement of MNCs in for example retailing would lead to efficiency in supply chain that will help reduce costs in production and result in better prices, which benefits both the supplier and the end consumer (PricewaterhouseCoopers, 2006).

In the end distribution patterns for products and services must account for where the poor people live and work. BOP consumers often work long or odd hours, and lacking cars, they must

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walk or take public transportation; therefore it is very important that the MNCs provide an easy access to products. It's all about getting the right product to the target markets place, and therefore the difficulties are worth it, in the long run. And once the distribution channel is established it can be re-used by other product categories within the company. This is what Tata Swach did; they re-used their distribution network from other Tata Group companies, such as Rallis and Tata Kisan Sansar.

When comparing availability with the element place, it is important to choose the channel of distribution wisely. It can in both markets differentiate your product from the competitor, and at the same time save the company costs. The latter is more important in the BOP market, because it is essential that the costs are as low as possible, since the price of the product has to be low as well.

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## 5.9 Aspiration

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After the analysis of the three cases there has been one other aspect, besides the four A's, that stood out as important when marketing to the BOP. It is the people, or the aspirations of the people in the BOP. All three cases have shown that using the BOP as a workforce gives great inside knowledge and bridges the MNC to the community. SC Johnson has employed people with their CCS, Nestlé has employee people in their factories and Tata Swach has employed people for promoting and educating the consumers about the product.

According to the ILO, nearly a billion people (roughly 30% of the world's labor force) are either underemployed or have such unskilled jobs that they cannot support themselves or their families (International Labour Organization, 2011). For MNCs, business opportunity can be developed by helping the people in the BOP elevate themselves above this poverty line. Creating buying power and increasing the income earning potential of the poor is one of the first priorities among the strategies for the BOP (Pralhad & Hart, 2000). The poor have aspiration about getting out of poverty, and the only way they can achieve this is to get a job and start earning money, or get better earning job that can take them above \$2 a day. This aspiration is also in the best interest of the MNCs, because if the consumers have more money between their hands, they spend more money. The poor people needs will also change from basic needs to some other items, see Appendix 3.

The BOP proposition focuses on the poor primarily as consumers, but the poor, like most people, are of course both consumers and producers. The poor not only need employment, they need decent employment, which is a job that offers a worker a good income, security, flexibility, protection, a voice in the community and aspirations for the future. Employment is not only the key source of income; it also improves other dimensions of wellbeing by increasing the individual skill, physical abilities and self-respect (Karnani, 2011).

There are two ways for a person to be a member of the labor force; as an employee or as self-employed. Creating opportunities for steady employment at reasonable wages is the best way to take people out of poverty (Karnani, 2011).

Increasing employment in poor countries via MNCs, requires three mayor forces: 1. The generation of new jobs. 2. Increasing the employability of workers. 3. Making the labor markets more efficient (Karnani, 2011).

The first force works on the demand side of the labor market by creating job opportunities which are more fitting to the skills of the poor. Therefore deskilling of work is essential

(Prahalad, 2004). The poor are not very educated in different job areas, and what seems as an ordinary job in a developed country, can be quite difficult in the BOP. Thus some task can be split up, so as the poor worker only concentrates on one-area, and thereby getting more specialized in that. This in the end also creates more jobs that satisfy the demand. Even the design of products and services must take into account the skill levels (Prahalad, 2004).

The second force works on the supply side of the labor market by increasing the employability of the poor through education and vocational training programs. Labor markets, especially in developing countries, have much friction due to a lack of both information and labor mobility (Karnani, 2011).

In subsistence marketplaces, companies that hope to succeed need to be flexible and listen to the consumers they seek to serve. MNCs need to include education in the jobs they are offering. It is not likely that the poor person knows or has the capabilities to complete a certain job. It is also not likely that the poor consumer knows how to use a certain product. New approaches to consumer education, is a must to create a commercial infrastructure. Education is the key to creating an appropriate consumer orientation and knowledge among the poor in the BOP (Prahalad & Hart, 2000). Perhaps by hiring some people to educate consumers, the product could become easier to use, and by making education a part of the product, it could help to sell some of the products. In the end, by providing education, it will create job in selling the product, in the production and also be integrated in the service of the product. Therefore the MNC needs to provide some education in these areas, like for example SC Johnson did with the CCS entrepreneurs, and Tata Swach did in their promotion. Companies that integrate consumers into all parts of the marketing process will likely emerge as leaders in the marketplace. Including consumers in the early stages of the research process as well as during the creation of solutions, this will result in more effective product or service offerings (Weidner, Rosa, & Viswanathan, 2010).

