A literature study on factors that influence return on investments for e-commerce websites focusing on website visibility mechanisms

Wideman, M*, Lukhele C, F. **

* Faculty of Business Informatics, Cape Technikon, Cape Town, South Africa, weidemaaan@cput.ac.za
** Faculty of Business Informatics, Cape Technikon, Cape Town, South Africa, 200056131@cput.ac.za

Abstract

This study is an investigation of some factors that are believed to have an influence on return on investments for e-commerce websites. The focus is on advertising mechanisms that include search engine marketing and normal web marketing. The literature survey has produced some contradictory statements regarding return-on-investments. Some claims are made of success, while others warn against spending resources on for example banner ads. Further study was done in order to investigate details as to: what are the factors that have major influences on return on investments. As money is invested daily on website visibility activities, a need has also been identified to see these activities deliver on their promises. In this paper, return on investments is defined not only in terms of money, but in terms of awareness. This is because of a strong belief that when a consumer is at a point where they have to make a choice between two brands they are most likely to choose the one that they are more familiar with over the other. These factors include Attitude, Relevancy/congruity, Recall and Complexity.

Keywords: Internet advertising; return on investment; e-commerce

1. Introduction

It is undeniable that the Internet is an effective medium of advertising by considering the computer age that we live in and where we are moving towards. Already a landmark study has proven that 83% of the 800 million web pages in existence at the time were commercial by nature (Lawrence and Giles, 1999). The importance of this commercial aspect of Internet content was confirmed when the large Internet service provider AOL took over the media giant Time-Warner (Thelwall, 2001:114).

The first question that needs to be asked is: “What makes this medium better or different when compared to TV and Radio?” Some researchers believe that the web’s interactive nature, i.e., the ability of the user to receive and transmit messages, creates a totally new communication environment (Chandon et al., 2003). This makes it possible for the advertiser to market his products or services directly to an individual via e-mail messages, also known as spam. Although this technique has come under fire too many times, it is still considered to be very effective when it comes to increasing brand awareness.
Another advertising mechanism that has been researched is banner advertising. Banner adverts are generally considered boring and the average click-through rate of banners is declining (Pagendarm and Schaumburg, 2001). Advertisers have attempted to counter the decline in click-through rates by trying to improve the visual and interactive appeal of banners and to display targeted banners to more specific audience groups. It seems as if some claims by a variety of authors in the literature are contradictory. As an example, Pagendarm and Schaumburg claim that users find banner ads irritating, this can be a major concern when considering the fact that it could have a negative impact to the digital consumer. Cottriss reports on a successful marketing campaign. It is clear that the internet is not only different, but advantageous as well when compared to its counterparts.

This paper focuses on e-commerce based websites, specifically on the aspect of Business to Customer / Consumer (B2C) rather than Business to Business (B2B). It is generally accepted that Internet users obtain URL’s in an attempt to find that elusive website in a number of ways. These include word-of-mouth, newspapers, business cards, hyperlinks from other websites, Internet directory drilling and keyword searching on search engines. They expect the results obtained from the Internet to: be clear, appear quickly, be ranked from most to least useful and above all be relevant to their specific need. Although this expectation is often not met, it is still claimed that search engines generate approximately 80% of web site traffic (BTLookSmart, 2001).

Some challenges faced by web advertisers and normal business that is running a website include the tight competition that they face. Unlike the other advertising mediums; here customers are gained and lost in an instant. For managers and advertisers the study of these factors would come in very handy since it is in their best interest to gain and keep their customers. This is because this competition is not just at state or country level, but also globally. These facts raise the need for employing techniques to make sure that a website is visible enough, implying that the site should achieve good rankings in search engines. Unfortunately no website can achieve high rankings without any efforts, and those efforts can often be translated into the allocation of financial resources to raising the level of the websites' visibility. This could be done either by tweaking the HTML code, or by spending money on paid inclusion or paid listings.

This is most certainly one of the reasons why companies spend a lot of money on online advertising and search engine optimization. On the other hand, one author claims that top managers are pushing harder than ever before for proof that sites are more than glitzy money pits (Webster, 2002). It is clear that this responsibility is taken by those who manage the website, most importantly, the designers. This study was conducted in order to provide guidelines for choosing the so called “best” strategy. This is done by evaluating these factors based on advantages and disadvantages of a particular visibility or advertising mechanism.

In this paper, website visibility is regarded as a marketing goal, simply because the objectives of a marketer is to create awareness or exposure to his product; which is also what any firm hopes to achieve through search engine optimization. Therefore, any of the activities aimed at enhancing a website’s visibility and to attain top rankings are seen as marketing strategies. This statement seems to be supported by another author: “The contents of search engine results are inescapably influenced by marketing and advertising” (Moxley et al., 2004).
Online advertisers and search engine optimizers share one common goal: enhancing their website’s visibility. Most of them use increase in traffic as a measurement of the website’s visibility. Various techniques are being implemented to get the sites visible enough, to mention but a few: Meta tags enhancing, paid listings, banner ads and pop-ups (interstitials). However, during this study positive and negative aspects about these techniques were discovered, which will be discussed in detail at a later stage. The objective of this paper is to inspect the techniques and provide recommendations on retaining online customers.

