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CONSUMER BEHAVIOR IN DIGITAL MARKETS

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A Research Paper
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TITLE: CONSUMER BEHAVIOR IN DIGITAL MARKETS

Advancements in technology have reshaped the way we behave as consumers.
Today's commerce is turning digital. Consumers are becoming more aware of electronic
commerce and the security concerns that come with e-commerce. This study will outline
the differences of traditional commerce and electronic commerce, and how and why it is
changing the market place.

A survey was also completed, a sample of 66 undergraduates. Showed a positive
outlook on the future of e-commerce. A little over half "57.8%" responded saying they
still find it difficult to spend a vast amount of money while purchasing a good
online. This paper will outline the pros and cons of e-commerce, traditional brick and
mortar businesses and consumer behavior.

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CHAPTER 1

INTRODUCTION

Today, shopping for goods and services online is becoming more of a common practice. Ecommerce (electronic commerce) has been around for over 40 years. Consumer-using ecommerce really did not start to take off until around the mid 1990s. One reason ecommerce emerged during the 1990's was due to the increased number of household computers. For ecommerce to work, a consumer must have an Internet enabled device to complete a transaction. As technology becomes cheaper and broadband Internet becomes more accessible there is a greater chance that ecommerce will take over the traditional businesses model.

For my graduate project I developed an ecommerce website that that sells goods and provides services. For this study I do not want to only look at ecommerce in relation to commerce, but also look at consumer behavior while purchasing a good online. Research in ecommerce and consumer behavior will help me better understand the market and my future customers. To complete this study, I have collect data and information from journal articles, newspapers and other media.

I feel there is room for more successful online businesses and in the future, I personally want to compete in the online marketplace. Building customer relationships and trust is hard for any business. Most of studies that I have look at shows consumers react to security, mainly processing payment and personal data online. I question if a consumer security concerns decreases when shopping at a well known brand such as Walmart.com and if the same applies for any online brand that gives an impression that

they are a million dollar company even though they are actually a mom and pop store

from a small suburb.

CHAPTER 2

LITERATURE REVIEW

Internet access is practically everywhere in the United States, schools, restaurants, libraries, retail stores, and even in random parts of some towns sometimes providing free Internet access. The emergence of ecommerce resulted to increased competition among businesses and is changing the traditional brick and mortar businesses to an online based operations as a strategy to remain competitive (Hahn, Doh & Bunyaratavej, 2009, p. 12). Online sales only made up 5.7% of retail sales in 2013. In 2005 2.4% of sales came from online and increased to 6.2% in 2014. Holiday shopping increased 4th quarter sales and decreases 1st quarter sales for the beginning of the New Year. On average there is a negative 16.9 percent change from 4th quarter to the 1st (census, 2013). This data indicates ecommerce has been increasing over the last nine years, but within the last years started moving sideways with little volatility. The data only gives an idea of the US retail sector and no indicator of global change that may occur in ecommerce. According to studies another study, ecommerce is growing at an annual rate of 20.7 percent at a global level on sale from $ 661 billion in 2011 to $ 963 billion in 2013 (Alrawi & Sabry, 2009, p. 512).

The rapid growth has resulted from increased use of broadband connection, innovative payment products and use of smartphones. The aim of adopting ecommerce is to meet the needs of the changing market dynamics, where merchants focus on improving customer experience and secure way of conducting business to establish a secure way of making transactions to create innovative payment method and consumer oriented

solutions. Adoption of ecommerce always encounters challenges associated with technology, people and money. However, the cost of disregarding ecommerce is at times more that the cost of adopting because it is an important tool that increase competitiveness in the business.

Traditional business models conduct business without the use of the digital world. Traditional businesses conduct business through physical store and business transactions carried out on a physical basis with customers. Arguably, brick and mortar business operation is expensive as it involves physical based marketing, establishment of physical warehouse and stores. Traditional business model also involves paper based billing, rent and others cost. The increased cost in traditional business model resulted to the adoption of ecommerce, which is considered as an effective model that assist business to gain market shares, improve customer relationships and communication and streamline business processes. There are other forces that have promoted the evolution of ecommerce including advancement in technology.

