Consumer Behavior

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Learning Objectives

• Describe the factors that influence consumer behavior online.

• Understand the decision-making process of consumer purchasing online.

• Describe how companies are building one-to-one relationships with customers.

• Explain how personalization is accomplished online.

• Discuss the issues of e-loyalty and e-trust in EC.
Netflix.com

The best way to rent movies.

Plans start at only $9.99 a month!

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Consumer Behavior
Learning about Consumer Behavior Online

- Finding and retaining consumers is a major critical success factor for most businesses

- Apply both online and offline

- Key: understanding consumer behavior and model it
Learning about Consumer Behavior Online

- The purpose of a consumer behavior model is to help vendors understand how a consumer makes a purchasing decision.

- If a firm understands the decision process, it may be able to influence it.

- A Model of Consumer Behavior Model
  - Two major parts: influential factors and the consumer decision process.
Basic Factors of a Consumer Behavior Model

Exhibit 4.1
Influential Factors

- Influential factors are those that may affect the consumer’s intention to buy

- Major influential factors
Consumer/Personal characteristics

• demographic factors, individual preferences, and behavioral characteristics

• major demographics that sites track: gender, age, status, ethnicity, income, occupation

• gender is roughly balanced. imbalances are found in specific sectors

• Some of them can be correlated. for instance higher education = more income -> result in more online shopping

• More experience in online shopping = more online shopping
Environmental Factors

- The environment can influence a buyer decision

- Social variables: influence by friends, what’s “fashion” this year, internet communities, social networks opinions

- Community/Cultural Variables: differences in behavior between countries (Usa, China, Nepal, Italy) or regions

- Other: law, moral, ...
Product/Service Factors

• Controlled by vendors
  • pricing
  • promotions

• the products themselves and their quality

• the physical environment

• customer services
Merchant and Intermediary Factors

- Online transactions can be also affected by the merchant that handle the product
- Reputation, trust, marketing
EC Systems

- The platform for online transaction

- Security, protection, payment mechanism, etc.

- Consumers are more likely to buy from well designed e-tailers
  - sites with large set of functions
  - functions to prevent possible trouble
Behavior Process Model

• Product of the decision making process

  • \( f(p, pr, me, sy, en) \rightarrow d \)

• As with all models, the exact function is unknown

• Reality is complicated, but we aim to approximate the function to model the behavior of the masses
AIDA(S): a Classical Model

- AIDA model 1898 model to describe advertising effectiveness
  - A-Attention: Attract the attention of the customer
  - I-Interest: Raise the customer interest by demonstrating features, advantages, benefits
  - D-Desire: consumer may be convinced that the product satisfy its needs
  - A-Action: consumer take action toward purchasing
  - Additionally: S-Satisfaction: generates loyalty and repurchases
Generic Purchase-Decision Model

- A general purchasing-decision model consists in five major phases
- each composed of one or more activities and actions
- not every consumer decision proceed this way
Generic Purchase-Decision Model


2. Information search: ricerca delle varie alternative per colmare il divario.


4. Purchase and delivery: operazione di pagamento, spedizione, etc.

5. After-purchase evaluation: uso del servizio clienti, facilità delle istruzioni, valutazione delle funzionalità.
Players in the Consumer Decision Process

- Roles people play in the decision-making process:
  - Initiator
  - Influencer
  - Decider
  - Buyer
  - User
From Mass Marketing to One-to-one Marketing

• One of the greatest benefits of EC is to match products with individuals consumers

• in one-to-one marketing each consumer is treated in an unique way

• In marketing and advertising three major approaches are used
  
  • mass marketing
  
  • market segmentation
  
  • one-to-one marketing
Mass Marketing

• Marketing efforts traditionally were targeted to everyone (the masses)

• Ads on newspaper or tv for instance

• Such marketing is effective for:
  
  • brand recognition

  • launching new products
Market Segmentation

• Promoting a product to a subset of customers

• Better response rate if the segment is “right”

• Statistical data mining methods are often used to identify valuable segments for promotion or advertising

• A simple way to do it: go to specialized websites and promote there
One-to-one Marketing

- Also called “Relationship marketing”

- As people begun to buy online more data become available about them

- 1-to-1 marketing shifts the target for marketing from a group of consumers to each individual

- Marketing departments must know their customers and understand their preferences

- Increased customer retain

- Corporate-wide policies to build 1-to-1 relationships
A Marketing Model

Exhibit 4.4

Customer Receives 
Marketing Exposure

Customer Decides on 
Marketing Medium for 
Response

Marketing/Advertising
Chosen to Best 
Serve/Reach Customer

Customer Makes 
Purchase Decision

"Four P's"
(Product, Place, 
Price, and 
Promotion)
Updated Uniquely 
to Customer

Customer Profiled Based 
on Behavior; Customer 
Segmentation Developed

Detailed Transaction/
Behavior Data Collected

Database 
Update
Personalization
Personalization

- Key concept in 1-to-1 marketing
- Matching of services to and advertising content to individuals according to their preferences
- Based on user profiles: what the company knows about an individual
  - direct information from the user
  - observe what people are doing online
  - previous purchase patterns
  - marketing research
  - inferences
Behavioral Targeting

- Use of information collected about individual’s web browsing behavior
  - pages they have visited, searches they made
- in order to select advertisement to display to that individual
Collaborative Filtering

- Predict what products or services a customer may enjoy
- Use other customers data to infer interest in other products or services
- Based on formulas from behavioral science
- Predictions can be extended to customers with similar profiles
- Growing in importance due to social networks!
  - ppl share willingly their preferences with third parties
Example Amazon.co.uk

• Many of these techniques can be seen in action in Amazon

• cookies (Hello Maurizio Marek. We have recommendations for you. (Not Maurizio?)

