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Introduction to Marketing and Consumer Behavior in Electronic Markets

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Abstract

In this paper we discuss three issues that are relevant to understanding the current state of marketing and consumer behavior in online sales channels and electronic marketplaces enabled by the Internet and World Wide Web (Web). First, how is the Internet used for marketing? It can be used as a new tool for market research, new product creation, product advertising and distribution, and developing consumer relationships. The second issue is how much money is currently spent by companies for Web advertising and by consumers for purchasing products and services online? Statistics illustrate explosive growth in each of these areas in the past few years. And the third issue is what factors affect consumer purchase behavior in electronic sales channels and markets? Three studies that represent current research in this area are discussed. Each study uses a different approach to study online consumer behavior in industries such as books, travel, and financial services. Online consumer behavior is an important issue for companies because they need to identify the characteristics of their potential online customers and use this information to effectively design their Web-based customer interface to succeed in this highly competitive new market.

Introduction

The Internet and Web provide an infrastructure that enables buyers and sellers to find each other online. Companies now have a new sales channel for their products and services, and numerous electronic markets are available for buying and selling at offer prices or through various auction mechanisms. The purpose of this paper is to discuss three issues that are relevant to understanding the current state of marketing and consumer behavior in these electronic marketplaces. These issues include:

1. How is the Internet used for marketing?,
2. How much money is currently spent by companies for Web advertising and by consumers for purchasing products and services online?, and
3. What factors affect consumer purchases in electronic sales channels and markets?

These are important issues because the Internet and Web provide a significant new tool for marketing, there is tremendous growth and opportunity in electronic

commerce, and companies are having a difficult time identifying their target market and how they can design their digital storefront to attract these potential online customers.

The Internet as a Tool for Marketing

The Internet and Web have created an interface that can be used by companies and individuals as a new sales channel and electronic marketplace. This interface can provide a front-end to the order fulfillment process as well as a tool for providing pre and post-purchase customer service. It also supports a wide range of marketing activities.

The Internet can be used as a tool for market research. Secondary data on the Internet are often more current than data published in hard copy, and they are easy, inexpensive, and quick to access. Marketing planners can also use the Internet to collect primary data about consumers through online e-mail and Web surveys, online experiments, focus groups, and observation of user discussion groups.

The Internet also creates opportunities for new products and services, and new channels for their distribution. There are products to help content providers develop Web sites, infrastructure products to run the Internet itself, and end user products to connect to the Internet. The Internet also enables distribution of digitized products such as news, music, movies, books, and software which significantly reduces order fulfillment cost and cycle time.

Finally, the Internet facilitates communication between companies and their customers. For example, the Web can be used for advertising products, sales promotions through banner ads and sponsorships, and relationship marketing using e-mail and manually or automatically customized Web pages (Strauss and Frost, 1999).

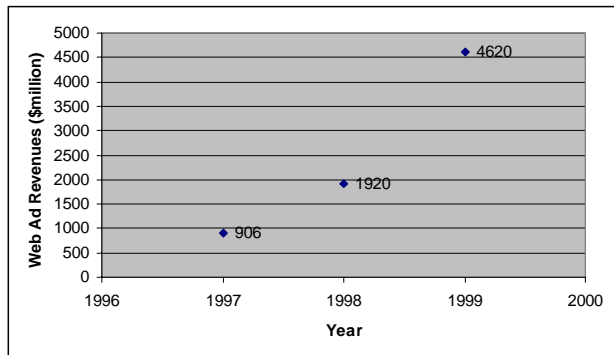
Growth in Web Advertising and Sales

The dramatic growth of electronic commerce is illustrated by the increasing amount of money companies spend on Web advertising and the increasing amount of money consumers spend when buying products and services online.

Web ad revenues for 1997 through 1999 are shown in Figure 1. In the fourth quarter of 1999 revenues came in at a very impressive \$1.7 billion. This boosted Web ad revenues for the year to \$4.62 billion, a 141% jump over

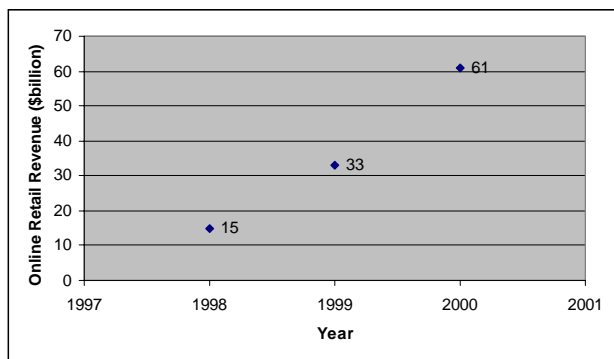
the previous year. In 1998 \$1.92 billion was spent for Web advertising, and in 1997 the total was \$906 million. In 1999, consumer related advertising was the single largest category, with a 30% share. In addition, banner ads dominated other ad types, although there continues to be a healthy mix of strategies (eStats, 2000A).

