

Digital Marketing: Foundations and Strategy

Fifth Edition

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Digital Marketing: Foundations and Strategy, 5th Edition

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Dedication

The fifth edition is written to honor the memory of the late Mary Lou Roberts, whose dedication to the field of teaching direct and interactive and digital marketing inspired us all. Her mentorship will be greatly missed by this team and by her former students everywhere.

DZ/LL/BR

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Preface

Introduction

Since *Digital Marketing: Foundations and Strategy* (previously titled *Internet Marketing: Integrating Online and Offline Strategies*) was first published in 2003, the internet has continued to undergo rapid and often disruptive change. The internet is now a worldwide communications and transactions channel that serves billions of people. Mobile has become the driving force in the development of what is now the digital space with many, especially in developing countries, having internet access only through mobile devices. Artificial intelligence is helping create ways to facilitate content creation and also aid in discovering search intent. Today, most marketers' focus is on digital marketing, implying a seamless integration of web and mobile with the goal of fostering engagement. That integration requires a focus on seamless customer experience on the internet, in the mobile space and in traditional channels of communications and transactions.

In addition, the explosive growth of digital has created a growing number of interesting and challenging jobs in the field and the book has taken a variety of approaches to informing students about the nature of jobs and offering useful preparation for them. So while this book focuses on digital marketing efforts, it continues to pay homage to the underlying network that binds us together for more than marketing communications channels, but also for the complex value-adding processes that support organizational prosperity and growth.

An outgrowth of digital change is the continuation of the eBook format of the fifth edition and the revision of the material on the MindTap learning platform. A welcome change is the return of the physical book format in four colors as an option as well. This additional format will ensure that the material can be accessible to all students.

In the midst of all the changes, adopters will find familiar and useful constructs. The strategy paradigm used in the book is based on customer acquisition, lead conversion, customer retention, and growing customer value. This framework is explained in the context of the direct marketing foundations of digital marketing. All these subjects are given extensive treatment either in a specific chapter or integrated into discussions of tools and techniques that are most appropriate for executing the particular strategy. Other useful strategic frameworks such as the Service-Dominant Logic and value creation have been retained and new ones have been added in burgeoning fields like search, mobile and social media marketing.

Strategy considerations are accompanied by in-depth coverage of the ever-increasing array of technologies, tools and services that support marketing program execution. The emphasis, however, is on marketing strategy and execution, not on technology for technology's sake. While keeping the focus on strategy students are introduced to and offered practical experience in using digital tools as an asset to their current or prospective jobs in digital marketing.

Search is where most consumers start the purchasing process on the web and search engine marketing that incorporates both optimization for organic search and pay-per-click is essential. Email remains a key part of the marketing programs of B2C, B2B, as well as nonprofit marketers, even as consumers continue to migrate to social media, mobile communications, and text messaging. Display advertising for branding and for direct response is undergoing a renaissance as new formats become available to better engage the viewer. Social media marketing is even more of an essential strategy element with paid social advertising growing in importance. And ever-present is mobile, with a growth rate that outstrips all others in every aspect of digital marketing.

The only constant in the digital space is change that often disrupts entire industries as Uber and Airbnb have done in the transportation and travel industries. Whether we call it waves of business change, stages of technology change, or the fourth wave of industrial revolution, marketers must be agile and resilient to deal with ongoing change.

Unifying Themes

This book is uniquely positioned to take advantage of the innovation and disruptive change that is inherent in the digital ecosystem. Digital marketing is only effective if strategies and messages are integrated across media. That viewpoint is pervasive throughout this book; digital marketing is considered in the context of overall marketing strategy executed in multiple channels. Throughout, examples show the integrated use of online, mobile and offline channels by B2C and B2B to achieve business and marketing objectives. This book also recognizes the internet as the global phenomenon it truly is. Coverage of global issues is integrated into the appropriate subject areas. Global data are presented when appropriate, and examples of programs in various countries are seamlessly woven into content coverage. Where, the stage of digital development, regulations, or culture affects digital marketing activities, they are treated separately and specifically.

It is impossible to understand digital marketing without having a layperson's appreciation of the technology that makes it possible. Technology also is covered in the context of the marketing activities affected by it, not as a separate issue. Complex technological subjects are explained in a manner that can be successfully grasped by those with only introductory or user-level familiarity with computer technology. At the same time, students are encouraged to gain experience in use of technology-driven marketing tools, both to increase their knowledge and to improve their job prospects in this dynamic environment. Many useful tips as to how they can obtain this knowledge are included in the Instructor's Manual, which was written by the authors themselves.

The overall emphasis, however, is rigorously strategic as it discusses the planning, development, execution, and evaluation of marketing campaigns across multiple channels. At every stage, conceptual frameworks are presented to aid student understanding of complex topics.