The most used form of targeted marketing using the Internet has been through e-mail (Gi & Thumbo, 2000) The current flood of spam received mostly via e-mail messages, experienced by many IT workers worldwide, proves this claim. Another method would be to use a website such as a search engine with targeted advertising messages based on the content that the user is requesting (Chintagunta et al. 2002).

2. Limitations

This study was based on literature from other researchers, no empirical work was done.

3. Investments

A lot of time, money and effort are invested daily on internet advertising and websites just to make sure that they appear to be lucrative. In fact, some authors claim (Joines et al., 2003) that $3.1 billion was spent on internet advertising in 1999 a sum which was estimated to reach over $15 billion by 2003. It is claimed that the average annual company budget allocation for a website in the United States is about $500,000, according to a survey of 200 companies that the Yankee Group conducted in August 2001 (Webster, 2002). It was not specified whether or not this budget estimation included web advertising costs and activities to increase the website visibility; these activities could be Search Engine Optimization (SEO), paid listings and others. It seems as if running of websites is a costly activity. However, another author claims that although the establishment of a website is surprisingly cheap, it can produce a good return-on-investment (Tremblly, 1998).

Apparently, almost all of the big agencies have some sort of search engine marketing component in their mix.

4. Defining ROI (Return On Investment)

Business professionals may define return on investment as revenue; that is in the form of money, however in this paper we look at this ROI from two perspectives. This return may be tangible (such as paper or digital money as it is actually in the company’s bank account) or may be intangible (such as creating awareness of the company and products); here these two are separated into sections and covered in more detail below. Webster states that: If a company experiences an increase in website visitors and that doesn’t result in increased sales, something is wrong (Webster, 2002). It seems as if this statement implies that increased website traffic and visitors do not guarantee sales or improved business performance. At this point a question can be asked: “Does it mean that a website can achieve top rankings in search engines or experience an increase in
traffic and still not improve or impact the business?” If the answer to this question is “yes”, then one should ask if there will be any ROI in this scenario.

5. Measuring ROI

Firstly we look at the financial perspective of ROI. Another author states emphatically that: done successfully, the return of gaining a new customer, and especially a repeat customer, should outweigh the cost of attracting and keeping the customer (Guenther, 2003). This claim seems to be supported by Cotriess, who details a campaign run by a company providing fax server software, claiming 50% traffic increase, 35% download increase and 25% conversion increase after a successful paid listing campaign on Overture (Cotriess, 2002). At the same time, Weideman claims that digital consumers should not trust information produced by search engines blindly, and that they should understand the difference between organic and paid results (Weideman, 2004).

When we move our focus to the intangible benefits; some would say that to determine brand or website awareness one would have to calculate the number of hits on the website, and others would say click-through rates are to be used in order to measure the effectiveness of an advertising mechanism (this applies to banner ads). However (Chandon et al., 2003) state that several researchers feel that click_through is not a valid way to measure the effectiveness of online advertising. They also mention that click_through rates cannot measure all aspects of advertising effectiveness and do not cover all the objectives an announcer can assign to an advertisement on the web.

Depending on how one defines awareness, then click-through rates may or may not be used to measure the effectiveness of online advertising.

5.1 Awareness (ROI measurement)

An occurrence of repeating visitors to a website is a good sign of awareness; when a visitor logs on to a website more than once, he/she is very likely to be familiar with the brand. Future research on this topic could include be on how to identify repeating visitors in order to determine website awareness as an effective ROI measurement.

5.2 Money (ROI measurement)

Management wants tangible proof in the form of financial figures to see if it is worth investing in marketing strategies. At this stage the brand and website awareness has to convert into sales which actually means money, after all that’s what business is all about. Eventually, a question will be asked: “does internet advertising (with search engine marketing/optimization encapsulated) deliver on the promise of increased return on investment?” If the answer to the question is “no” then we have a very serious problem. On the positive side, research has been done on this topic although it was not mentioned if it was focused specifically on ROI. Other authors (Joines et al., 2003) mentioned that the money spent on internet advertising seems to be paying off for some industries. It was also highlighted that retail e-commerce increased dramatically, from $8 billion in 1998 to $18.6 billion in 1999, and were predicted to reach $80 billion dollars by 2003 (Joines, Scherer & Scheufele, 2003). However, few of the Internet-based businesses are making profits, but companies like Amazon.com are expected to produce bottom-line profits within the next few years (Joines et al., 2003). These are facts that
management need to be made aware of, these marketing strategies will not necessarily at all times increase the performance and productivity of their business.