The availability of secure, fast and cheap technology has enabled business players to adopt ecommerce making the market cost effective and highly competitive. According to U.S census in 1993, 22% of households had a personal computer. Needs among consumers have evolved making online retailers work at identifying consumers' needs and their shopping behavior so they can offer innovative products. Retailers are now focusing on customers on the basis of their demographics and spending habits to improve the market. Ecommerce enables retailers to increase sales and make businesses more profitable (Demil & Lecocq, 2010, p. 237).

As the infrastructure grows around the world more and more people will be able to barter with each other. "The Internet has the highest adoption rate of any technology in history" (Guptha, Malik, 2013). The Internet has helped transform commerce in many ways. Anyone with an Internet connection can start a home-based business for free or with little money compared to a brick and mortar business. Overhead cost is much lower with ecommerce than traditional brick and mortar business making it easier to compete with larger businesses than ever before. Predicting success of an online business is nearly impossible.

Businesses such as Google and Facebook are considered a phenomenon (winter, 2011). These businesses did not have the goal to take over the world but instead fill a need for a small group of people. Although these websites came out of nowhere and became a sensation practically overnight they did start somewhat of a trend. The trend is to give out free products to the consumer, in result, profiting from advertising revenue.

SOCIAL MEDIA

Social media has helped increased the rapid evolution of business operation model from traditional commerce to ecommerce. Social media platforms have created new opportunities from retailers to adopt ecommerce business model to raise awareness of their products and promote their business brand name.

Online social networking platform are mainly used by the population between the ages of 18 to 29 years. This is making it an effective medium for loyalty and branding (Cooke, 2013). 90% of user between the age of 18-29 use social media. 73% of all

Internet users use social media (pew research center, 2013). Nearly one fourth of the world uses social media (eMarkets,2013).

Social marketing has increased providing an excellent platform for customers to give feedback and complaints. Increased use of Internet and smartphone users is another force that has led to the rapid evolution of ecommerce business model. The rate of Internet users has increased from mobile devices, making retailers exploit this increased usage to be able to market a wide range of products to a large market.

Consumer behavior / Security Our society has been overtaken by technology and ecommerce and m-commerce is growing along side with the rapid growth of technology. 34% of Internet users spend a whopping 25 to 35 hours a week browsing the Internet and only purchasing 520 items per year (Guptha, Malik, 2013).

MOBILE

M-commerce is using this trend renaming it "freemium" by charging a subscription fee to use these so called free products (vinett, 2014). Using these tactics, consumers are sucked in with the glorious word "free" but then they will be forced to pay a fee for premium content (vinett, 2014). This type of marketing strategy is ingenious, mobile game apps, such as Candy Crush Saga, are notorious for these practices. Since mobile devices are used 23% of the time for games (Peslak, Shannon, Ceccucci, 2011) targeting consumers through game apps is a good idea.

Mobile technologies such as smartphones and tablets have also boosted Ecommerce (Demil, 2010). An article from CNN reports that Americans are using smartphones and tablet apps more than PC's. While web use is still 500 times lower on

mobile browsers compared to personal computers (CNN , 2013). Over 50% of the world owns their own personal cell phone (Gorham, 2000) and 82% of adults in the United States have their own mobile phone (Peslak, Shannon, Ceccucci, 2011). 84% of individuals in the United States use the Internet for pleasure and business (ITU, 2013).

SECURITY

The main challenge involves security concerns despite the decrease in incidences of fraud from 2009 to 2010. During this period, the cost of counter attacking frauds increased; as a result, of the increase in volume and more lucrative sectors (Benbasat, 2012). The nature of online fraud has become more sophisticated overwhelming customers because of fear to shop and make transactions online. Poor digital marketing skills are the second challenge affecting ecommerce. In some businesses, ecommerce is still a new concept, where marketing team in online retail shops are working towards developing marketing approaches and effective ways of reaching consumers.

Traditional business relationships began with a handshake and conversation. When a consumer is shopping online for a product trusting a company is a gamble. The Internet is full of brilliantly thought out schemes to scam consumers to get all they have.

The majorities of consumers are aware of these schemes and do their best to avoid them. Since consumers are aware of these schemes they are very careful when shopping online. Security measures from payment processors and Internet security verified webpages helps consumers build confidence when ordering online (Benbasat).