New and Updated in This Edition

The fifth edition of *Internet Marketing: Integrating Online and Offline Strategies in a Digital Environment* has been completely rewritten and renamed *Digital Marketing: Foundations and Strategy* so as to incorporate the changing digital ecosystem faced by marketers. Former chapters 1 and 4 form a new Chapter 1, which lays down strategic foundations while recognizing the direct marketing roots of digital marketing entitled *The Digital Marketing Landscape and Foundations*. Chapters 6 and 16 from the fourth edition form a new chapter, *Supporting the Digital Customer Journey*, focused on both the customer journey and the customer experience. These chapters were consolidated to allow room for the course to be taught over a 15- or 16-week semester with room for a digital marketing project at the end. To help instructors teach the class in this manner, a new appendix outlines how to incorporate a project into a digital marketing class, either as a semester-long effort or in the context of shorter sections and activities. Research in digital marketing education indicates that while simulations can be helpful, there is no substitute for working with a real-life client. Instructors are encouraged to give their students this experience if time permits.

Importantly, the passing of Dr. Roberts necessitated two new co-authors, Dr. Lauren Labrecque and Dr. Brooke Reavey. These scholars are actively involved in teaching and researching in the area of digital marketing and have extensive classroom experience and social media marketing presences. Their contributions have greatly strengthened this edition.

The book is divided into three sections of approximately equal length which will facilitate learning:

1. Part I: Building the Foundations of Digital Marketing

This section introduces the topic in the context of underlying strategy, creating value, and the impact of disruptive change. The first chapter takes material from the prior chapters 1 and 4 and creates a new chapter that acknowledges the direct marketing roots of digital marketing but places them in a strategic context. It introduces a new definition of digital marketing from Dr. Zahay as “the use of any digital technology to facilitate the marketing process, with the end goal of customer interaction, engagement, and measurement.” The section contains chapters on the value chain, evolving business models, the customer journey, and measurement. A reconfigured Chapter 4 (a combined version of old chapters 6 and 16) presents the digital customer journey in both B2C and B2B and gives the reader an early understanding of the essential topic of the Customer Experience (CX).

2. Part II: Creating Visibility and Attracting Customers

This section focuses on those tools which are most likely to create visibility and draw the customer to a company's digital presence (website and mobile). In addition to sound web and mobile design, search (both paid and organic), social media, and display advertising play their role in attracting the customers. Social media marketing has been moved to this section to highlight its increased role in attracting customers to a brand. This section focuses on strategies to create effective and engaging social media campaigns. These chapters have been updated to include discussions of current data privacy issues around the use of third-party cookies and highlights challenges for marketers as new legislation is introduced around consumer data protection. Dr. Labrecque has contributed some new insights to these chapters from her own experiences in running online businesses.

3. Part III: Maintaining and Strengthening Relationships

As with the rest of the text, the chapters in this section have been completely updated. The theme of strengthening and maintaining relationships means that this section focuses on email, content marketing, B2B Demand Generation, and Customer Relationship Management (CRM). B2B Demand Generation has evolved into Account Based Management (ABM) and that chapter relates that change as well as the role of the new

buying group concept. The chapter on social and regulatory issues that was in this last section in the fourth edition has been eliminated and the issues have been embedded in the text. There were several reasons for this change. One, the chapter was often skipped because of the fact that there were more chapters than weeks in the semester, so students did not get the content. Two, the content changes so rapidly in the legal field relating to digital marketing these days that instead of covering many topics the authors decided to cover a few, important topics in-depth and to do that within the chapters.

Throughout this text, there is emphasis on student engagement. Discussion questions (answered in the Instructor's Manual) can provide endless opportunities to challenge student thinking on Digital Marketing. The instructor PowerPoint® slides offer additional interactive opportunities in each chapter.

Instructor Resources

Additional instructor resources for this product are available online. Instructor assets include an Instructor's Manual, Educator's Guide, PowerPoint® slides, and a test bank powered by Cognero®. Sign up or sign in at www.cengage.com to search for and access this product and its online resources.

MindTap

Today's leading online learning platform, MindTap for *Digital Marketing: Foundations and Strategy*, 5th edition, gives you complete control of your course to craft a personalized, engaging learning experience that challenges students, builds confidence and elevates performance.

MindTap introduces students to core concepts from the beginning of your course using a simplified learning path that progresses from understanding to application and delivers access to eBooks, study tools, interactive media, auto-graded assessments and performance analytics.

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Acknowledgments

Reviewers of both the first and second editions contributed materially to the original soundness and readability of the book. Subsequent academic users of editions three and four and practitioners alike have made informal contributions that have been helpful throughout.

We are especially grateful to the many firms in the digital space that have provided content that is essential to a working understanding of digital marketing.

This information has contributed immeasurably to keeping the book relevant and timely.

There are many people involved in publishing a book.

We express our appreciation to the content team at Cengage and to production contractors who have brought the book to completion. The authors are particularly indebted to students and numerous guest lecturers in Digital Marketing and Social Media Marketing courses for introducing them to issues and developments they would never have otherwise recognized.

Debra Zahay wishes to acknowledge the support of her husband, Edward Blatz, and her mother, Joyce Zahay, and her late father, Albert Zahay, and their unswerving belief in her. She also is indebted to the insightful comments and contributions of her colleagues-at St. Edward's University, in particular Dr. Juli James, and to former students and the insights from her current students.