The third force would include programs such as job matching and placement services, which helps to improve labor market efficiency. The private market is primarily responsible for job creation (Karnani, 2011), but the public sector has a huge impact, in opening the economy and the opportunities for MNCs.

On the product side, products offering the most hope and aspirations for raising the income level of the community are those which include some local element in the production or distribution, those which in some way expand business opportunities and improve the wage-earning opportunities of local workers (Weidner, Rosa, & Viswanathan, 2010). Traditional ways of doing business need to be rethought, everything from the production to the initial sale need to be challenged with the traditional conventions. It is important to understand and incorporate the needs of consumers and the marketplace. This could be done by, as earlier mentioned, co-creating products with consumers, and thereby getting more involved in what their needs are (Weidner, Rosa, & Viswanathan, 2010). This could also be done by developing innovative communication through brand name selection, demonstrations and advertising, encouraging word of mouth, and working with local partners (Weidner, Rosa, & Viswanathan, 2010).

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On the employment side, labor intensive jobs are mostly needed, sectors such as manufacturing, construction and agribusiness, where it is not necessary to be a vocational worker to make a living. To localize production is a good idea, as in the case of Nestlé. It increases livelihood opportunities for the people in the area, and creates awareness of the company, at the same time develops a network with the community. Localization of production also reduces transportation costs, which is good for the companies green image (Weidner, Rosa, & Viswanathan, 2010). Also by tapping into the cheap labor pool and operating in the BOP, MNCs can enhance their efficiency. The competitive necessity of maintaining a low cost structure in these areas can push companies to discover creative ways to configure the products, finances and supply chains to enhance productivity. These things can of course be incorporated back to their existing operations in developed markets (Prahalad & Hammond, 2002). MNCs are the perfect candidates for job creation, they can also often develop their own infrastructure and not rely on public utilities, because they have easier access to capital funds (Karnani, 2011).