STRATEGIES

Poor marketing strategy have a negative impact on sales, customer acquisition, brand equity and retention. Poor integration technology has a negative impact on customer experiences (Cavalcante, Kesting, 2011). It becomes difficult for customers to shop and make payments over the Internet when retailers have not integrated a back end system seamlessly with frontend systems. Some online businesses lack a multichannel option of making payment leading to a negative impact on their businesses (Ondrus, Lyytinen, & Pigneur, 2009).

An online merchant has to establish effective ways of promoting their products to make business effective, and enable the business to survive in a competitive and dynamic business environment. There are areas of operation which businesses need to focus to streamline their operation including enhanced conversion rate. Consumers use the Internet to make a comparison and choose products. Therefore, businesses are investing in digital marketing and data analytic tools to make their consumers loyal customers.

Enhancing fraud control is another priority in online merchants because security is the main problem that needs to be addressed to develop trust on ecommerce among consumers. Online retailers need to identify areas of risk and establish effective measures to address these security hitches.

Online merchants are focusing on developing diverse payment channels and optimizing their business model. (Ondrus, Lyytinen, & Pigneur, 2009, p. 7). Many tools have been introduced to give consumers confidence insuring a safe checkout. One form of security is to secure pages with hypertext transfer protocol secure (https://) instead of the traditional http://. This protects transmission of sensitive information such as

passwords, credit card details, and personal information with the expectation that encryption guarantees privacy (netcraft, 2013).

There is only consumer confidence if the consumer understands the security features. 70% of males are aware of the secure protocol and 58% of women are aware (Jabar, Ishak, Sani, Sidi, Supian, Mustapha, 2013). Another barrier for fraud in ecommerce is the security of the payment process. When checking out online you must provide your personal information and type of payment. Since you cannot trade cash for a good online, consumers must use alternative forms of payment. This is what concerns people the most. "more than a third of Internet users globally who do not shop online cite distrust to online payments as their reason for not making purchases" (PR Newswire, 2014).

The most popular way to make online payment is through the use of credit cards. 65% of online payments are done using credit, 16% eWallets, and only 9% using bank transfer (Alessandro, Riccardo, 2009). When paying with credit card the consumer must have trust in the electronic business. A study was done on university students ages between 20 – 30 years old shows that 48.8% find that providing credit card information over the web to be unsafe and 18.8% feel safe using credit cards online with 32.9% indifferent to the idea (Yi Yi, Mahomood, Dominica 2009).

CHAPTER 3

SURVEY RESULTS

The survey conducted for my research included 66 undergraduate students ageing from 18 – 32 shows that ecommerce is steady with traditional commerce. Everyday we hear positive and negative news about online security. Media outlets tell us how we can protect ourselves more while using the Internet. The survey reviles that consumers are more confident shopping online when they are more informed about security. Only 35% of people believed that more information decreased security concern. This identifies that even though the Internet is typically an unsafe place for consumers, we are willing to use it to trade goods.

From this survey I also asked how much time participants spent shopping online and in stores. Both online and in store were relatively close. 2-5 hours resulted as the highest response on both questions. Consumers that shop in store 2 – 5 hours per week resulted in 51.1% of survey results. Survey results for online shopping 2 – 5 hours was 35.5%. My previous research showed that people spend 25 to 35 hours a week browsing the Internet and only purchasing 520 items per year (Guptha, Malik, 2013).

Consumer confidence leads to consumers spending more online. The majority of participants said they would not purchase luxury goods online. Results showed that 57.8% of participants would avoid purchasing goods valued greater than 500$.

CHAPTER 4

CONCLUSION

In conclusion ecommerce has been on a steady incline over the last 15 years. Security and tangibility issues prevent some consumers from shopping online. Even with security concerns consumers are still willing to shop online. Online businesses must change their business model to reinforce security measures and consumer trust into their brand.

Traditional brick and mortar businesses might not be as cost effective as an online retail, but have more consumer trust overall. Until ecommerce can guarantee a 100% security traditional commerce will be winning the ball game.

A few ways ecommerce can gain consumer trust is by providing information about security. Trust marks on a website can intergrade trust into a brand. A business must show positive social presents. And finally a privacy statement that informs consumers that they are protected.

Although ecommerce is considered risky, consumers enjoy the convenience that comes with shopping online. Electronic commerce is not going take over commerce any time soon, but has potential if security risk can be minimized to zero.

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