Lauren Labrecque wishes to thank her husband, Garret Warr, and their children, Nikola and Luca, for their unwavering love and support. Without them, this journey would not only have been impossible but also meaningless. She also would like to acknowledge her parents for their support and encouragement to pursue an academic career, as well as the students who inspire her to keep teaching.

Brooke Reavey wishes to thank her husband, Carl Urness, for his unwavering support and efforts to keep their kids, Isaac and Silas, entertained while she scrolled through (seemingly) endless pages on the internet while writing. She would also like to thank her mother for stoking the fire of her love for writing. She also wishes to thank her dog Jethro for being the best writing companion because he was always keen for a walk or a cuddle when she needed it. Finally, she thanks her go-to web developer, Ezra Silverman, for answering all of her technical questions about web programming and AI advances.

About the Authors

Debra Zahay is full, tenured professor of marketing and former department chair of in the Department of Marketing, Operations and Analytics at St. Edward's University in Austin, Texas. She oversaw the inclusion of digital marketing and analytics in the undergraduate curriculum and the development of a Master's Degree program in Digital Marketing and Analytics, where she served as program director. She holds her Doctorate from the University of Illinois in Urbana-Champaign, her Master of Management from Northwestern University in Evanston, Illinois, her Juris Doctor from Loyola University in Chicago, Illinois, and her undergraduate degree from Washington University in St. Louis, Missouri.

Dr. Zahay researches how firms can facilitate customer relationships, particularly using customer information. She also teaches and researches leading-edge pedagogy for teaching digital marketing. She has published extensively in marketing journals in the United States and Europe. She was selected as a Fulbright Specialist in 2023. She is on the editorial board of the *Journal of Marketing Analytics* as well as that of *Industrial Marketing Management* and the *Journal of Marketing Education*. She was the Editor-in-Chief of the *Journal of Research in Interactive Marketing* from 2012 to 2017, guiding the explosive growth in influence of that journal. She is the co-author of another Cengage Text, *Social Media Marketing: A Strategic Approach*, third edition, and solo author of the second edition of *Digital Marketing Management: A Handbook for the Current (or Future) CEO* by Business Expert Press, LLC.

Lauren Labrecque is an associate professor of marketing and area coordinator at the University of Rhode Island. Her primary research interests include digital marketing and the impact of emerging technology on marketing (including blockchain, digital empowerment, consumer privacy, and parasocial interactions) and sensory marketing (focus on color). Her research has been published in peer-reviewed academic journals including *Journal of Marketing*, *Journal of Marketing Research*, *Journal of the Academy of Marketing Science*, *Journal of Consumer Psychology*, *Journal of Interactive Marketing*, *Journal of Retailing*, *Journal of Advertising*, *Journal of Business Research*, *Psychology & Marketing*, and others. She serves as an associate editor for the *Journal of Interactive Marketing* and *Journal of Business Research* and is an editorial review board member for *Psychology &*

Marketing. Dr. Labrecque completed her Ph.D. in Marketing (Business Administration) from the University of Massachusetts, Amherst, in 2010, and her Master's Degree in Digital Media Studies from the University of Denver in 2003.

Brooke Reavey is an associate professor of marketing in the Brennan School of Business at Dominican University. She is a Fulbright Scholar, serving as a Senior Scholar in Bucharest, Romania from 2017–2018. She holds her doctorate in Marketing (Business Administration) from Drexel University, her Master's Degree in Marketing Research from Temple University, and was a dual major in Marketing and Psychology as an undergraduate at La Salle University. Dr. Reavey's academic work focuses on the intersection between digital marketing and market research, particularly when it comes to data democratization. Her work has been published in scholarly outlets such as the *International Journal of Advertising*, *Journal of Marketing Education*, and *Marketing Education Review*, among others. She is an active speaker and volunteers with the Insights Association, the largest marketing research and analytics association in the US, at the national and chapter levels. She also volunteers in the digital marketing and insights special interest group (SIG) for the American Marketing Association's Chicago chapter.

Mary Lou Roberts was a tenured professor of marketing at the University of Massachusetts, Boston, and held a number of administrative positions there including Director of Development. She passed in early 2020, leaving a gap in the field of teaching digital and internet marketing. During her retirement, she taught internet marketing and social media marketing to a global cadre of students at the Harvard University Extension School. She had a Ph.D. in marketing from the University of Michigan. She was the senior author of *Direct Marketing Management*, 2nd edition, which was a classic in its field and did much to professionalize the field of direct marketing and make it a separate discipline taught by academics. She had published extensively in marketing journals in the United States and Europe. Dr. Roberts was a frequent presenter on programs of both professional and academic marketing organizations and consulted and provided planning services and management training programs for a wide variety of corporations and nonprofit organizations. She was an active member of many professional organizations and had served on a number of their boards.