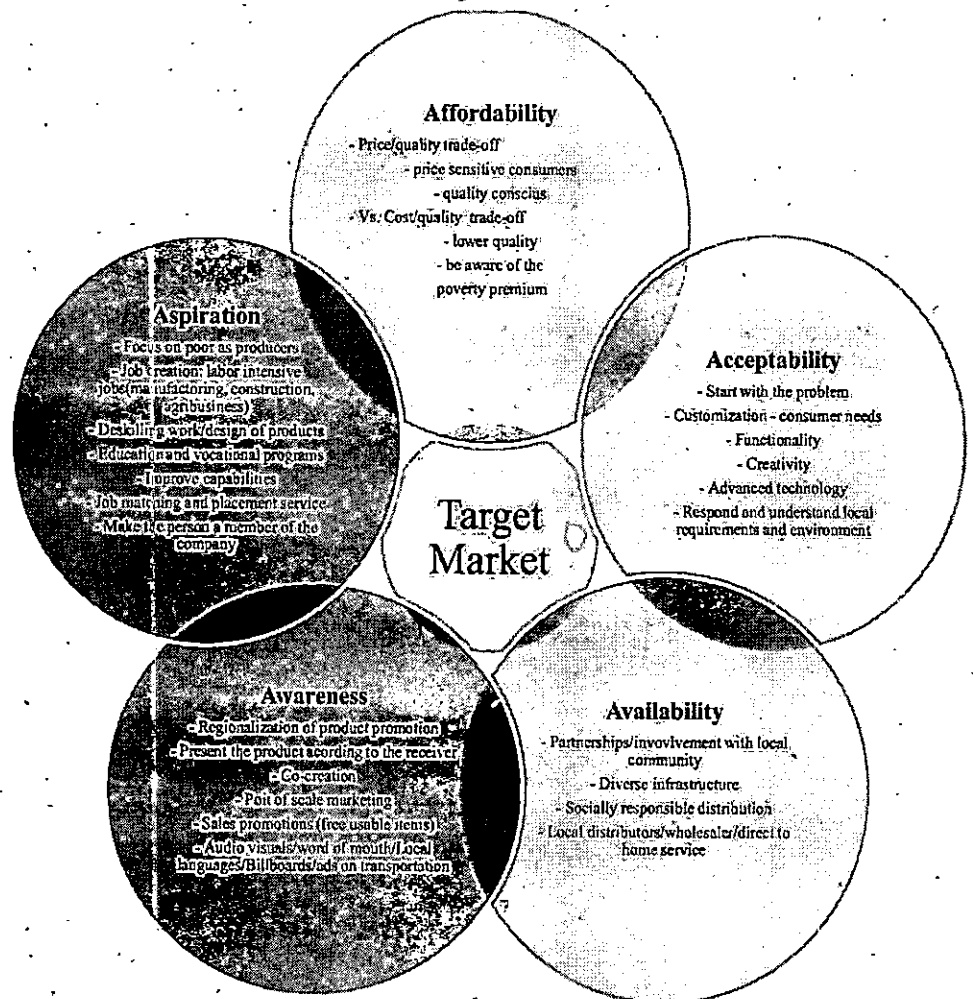


Figure 5.4. The five A's

Source: Own interpretation.

When looking at countries that have dramatically reduced poverty and increased consumption in the world over the last 20-30 years, China comes to mind. By creating enterprises,

mostly factories that are making simple products like shoes, toys, and garments; they have created labor intensive low-skill jobs on a large scale. China formed a tremendous amount of job creation and that is what other developing countries need to do. The solution is perhaps not governments and aid organizations doing more and more, the solution is perhaps businesses creating jobs (Karnani, 2011). There will of course be different strategies for different BOP countries in different areas of each country.

The addition of Aspiration to the four A's is not far from foreign in marketing theories. When compared to the seven P's of marketing, it would be the element People. Whenever a person is identified as a member of a company, they would come to play an ambassadorial role. They would also be responsible for how the outside world looks at the company (Meldrum & McDonald, 1995). People, or as in BOP marketing, Aspiration have an impact on the rest of the elements in the marketing mix, and it is very difficult to establish good relationships with intangible thing, therefore people's role becomes very important in regards to the company and the competition. The five A's are to be used as a regular marketing mix analysis, which change different parameters to adjust to the different consumers/segments. The five A's are just targeted at the BOP markets because of the different initial parameter.

Figure 5.4 gives a summary of the five A's and a quick overview on how they can be used. The target market is still at the center and the five elements are related and influence each other, as in the four P's.

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## 5.10 Discussion about the Barriers to Marketing

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There are good opportunities for MNCs at the BOP market, and using the five A's is a good way to explore, control and target this large market. Besides the opportunities, there are also some difficulties and barriers if a company wants to enter the BOP, some of them are similar to the affluent market, but some of them are more difficult and need to be considered. It is important that the MNCs know about these barriers, so that they perhaps can gain learn from them.

It is things like; are the products appropriate, is the price right, are the promotions adequate and well understood by the receiver, and is the distribution possible.

Numerous poor people are not well informed or educated enough to fully appreciate the value of the product or service they are being offered by the particular MNC. For example, a survey conducted by the Monitor Group in India found that 60% of the respondents would not switch to purified water –even if it was free (Monitor Group). It is difficult to understand such responses given the evidence that water borne diseases are a major cause of bad health amongst the poor (Garrette & Karnani, 2010). The question here is, how can a product like Tata Swach sell after the response to such a survey. How can they even have a market to sell to? Moreover, how can other companies enter the market in this product field, if the people there are not even aware of what the product is, what it can do and how it can help them.

There is also the adaption trap to consider. There are some MNCs that rather than starting with the problem the consumers might have, they start with the product it markets in affluent countries and tries to adapt it to the BOP markets. This is the case with Grameen-Danone collaboration and their Shokti Doi yogurt. The most obvious mistake with this product was



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that Grameen-Danone failed to design their product based on end-user needs or the particularities of the problem of rural malnutrition. They focused on the other hand on their already existing strengths in the implemented organizations, which was making yogurt, and the Grameen distribution ladies (Danone, 2011).. Despite Danone's knowledge and capacity for yogurt production and consumer research, yogurt was not the wisest choice for a fortified food product given its need for refrigeration and consumer habits. This product did not in the end generate enough profit, compared to the operation costs, which was also one of the reasons why they started to sell the yogurt in urban markets at a higher price. Grameen- Danone fell into the adaptation trap (Garrette & Karnani, 2010).