Figure 1. Web Ad Revenues 1997-1999



Online retail revenues for 1998 and 1999, in addition to an estimate for 2000, are shown in Figure 2. There was 120% growth in online retail revenues for 1999 amounting to \$33 billion. The forecast is for even greater growth in 2000 when total retail revenues are expected to climb to \$61 billion. Continued growth is expected in traditional online retailers as well as newer modes of getting products to customers such as online auctions (eStats, 2000B).

Figure 2. Online Retail Revenue 1998-2000 (est.)



Online Consumer Behavior Studies

Traditional retail strategies do not necessarily translate to an online sales channel. Therefore, companies must address the issue of how to identify the characteristics and behavior of their online target market. The following is a summary of three recent research studies that have addressed this issue using a variety of approaches to study a range of industries.

Consumer Trust in an Internet Store

The first study was conducted by Jarvenpaa, Tractinsky and Vitale (Jarvenpaa et al., 2000). Two major questions are addressed in this study. Is trust a significant antecedent of consumer attitudes toward an Internet store and intended shopping? And what influences a customer to have trust in an Internet store? Their research model includes factors such as perceived store size, perceived store reputation, consumer trust of the store, consumer attitude, consumer risk perception, and finally willingness to buy. To assess the model they used an experiential survey approach to collect data from a group of undergraduate and MBA students in Australia. They studied bookstore sites and travel sites. The results of the study provide support for the model and for the hypotheses regarding the directional linkages among the model variables. Consumers recognized differences in size and reputation among Internet stores, and those differences influenced their assessments of store trustworthiness and their perception of risk, as well as their willingness to patronize the store.

Predictors of Online Buying Behavior

The second study was conducted by Bellman, Lohse and Johnson (Bellman et al., 1999). As the article title suggests the primary issue addressed by this study is to identify what factors predict online buying of any type of product. Data was collected through panels of Web users recruited by the Wharton Forum on Electronic Commerce. One finding was that demographics alone do not seem to influence whether or not people buy online, nor the amount of money they spend online. The factors that did affect consumer online buying included (1) leading a “wired lifestyle” and (2) time starvation. The most significant components of a “wired lifestyle” include using the Internet to look at product information, number of months online, number of daily e-mails, working online, and reading news online at home every week.

Use of Online Channels for Buying Financial Products: A Consumer Behavior Perspective

The third study was conducted by Ramaswami, Strader and Brett (Ramaswami et al., 2000). This study looks at a complex industry, financial services, which has traditionally included a broker in the decision making process. The questions addressed by this study are: What are the characteristics of consumers that (1) use the Internet for online financial information search, and (2) use an online channel to purchase financial products. The conceptual model is based on the motivation-ability-opportunity framework (MacInnis et al., 1991). Factors included are agent task and return performance, satisfaction and conflict with the agent, willingness to use

an online channel, knowledge of financial products, confidence in decision making, income, and time availability. The study is based on a regional sample of consumers that currently, or in the past, have relied upon an agent or advisor to conduct their financial transactions. Overall, the study results presented three key findings. First, the nature of the relationship with traditional channel members could hinder and promote online channel use simultaneously. Second, consumer willingness is a major part of the actual use of the online channel. And third, consumers who use the online channel for information search also appear to have a greater tendency to use the channel for conducting transactions.

Conclusions and Implications

A number of conclusions can be drawn from the current state of electronic market activity and research. The Web is an effective tool for marketing that reduces many costs and enables enhanced communications and relationships between companies and their customers. Because of this, advertising and sales revenues will continue to grow for some time in many industries. There is tremendous opportunity because online advertising and retail sales are still a small percentage of traditional advertising and retail sales. And because electronic markets provide an effective new sales channel, and their use is expected to continue growing, there are an endless number of research issues that must be addressed to understand how to effectively compete in these new marketplaces.

The implications for companies are that they must identify their online customers and design their online strategy to attempt to differentiate themselves from their competitors in this highly competitive market. The implications for researchers are that there are more questions than answers, but there are some published articles to provide a starting point. In particular it seems that demographics alone does not predict online buying so more complex issues must be addressed such as the factors that affect consumer willingness to buy online, use of the online channel for information search, and actual online purchase behavior.

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