Part I | Building the Foundations of Digital Marketing

Chapter 1

The Digital Marketing Landscape and Foundations

Chapter 2

The Supply Chain Becomes a Value Ecosystem

Chapter 3

Business Models and Strategies

Chapter 4

Supporting the Digital Customer Journey

Chapter 5

Measuring and Evaluating Digital Marketing Programs

Chapter 1

The Digital Marketing Landscape and Foundations

Learning Objectives

By the time you complete this chapter, you will be able to:

- 1 Define digital marketing from a dynamic perspective.
- 2 List the elements of direct marketing.
- 3 List the elements of the internet which make it a direct response medium.
- 4 List the generic marketing objectives that form the basis for digital marketing strategies.
- 5 Define the critical strategy elements of direct marketing.
- 6 Describe the implications of disruptive change on digital marketing.
- 7 List the waves of change and relevant technologies.
- 8 Compare the concepts of digital disruption and digital transformation.
- 9 List the major trends in the use of digital marketing.

Most of you who are reading this book do not remember a world without the internet. Many of the rest of us cannot imagine what we ever did without it. These facts are remarkable, given the relatively short history of the network we now call the internet.

There are some wonderful accounts of the development of the internet, including one by the people directly responsible for it.¹ Those people are still active in the industry. That's true because—impossible as it seems—the internet officially celebrated its 30th birthday on August 23, 2021. That is the anniversary of the date on which, in 1991, the internet was opened to the public after years

of development at the particle physics research laboratory CERN in Switzerland. Why is that such a milestone date? Tim Berners-Lee says,

Had the technology been proprietary, and in my total control, it would probably not have taken off. The decision to make the web an open system was necessary for it to be universal. You can't propose that something be a universal space and at the same time keep control of it.²

That attitude set the standard for the World Wide Web that still rules today, although not without challenge at times. We will discuss later the implications of technology evolution. However, for a capsule summary of the early days of the web, it is important to note that the internet was originally a communications network for individuals, and commercial activity was not allowed. Consequently, the interest of marketers is focused on the years since 1991 when commercial traffic was first officially permitted on the internet.³

How Internet Marketing Has Evolved Into Digital Marketing

The major developments of the internet prior to the early 1990s were primarily technical in nature, building infrastructure and creating communications protocols. Early web browsers required extensive technical knowledge and it was not until the creation of browsers with graphical interfaces, including Netscape, that the general public became interested in the internet. Web portals Yahoo!, Lycos, and AOL gained early popularity. eBay and Amazon were among the earliest to recognize the potential of ecommerce. Myspace and Napster also achieved early popularity but most of these sites are now a mere shadow of their former selves. Starting in the early 2000s with iTunes, Facebook, YouTube, and others, we begin to see sites that are part of our daily lives.

Why so much change in the powerhouses of the industry in such a short time? In a word—search. Google became the leading search engine in the early 2000s because it was easy to use and gave useful results. As more and more internet users turned to search as their entry point to the web, there was less need for portals, whether a “walled garden” like AOL or an open portal like Yahoo! The portals were eclipsed, and Google and its smaller competitors thrived.

As the internet became more pervasive in marketing, the terminology used evolved from internet to **digital marketing**. Digital Marketing can be defined as using any digital technology to facilitate the marketing process, with the end goal of customer interaction, engagement, and measurement.^{4,5} So digital marketing encompasses the process of engaging the customer and measuring the results of that engagement. The digital technology most often used to foster engagement and interaction is the internet.

digital marketing

using any digital technology to facilitate the marketing process, with the end goal of customer interaction, engagement, and measurement.

The Direct Marketing Roots of Digital Marketing

This definition of digital marketing owes its origins to the direct marketing roots of the internet. According to the DMA (formerly the Direct Marketing Association and then the Data and Marketing Association and now part of the umbrella organization ANA), direct marketing requires the following:

- An organized and planned system of contacts
- Using a variety of media
- Seeking to produce a lead or an order
- Developing and maintaining a database
- Measurable in cost and results
- Expandable with confidence

Thus, any system that is based on data analysis, has a clear objective, and is measurable can be considered direct marketing or direct response. In the past, it was only direct marketers who had access to data and who could truly measure results. So, a direct marketer, like Land's End, would send a catalog, see if the customer responded, and then send another catalog or offer based on the data. Now, many marketing channels and many types of marketers have access to data, resulting in the evolution of data-driven marketing versus direct marketing. The emphasis on data in digital marketing will become even more important as **third-party data** usage (data collected by companies that do not have a direct relationship to a particular firm's customers) diminishes and firms rely more on **first-party data** from their own websites and customer data repositories to reach their customers. This definition of digital marketing also incorporates the critical concepts of response mechanisms and engagement. It is a holistic and dynamic definition, rather than a static one, and adaptable to the changing environment of digital marketing.

third-party data

data collected by companies that do not have a direct relationship to a particular firm's customers.

first-party data

data from a company's own websites and customer data repositories.