•BOP is a very complicated market to enter, because the market is not aware of its possibilities. The MNC has to educate the people at the BOP to convince them that their product is worth something. Also, the MNC has to start thinking outside the box; when it comes to the production and adaption of the product, its looks and features. And if a company is not ready for that task, then the barrier can be hard to overcome.

The BOP market has a significant purchasing power in total, because of its size, but the individual poor person at the BOP cannot afford much and does not have that much money at disposal per day, as earlier mentioned. Consumer cash flow is an issue that many companies overlook in their quest to reduce prices. BOP consumers aren't just poor, they also live in a state of uncertainty and up-front payments for certain products are simply out of the question for them (Karamchandani, Kubzansky, & Lalwani, 2011). It is therefore difficult for a company to set a price that both suits the consumer and covers the costs of the product.

The poor are also often not well informed about the product and cannot easily answer a questionnaire about their future willingness to buy and pay for the product. For example, assessing the size of the unmet need for eyeglasses in rural India is easy; assessing the size of the market opportunity for eyeglasses is extremely difficult. It was found that 55% of rural women in a survey in Timor-Leste were unwilling to pay even \$1 for eyeglasses; this is in spite of the significant impact eyeglasses have on work productivity and quality of life (Garrette & Karnani, 2010). Facts like these make it difficult to set a price.

Moreover businesses and companies in general, are motivated by self interest and are responsible for creating value for its owners and shareholders. It sometimes takes a lot of effort and time to lower production and administration costs, to be able to lower the market price, and for that reason the MNCs do not see the payback of this action, because they can usually sell their products at the affluent market without changing. It is even questionable if the fortune of the BOP market is in fact that large and if it is worth the efforts.

Promoting to the BOP has also some barriers. It is difficult to measure if the message of the particular vehicle of communication has come across to the receiver. The market itself is very diverse and it is hard to know if the advertisement is understood equally by everybody. The marketing manager becomes very vulnerable, because he/she needs to read the market correctly, so that the message doesn't get misunderstood.

Promoting the product at the BOP also needs to be done in such a matter, that it doesn't influence the value of the product in the affluent market. A low-end version of a company's brand

may reduce its attractiveness in some consumers' eyes (Karamchandani, Kubzansky, & Lalwani, 2011).

The factor of awareness means that the marketer has to think in a different and perhaps more innovative way when promoting the product. This is not an easy task and not something that works out successfully for all MNCs.

The logistics of reaching the poor consumer is more demanding and expensive, than in the affluent markets. The roads are poor and sometimes nonexistent. There are some MNCs that had to make their own roads to be able reach the consumer. As in the example of E-Choupal, ITC had to make their entire distribution channel themselves. It takes a lot of time and effort just to make the products available to the consumer, and again one has to think out of the box to make it possible, and at the same time be aware of not disturbing the community or the life style of the people in it.

There is also the matter of missing business ecosystems needed to support a product or service at the BOP. For example, once a rural entrepreneur has purchased a cow, where does she go for veterinary services? Innovative companies address the holes in the ecosystem by supplementing value chains end-to-end (Karamchandani, Kubzansky, & Lalwani, 2011).

Creating socially responsible distribution is essential for the success at the BOP. At the same time, creating a distribution network to reach the poor might be too expensive in terms of costs and contribute to a failure of the product (Garrette & Karnani, 2010). Many MNCs launching BOP initiatives are forced to create distribution networks from scratch in order to reach the poor rural consumers. This creates large difficulties that are often underestimated.

In the BOP market there is also a lack of legal frameworks. Complex operating environments often lack functioning legal systems, which can be outside the control of government institutions. In these environments, it can be very difficult for companies to put in place legally enforceable contracts (Anderson, Markides, & Kupp, 2010). Therefore it is often important to have a local partner to collaborate on such issues; they often have a good network that can be used. But partnering with NGOs and other organizations that have deep knowledge of consumers can have some disadvantages. Many MNCs have abandoned such partnerships, the main reasons is that there is a mismatch in priorities (social versus business), operational differences (differing quality standards), and a perception that partners are not always transparent about their true objectives (Karamchandani, Kubzansky, & Lalwani, 2011). The MNC has to overcome the barriers of this sort because of the informal market.