• collaborative filtering (Customers Who Bought This Item Also Bought, What Do Customers Ultimately Buy After Viewing This Item?, Customers Also Bought Items By)

• behavioral targeting (Your Recent History, Customers who bought items in your Recent History also bought)
Cookies

• A cookie, also known as a web cookie, browser cookie, and HTTP cookie, is a piece of text stored on a user's computer by their web browser. A cookie can be used for authentication, storing site preferences, shopping cart contents, the identifier for a server-based session, or anything else that can be accomplished through storing text data.
Other Behavioral Marketing Methods

• Rule-based filtering: a company asks consumers a series of questions, behavioral patterns are predicted using the collected information.

• Content-based filtering: identify some product attributes, propose other similar products.
Legal and Ethical Considerations

- Information is often collected from users without consent, or knowledge, or permission

- Several ethical, legal, and privacy issues
Customer Loyalty and Satisfaction
Customer Loyalty

• One of the major objective of 1-to-1 marketing is to increase customer loyalty

• Loyalty brings a deep commitment to buy again or to patronize preferred products with friends

• Customer loyalty is the degree to which a customer will stay with a specific vendor or brand for repeat purchasing

• Customer loyalty is expected to produce more sales and increased profits over time

• e-loyalty: customer loyalty to an e-tailer
Why is Loyalty Important?

• The cost of acquiring a new customer can be as much as 100$

• Amazon.com is reported to be $15

• The cost of maintain a customer is lower (2-4$ for amazon.com)

• Loyalty programs were introduced more than 100 years ago and are widely used among airlines, retailers, hotel chains, car rentals, restaurants, and credit card companies

• Point programs
However...

- The introduction of Internet technologies can also hinder loyalty

- quick comparing, social networks, more market awareness can discourage loyalty
Satisfaction

• Satisfaction is one of the most important consumer reactions in the B2C online environment

• Recent statistics show:
  
  • 80% of highly satisfied online consumers would shop again within 2 months
  
  • 90% would recommend the Internet retailers to others
  
  • However, 87% of dissatisfied consumers would permanently leave their Internet retailers without any complaints
Research framework of consumer satisfaction
Trust
Trust

• The psychological status of depending on another person or organization to achieve a planned goal

• Confidence that the transaction partners will keep their promises

• Both parties assume some risk

• Trust is of particular importance in global e-commerce
  • difficult to take legal action in case of dispute or fraud
How to Increase Trust in EC

- Affiliate with an objective third party
- links to trusted agents
How to Increase Trust in EC

• Establish Trustworthiness

  • integrity: build an image of justice, fulfill promises

  • competence: professional website, correct grammar, accurate information

  • security: secure shopping, return policies
Market Research for EC: Goals

- find information and knowledge that describes the relationships among consumers and products
- discover marketing opportunities and issues
- establish marketing plans
- better understand the purchasing process
- evaluate marketing performance
- turn browsers into buyers
Concepts of Market Research Online

• Investigating EC markets can be conducted in traditional ways

  • telephone surveys

  • shopping mall surveys

• Interest in Internet research methods is on the rise

  • faster and more efficient

  • very large studies are conducted

  • cheap (phone = 50$ per respondent)
What are we looking for?

• Predict the online buying behavior

• Major factors used are:
  
  • product information requested
  
  • number of related emails
  
  • number of orders made
  
  • products ordered
  
  • gender
What can we learn?

- What are the purchase patterns for individuals of groups?

- What factors encourage online purchasing?

- How can we identify real buyers?

- How does an individual navigate the website?

- What is the optimal web page design?

- Help the vendor advertise the right products, price items, design the web site, provide customer service, etc.
Online Research Methods

- Large interest in Internet research methods

- Cheap to acquire very large quantities of data (social networks, website users, etc.)

- The larger the sample, the more accurate is the prediction
« Le leggi della storia sono assolute come quelle della fisica, e se in essa le probabilità di errore sono maggiori, è solo perché la storia ha a che fare con gli esseri umani che sono assai meno numerosi degli atomi, ed è per questa ragione che le variazioni individuali hanno un maggior valore. »

(Bayta Darell, Fondazione e Impero, cap. 11)
Online Research Methods

- Soliciting information from customers
- Observing behavior
- Using data mining
Soliciting Behavior Example: Surveys

• Placing questions on the web

• Inviting potential customers to reply

• Several tools to build surveys

http://store.steampowered.com/hwsurvey
Hearing Directly from Customers

- Forums, bulletin boards, social networks

- Million of people share opinions and comments

- Collecting data from web 2.0 environments provide new opportunities
Using people likes and dislikes

http://www.jinni.com/
Observing Customer’s Behavior Online

- Analysis of log files
- Cookies, Spyware
- Web Analytics
Web Analytics

• Enable retailers to make site adjustments on the fly, manage online marketing campaigns and EC initiatives, and track customer satisfaction

• If a company redesigns its Web site, it can gain almost-instant feedback on how the new site is performing

• Web analytics help marketers decide which products to promote and merchandisers achieve a better understanding of the nature of demand
Limitation of Online Market Research

• Too much data!!
  
  • use of data mining and data warehouses (business intelligence)

• Difficult to maintain privacy of users

• Difficult to obtain a representative sample
  
  • although web demographic is rapidly diversifying

• online shoppers tend to be educated, wealthy, employed
Summary

• Essentials of online consumer behavior.

• The online consumer decision-making process.

• Building one-to-one and segmented relationships with customers.

• Online personalization.

• Increasing loyalty and trust.

• EC customer market research.