The Internet as a Direct Response Medium

If there is a question about whether the internet can function as a direct response channel, think about Amazon and all it knows about its customers through its data collection and analysis. If someone buys a book for left-handed golfers, they are sure to be shown other products for left-handed individuals through the process known as *collaborative filtering*. Amazon's vast store of data on its customers makes it easier to target customers and get them to purchase again. This targeting is done via the internet as a direct response mechanism, without traditional forms of direct response such as mail, phone fax, or direct response television. In fact, many say the internet is the ultimate direct response medium. Why? Certainly, digital marketers use it as an **interactive** channel, allowing for a two-way dialog between marketers and prospective customers using direct response techniques or social media. It is also a sales channel, with ecommerce growing at a rapid rate from the early days of the internet to the present. The internet is also a powerful branding medium, as we discuss in various chapters.

interactive

presenting choices based on user actions and allowing for response.

The internet presents powerful opportunities to the shrewd marketer. From the consumer's perspective, it permits a seamless purchase process. From the marketer's perspective, the internet allows fine-tuning of marketing programs in ways previously unimaginable. There are four important characteristics—call them the “four Is”—that describe how digital marketing efforts are powerfully affected by the capabilities of the internet (see Figure 1.1).

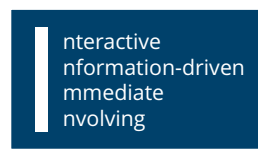
The internet, more than any other current medium, allows *interactivity*. In direct response mode, marketers can initiate two-way communications with prospective customers by sending offers to them and tracking their responses or by initiating direct communications by way of surveys, chat rooms, or other internet-enabled techniques. Interactivity allows for marketing to become a true conversation. Marketers listen to the customer and present choices based on that feedback, changing offers and communications based on an ongoing dialog.

All marketing activities on the web also have the potential to be **information** driven. Every move a website visitor makes, every action taken—from sending an email query to

information

data that has been processed into more useful forms using techniques that range from simple summary formats to complex statistical routines.

Figure 1.1 The Four Is of Internet Marketing



purchasing a product—is a potential piece of **data** for the marketing database that drives targeted promotional activities. The internet fosters *immediacy* in a variety of ways. Marketers can reply directly to customer queries using human agents or automated systems. The internet makes it cost-efficient to construct offers that appeal to a specific market segment or to make offers that are seasonal or that are triggered by a particular event, say the NCAA basketball finals. Internet promotions can also be *involving*. Marketers are increasingly using streaming video, games, and other types of rich media in internet advertising to attract and involve prospective customers, also known as engagement. A good direct response offer incites prospects to take action—either to request information or to make a purchase on the spot.

data

raw, unprocessed facts and numbers. Raw data differs from the process of data mining, where analytic processes and specialized analytic tools are used to extract meaning from large data sets.

Generic Direct Marketing Strategies⁶

It is difficult to do successful internet marketing without understanding the basics of direct marketing. Essentially, these above-mentioned capabilities of the internet drive the four types of direct marketing strategies, which are acquisition, conversion, retention, and value growth. These strategies in turn parallel a basic customer lifecycle and are used extensively in digital marketing (see Figure 1.2). This figure is just one example of a customer lifecycle, and students will find other examples in the workplace.

Practically speaking, first, a customer must be attracted to the brand. This state represents a trial of a product or a service. In the *acquisition* stage, the customer has been attracted to the brand, made a single purchase, or perhaps engaged in free use as a result of a sample or a demonstration but is not yet committed to the brand. The second stage is **conversion**, so-called because, in this step, the prospect changes status and *converts* to a customer. More generally a marketing conversion can also be thought of as the customer taking a desired action, such as downloading a whitepaper, signing up for a webinar or, indeed, making a first purchase. This stage may require one to three purchases or enough to form a habitual purchasing pattern. The goal of the first two stages is **retention**, in which the customer continues to make purchases, a situation we might call behavioral loyalty. Even better, in this stage, the customer begins to exhibit loyalty in an attitudinal sense, which may result in behaviors ranging from rejecting competing offers to recommending the product to others. Finally, we continue to nurture the relationship and *grow the value* the customer represents for the brand. Marketers do this in a variety of ways, including increased engagement. Loyalty at this stage can deepen and transform into becoming a strong brand advocate.

conversion

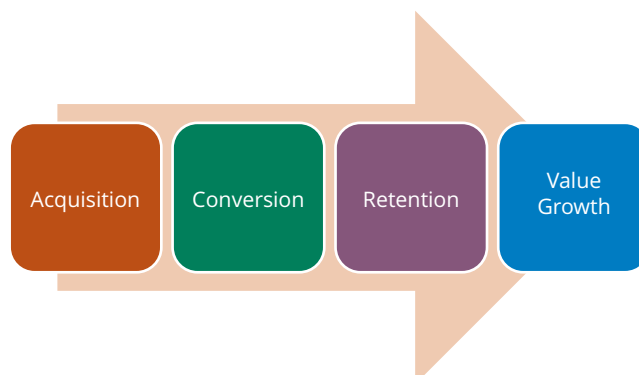
when the customer takes an action desired by the marketer, such as a first purchase or signing up to receive more product information.

retention

when the customer continues to make purchases.