It is also hard to get an intellectual excitement going in the developed markets. It would be hard to recruit, train, and motivate managers who would want to spend time in creating a commercial infrastructure at the BOP (Prahalad & Hart, 2000). Moreover, it is difficult to get the aspiring employees in the developing market educated and motivated in such a way that it fits the company norms and values.

In the end, exploiting such a group of vulnerable people is also very easy, but it is not sustainable in the long run for the company reputation or their business. The MNC must think long term when entering the BOP, because initially there will be some barriers, but it is a market in development, that has not yet found its structure.

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## 5.11 Summary

Income is perhaps the most important measurement of poverty; it is also relatively easy to measure quantitatively. Poverty is therefore often measured in monetary terms and defined as consumption below a certain benchmark. Countries have varying definitions of poverty, and comparing them can be difficult. National poverty lines tend to have higher purchasing power in rich countries, where the standard used is more generous than in poor countries. There are also regional differences, for instance a person can be poor by global standards, but not compared to his countrymen or neighbors.

Prahalad was one of the first who saw the potential of the market. In his book *"The Fortune at the Bottom of the Pyramid"* he provided 12 principles of innovation in the BOP market, which are useful for MNCs when entering and operating in the BOP (Prahalad, 2004). See Appendix 1. These principles are also useful in the context of marketing, as Prahalad argues that the MNCs need to adapt their existing product to the poor consumers, they have to understand the needs of this market in order to innovate on the product, rather than pushing irrelevant products upon it. It does not necessarily mean cheap innovations, because the poor are also value conscious consumers and would be willing to pay for products that are relevant for them, which could in the end create profits for the MNCs as a result of the aggregated purchasing power.

The market is nevertheless large, and the BOP approach implies that MNCs can make a fortune by selling to the poor who have been neglected as potential consumers, and that the consumption choices available to the poor can be increased by targeting various products and services, and by lowering the prices but not the quality. As a market, the BOP provides a new growth opportunity for the private sector and a venue for innovations. But old business models won't work.

An analysis of the BOP market can help MNCs think more creatively about new products and services that meet BOP needs and about opportunities for market-based solutions. It is an important first step towards identifying business opportunities, considering business models, developing products and marketing strategies, and expanding investment in BOP markets. As earlier mentioned new empirical measures of the BOP consumer behavior and their aggregated purchasing power suggest significant opportunities for market-based approaches to better meet their needs. A market-based approach starts from the recognition that being poor does not eliminate commerce and market processes: nearly all poor households trade money or labor to meet some kind of a basic need. Therefore a market-based approach focuses on people as consumers and perhaps producers and on solutions that can make markets more efficient, competitive, and inclusive. It looks for solutions in the form of new products and new business models that can provide goods and services at affordable prices.

On the product side, products offering the most hope and aspirations for raising the income level of the community are those which include some local element in the production or distribution, those which in some way expand business opportunities and improve the wage-earning opportunities of local workers (Weidner, Rosa, & Viswanathan, 2010). Traditional ways

of doing business need to be rethought, everything from the production to the initial sale need to be challenged with the traditional conventions.

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## 5.12 Glossary

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- **Affordability:** The degree to which a company's goods or services are affordable to BOP consumers. Many low-income consumers in developing countries survive on daily wages, meaning that cash-flow can be a problem.
- **Awareness:** The degree to which consumers are aware of a product or service. With many BOP consumers largely unreachable to conventional advertising media, building awareness can be a significant challenge for companies.
- **Availability:** The extent to which consumers are able to acquire and use a product or service. Distribution channels in BOP markets can be fragmented or non-existent and the task of simply getting products to people can be a major hurdle to overcome.

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## 5.13 Review Questions

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1. What is the definition of BOP?
2. Define the Potential of BOP.
3. What is the Acceptability?
4. Explain the Affordability.
5. What is the Awareness?
6. Describe the Availability.
7. What is the Aspiration?
8. What is discussion about the barriers to marketing?

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## 5.14 Further Readings

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