Each of the basic strategies requires a different type of effort on the part of the marketer. *Acquisition* is roughly equivalent to the awareness stage of general advertising

Figure 1.2 The Basic Direct Response Strategies



with an action component added. The step is focused on a conscious attempt to get the attention of the prospective customer through media placement and creative execution and interest them in completing a desired action, such as making a purchase, signing up for a newsletter, or another specific request. Direct marketers often add an incentive to clinch product trial. We discuss customer acquisition on the internet in detail throughout this text.

The *conversion* step means getting the onetime purchaser to convert to being a customer or taking another desired action. Product and service satisfaction is critical to achieving this goal. Customer contact, through media ranging from personal selling to newsletters, is often useful. Sequential incentives have also been used with good results. For example, a bank that wanted its customers to make more deposits at ATMs sent them a series of three checks, each of which could be used only with a series of ATM deposits. The first check was for \$5, the second was for \$3, and the third was for \$1. The incentives were not only sequential but decreased in value as the presumed habit formation was taking place. It is hard to prove habit formation, but in this case, it seems reasonable to assume that many customers, after three successful deposits, recognized that it is safe to make deposits through ATMs. This was a sensible, low-cost conversion program aimed at achieving a worthwhile business goal. Its only visible drawback was that the bank did not make good use of its customer database. It sent the checks to customers who regularly made ATM deposits as well as to those who never deposited through an ATM! We discuss conversion marketing in Chapter 13.

After conversion, it is important to retain customers in order to create the highest possible **customer lifetime value** (CLV). Sometimes called lifetime customer values or LCV, CLV is the monetary value of the customer over time and is used to prioritize customers and to develop targeted marketing strategies for particular customer segments. *Retention* is most often the result of adding value to the customer purchase, user experience, and superior customer service. A planned program of customer contact, carried out at appropriate points in the purchase cycle, can also be a useful component of retention programs. We discuss retention in detail in Chapter 4.

After the customer is on board, we want them to continue to purchase, but also to foster *growth* in terms of not only their overall purchases but also their commitment to our brand and product. In the *growth* stage, we might involve the customer in our product line through engagement in social media, such as the sharing of the brand. HubSpot says that the goal in this stage is to “delight” the customer and continue to interact with them.⁷

Critical Strategy Elements of Direct Marketing

In addition to generic direct marketing strategies, the marketing mix that supports direct marketing programs uses slightly different terminology from the four Ps of traditional marketing. They are as follows:

- The offer—product, price, positioning, and any other product-related elements that make up the complete proposition presented to the prospective customer
- The list—the targeting vehicle
- The media used—with the understanding that any medium can be a direct response medium with the proper implementation
- The creative execution—which tends to play a secondary role in this action-oriented context
- The service and support—long recognized as a key element in this environment where the shopping experience and many sensory stimuli are not present.

customer lifetime value
the monetary value of a customer over time.

These elements are all required to implement any direct response program. It is, however, especially important to understand the role of the offer in developing internet marketing strategies. An offer typically answers the questions of What, By When, and Why. The customer should clearly understand what is required, by what time deadline and why. A good offer would be something like, “Free Shipping if ordering by midnight.” The company wants the customer to order (what) by midnight (when) to get free shipping (why). Having a good list is generally considered to be the next most important of the critical strategy elements, and ties into having a strong database to support direct and digital marketing programs.

Disruptive Change

On the internet, disruptive change is ongoing. Businesses must maintain an innovation culture that has customer centricity at its heart and is guided by sound vision and strategy. No firm can practice business as usual. Change is a constant, making transformation a way of life, not an end goal.

Author Kevin Maney describes Yahoo! as the past of technology leaders and Amazon as the future. Apple is the present, on a huge run since the introduction of the iPhone in 2007, but not having found a category-changing product like it for the future. Amazon revolutionized internet storage with Amazon Web Services cloud-based storage, which we will discuss in detail in Chapter 2. It seems well on its way to disrupting another industry sector if it successfully harnesses **artificial intelligence (AI)** for use by its Echo home connectivity device. Maney describes it as “the front-end technology that will let us talk to a watch or car or loo [“bathroom” in U.S. English] and make sure the device will understand who we each are, what we want, and how to get it done.”⁸ Alexa is the voice-activated software assistant (conversational interface⁹) that works with the Echo device or from a smartphone or tablet app.¹⁰ It’s too soon to say that the technology will ultimately be everywhere, but Hyundai, BMW, Ford, and Lincoln have all incorporated voice-activated Echo technology to do everything from starting the car to setting its internal temperature.¹¹

artificial intelligence (AI)

the ability of a computer to mimic human behaviors.

Incremental change happens in technology on a daily basis. Every few years a wave of change—such as the introduction of the smartphone—occurs that disrupts the industry. Figure 1.3 illustrates how change has been a constant since the early days of the internet. Once the network was established and approved for commercial use, what we now know as digital marketing expanded rapidly.

The Waves of Internet Change

The company Digital Leadership lays out their perspective on technology development in Figure 1.4. The graphic illustrates that we have moved from an agrarian culture to one based on information. The final wave, which we are in now, is one in which there is an increasing focus on technology, including virtualization and AI. Interestingly, there is also a desire to balance nature and technology and reach for sustainability. A more specific technology timeline with specifics of the commercialization of the internet is included in Figure 1.5. That means the potential for disruptive change is still present, as we will discuss in the next section.

Do you remember when personal computers were not connected to the internet? Again, many of you probably do not. However, many of the rest of us remember the frustrations of learning to use word processors, dumb terminals for access to a mainframe computer, and personal computers themselves. Connectivity to the internet and between our devices is now taken for granted. The history of the dramatic changes in the digital revolution is outlined in Figure 1.5, which illustrates everything from the sending of the first email, the launch of social media platforms, and the modern world where technology is transforming every aspect of our lives.

Figure 1.3 Highlights of Early Internet Development Source: http://www.livinginternet.com/ii/ii_summary.htm

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Internet History -- One Page Summary

The conceptual foundation for creation of the Internet was largely created by three individuals and a research conference, each of which changed the way we thought about technology by accurately predicting its future:

- [Vannevar Bush](#) wrote the first visionary description of the potential uses for information technology with his description of the "memex" automated library system.
- [Norbert Wiener](#) invented the field of Cybernetics, inspiring future researchers to focus on the use of technology to extend human capabilities.
- [The 1956 Dartmouth Artificial Intelligence conference](#) crystallized the concept that technology was improving at an exponential rate, and provided the first serious consideration of the consequences.
- [Marshall McLuhan](#) made the idea of a global village interconnected by an electronic nervous system part of our popular culture.

In 1957, the Soviet Union launched the first satellite, Sputnik I, triggering US President Dwight Eisenhower to create the [ARPA](#) agency to regain the technological lead in the arms race. ARPA appointed [J.C.R. Licklider](#) to head the new [IPTO](#) organization with a mandate to further the research of the [SAGE](#) program and help protect the US against a space-based nuclear attack. Licklider evangelized within the IPTO about the potential benefits of a country-wide communications network, influencing his successors to hire [Lawrence Roberts](#) to implement his vision.

Roberts led development of the network, based on the new idea of packet switching invented by [Paul Baran](#) at RAND, and a few years later by [Donald Davies](#) at the UK National Physical Laboratory. A special computer called an [Interface Message Processor](#) was developed to realize the design, and the [ARPANET](#) went live in early October, 1969. The first communications were between [Leonard Kleinrock's](#) research center at the University of California at Los Angeles, and [Douglas Engelbart's](#) center at the Stanford Research Institute.

The first networking protocol used on the ARPANET was the [Network Control Program](#). In 1983, it was replaced with the [TCP/IP](#) protocol invented by [Robert Kahn](#), [Vinton Cerf](#), and others, which quickly became the most widely used network protocol in the world.

In 1990, the ARPANET was retired and transferred to the [NSFNET](#). The NSFNET was soon connected to the [CSNET](#), which linked Universities around North America, and then to the [EUnet](#), which connected research facilities in Europe. Thanks in part to the NSF's enlightened management, and fueled by the popularity of the [web](#), the use of the Internet exploded after 1990, causing the US Government to transfer management to [independent organizations](#) starting in 1995.

And here we are.

Figure 1.4 The Four Waves of Industrial Revolution Source: <https://digitalleadership.com/blog/four-waves-of-economic-development/>

	Cradle of Humanity		1st Wave Agrarian Culture		2nd Wave Industrial Culture		3rd Wave Information Culture		4th Wave Integrated (?)	
Era	Pre-agrarian period	Early societies	Industry 1.0 (1st Industrial Revolution)	Industry 2.0 (2nd Industrial Revolution)	Industry 3.0 (1st Information Revolution)	Industry 4.0 (2nd Information Revolution)	Information 3.0	Information 3.0	Information 3.0	Information 3.0
Innovation	Appearance of Homo sapiens	Agriculture	Mechanization	Electrification	Automation & Globalization	Digitalization	Smartification (merging A/balance between individualism and collectivism)	Smartification (merging A/balance between individualism and collectivism)	Smartification (merging A/balance between individualism and collectivism)	Smartification (merging A/balance between individualism and collectivism)
Timescale	Roughly 3,4 million years	8,000 BCE	From 1765	From 1870	From 1969	From 2011	From 202x - 203x	From 202x - 203x	From 202x - 203x	From 202x - 203x
Location of value creation	Dispersed	Village & countryside	Mechanized towns and cities	Industrial regions	Global production networks	Global value chains	Dispersed (virtual & decentralized)	Dispersed (virtual & decentralized)	Dispersed (virtual & decentralized)	Dispersed (virtual & decentralized)
Philosophical foundation	Animism and a belief in a holistic merging of humans and nature	Belief in god, holistic circular world view, possession of land and people and patriarchy	Belief in infinite growth. Rational, linear world view	National industrial culture with a focus on dominating global politics through industrial strength	Globalized industrial culture with a focus on economic growth & consumption	Information culture with a more decentralized focus on economic growth & consumption	Belief in infinite growth and a rational, linear world view leads to "Post Humanism" & "Singularity 2.0" theories	Belief in universal connectedness. Leads to holistic, systemic, circular world view & to "Earth 5.0" theories	Belief in universal connectedness. Leads to holistic, systemic, circular world view & to "Earth 5.0" theories	Belief in universal connectedness. Leads to holistic, systemic, circular world view & to "Earth 5.0" theories
Culture	Nomadic culture of extended families and tribes	Sedentary culture of peasants with patriarchal, feudalistic exploitation hierarchies	Division of labor leads to exploitation of labor and capital by owners	National industrial culture with a focus on dominating global politics through industrial strength	Globalized industrial culture with a focus on economic growth & consumption	Information culture with a more decentralized focus on economic growth & consumption	Information culture with a more decentralized focus on economic growth & consumption	Information culture with a more decentralized focus on economic growth & consumption	Information culture with a more decentralized focus on economic growth & consumption	Information culture with a more decentralized focus on economic growth & consumption
Technological inventions	The invention of tools, control of fire	Irrigation techniques, domestication of animals, the discovery of the number zero, enabling mathematical thinking	Steam power, water power, efficiency, mechanization leads to start of mass production	Electricity, telegraph, telephone, light bulb, internal combustion engine, railroads, assembly line, standardized mass production	Electronics, semiconductors, computers, telecommunications, automated production, mass customization, internet, connectivity	Digitalization, machine learning, robotics, Internet of Things (IoT), autonomous vehicles, 3D printing, virtual & augmented reality, wearables, nanotech, biotech, energy storage, digital	Digitalization, machine learning, robotics, Internet of Things (IoT), autonomous vehicles, 3D printing, virtual & augmented reality, wearables, nanotech, biotech, energy storage, digital	Digitalization, machine learning, robotics, Internet of Things (IoT), autonomous vehicles, 3D printing, virtual & augmented reality, wearables, nanotech, biotech, energy storage, digital	Digitalization, machine learning, robotics, Internet of Things (IoT), autonomous vehicles, 3D printing, virtual & augmented reality, wearables, nanotech, biotech, energy storage, digital	Digitalization, machine learning, robotics, Internet of Things (IoT), autonomous vehicles, 3D printing, virtual & augmented reality, wearables, nanotech, biotech, energy storage, digital
Exemplary innovations or new capabilities	Upright walk Control of fire Flint blades Speech	Axe 6,000 BCE Wheel 4,000 BCE Writing 3,300 BC Printing press 1,440 CE	First mechanical loom 1784 Large-scale production of chemicals	First assembly line 1870 Ford Model T 1908	First programmable logic controller in manufacturing 1969 First mobile phone 1979	Smart factory Cloud computing Bitcoin 2009	Smart factory Cloud computing Bitcoin 2009	Smart factory Cloud computing Bitcoin 2009	Smart factory Cloud computing Bitcoin 2009	Smart factory Cloud computing Bitcoin 2009
Transformational change	Living in small tribes	Settling in villages & towns	Substitution of labor by capital, process stability & speed, industrially manufactured goods, start of the machine age	Division of labor ("Taylorism") Process flow & throughout	Start of "mass customization" Information distribution Business Process Reengineering Process quality & 'Lean'	Access to education, global integration, digital industry, digital transformation, intangible goods	Access to education, global integration, digital industry, digital transformation, intangible goods	Access to education, global integration, digital industry, digital transformation, intangible goods	Access to education, global integration, digital industry, digital transformation, intangible goods	Access to education, global integration, digital industry, digital transformation, intangible goods
Who leads?	Tribal leaders	Religious leaders, aristocracy/monarchs, warlords	Entrepreneurs, tradesmen	Directors	Management	Leadership (non-hierarchical)	Leadership (non-hierarchical)	Leadership (non-hierarchical)	Leadership (non-hierarchical)	Leadership (non-hierarchical)
Primary axis of improvement	Surviving in nature	Dominating nature	Power	Speed	Memory	Interconnectedness	Interconnectedness	Interconnectedness	Interconnectedness	Interconnectedness
Ability	Physical capability	Physical capability	Physical capability	Physical capability	Mental capability	Mental capability	Mental capability	Mental capability	Mental capability	Mental capability
Who is empowered?	People	People	Corporations	People	People	People	People	People	People	People
Global population	50,000	1 million	100 million	1 billion	3.5 billion	7.7 billion	7.7 billion	7.7 billion	7.7 billion	7.7 billion
Sustainability/waste share	Permanent/no waste	Permanent/no waste	Long-term/5%	Long-term/10%	Mid-term/25%	Short-term/45%	Short-term/45%	Short-term/45%	Short-term/45%	(Hopefully) again long-term / 5% - circular economy
Human focus	Survival	Control	Efficiency	Scalability	Consumption	Digitalization	Digitalization	Digitalization	Digitalization	Human universal integration through smartification, purpose, sustainability