6. Factors influencing ROI

Website visibility activities are now included as part of the marketing strategies of many organizations with more emphasis on e-commerce firms. This is the trend since their potential customers are internet surfers, which makes it even more important to ensure effectiveness of that particular strategy (advertising mechanism). In fact, search engine optimization/marketing firms emphasize that the biggest demand for search engine marketing is coming from the advertisers themselves. Brand managers are asking their agencies to include search engine marketing in their media plans.

It has been mentioned before that any marketing strategy is some means of communication with the consumer. Just like any other means of communication (such as verbal), advertising mechanisms can embody good or bad communication. It is important to take note of and evaluate the advertising mechanism that an organization uses because it’s possible that the mechanism could be harmful or beneficial to them. One would have to go back to basics and find out what good and bad communication is. However, it’s simple: good communication is extremely important because it is a platform for building a good relationship with your customers. At this stage the question that pops up is: “is the strategy chosen a good means of communication?” We could also say that most the factors that are addressed here revolve around communication.

As mentioned above, the focus of this paper is on B2C, as a result the factors that are discussed are ones that are believed to have direct impact on consumers. Each of the factors is categorized as to which area they have influence on the most (including: Awareness and Money, since they are the basis used to measure ROI). These factors may improve the performance of a website, which implies improvement to the performance of an e-commerce firm generating even more returns on the investments made.

There are many more other factors that have an impact on ROI, however the ones listed below are those that are believed to have major influence based on the definition of ROI given above.

6.1 Attitude

This has much to do with the impressions of the website that the advertising mechanisms create towards the consumer. One of the most influential theories in marketing communication and advertising research is attitude-towards-the-ad. It seems as if advertising effectiveness is influenced by consumer responses to websites (Goldsmith & Lafferty, 2002). According to authors (Bruner & Gordon, 2000), one of the most common set of relationships is that attitude-towards-the-ad tends to have a strong direct impact on attitude-towards-the-brand, which in turn tends to have a strong positive effect on purchase intentions. These statements are supported by another author who mentions that the attitude that is formed towards the ad can influence consumers’ attitude towards the brand as well as purchase intent (Homer, 1990). It was also found
that disruption in flow by banners, interstitials, pop-ups, and other forms of advertising can create a negative attitude towards those ads (Rettie, 2001).

With a consumer having a negative attitude towards an ad, one is most likely to lose them, this highlights the importance of setting the right mood for consumers. While continuing with this issue, what other researchers said about banner adverts being “boring and irritating” should not be taken lightly. Judging from what the quoted authors say about banner adverts; one would conclude that banner advertising is not the best strategy for attracting customers, instead it could chase them away. It appears that this is not just the effect of banner ads only, but any form of intrusive advertising mechanism. This implies that brand and website awareness will suffer because of such strategy, let’s remember that we have defined return on investment in terms of brand awareness as well. It is said that in the early days of e-commerce, banner ads appear to have been effective in creating positive attitudes and brand awareness (Briggs & Hollis, 1997). The question that needs to be asked is “what went wrong?” Speculations would be: perhaps the Internet is not a new thing any more, people are no longer fascinated by banners with animations and sounds. This would be a whole new topic for research by itself.

6.2 Relevancy/congruity

Relevancy can be defined by asking the question: “Are the results retrieved relevant to the query?” A user would consider a web page relevant if the answer to his/her query could be found directly in it (Goh & Ang, 2003). With relevancy the focus is on paid listings. At this point it has been accepted that paid-listings and the likes are some form of advertising. Other authors (Moxley et al., 2004) state that Commercial Alert defines search results as advertising, they also continue to mention that many information professionals consider pay-for-placement as clear and unwelcome twist on the goals and processes devoted to meeting the information needs of end users.

There seems to be some strong beliefs that not only do paid-listings and paid-inclusion’s yield irrelevant results, but they are being thought of as misleading advertising. The root of the criticism of pay-for-placement advertising which integrates paid-for results with natural results seems to be misleading end users about the relevancy of their search results, or at least about the manner in which the reported relevancy was computed (Moxley et al., 2004). Any form of advertising that misleads consumers is considered to be unethical and bad marketing practices, this eventually results in loss of customers.

Congruity focuses on banner advertising. Our definition of congruity would again come by asking a question: “Does the contents of the website match what the banner advocates?” If the website and banner advertisement have low product class congruity then the consumer’s perceptions will be in a state of imbalance. In such situations, consumers will experience tension caused by the incongruity of the brands and will be motivated to find a way to either reduce the tension through a change of affect toward one of the two brands or by completely ignoring the message (Newman et al., 2004). When analyzed; this could mean that incongruities results in organization loosing out on potential customers. This highlights the importance of having the banner advertisement and the contents of the website in harmony.
6.3 Recall

This means the ability for a surfer to remember a brand name or website that he has seen while surfing through the internet. Recalling is often associated with banner ads in a mission to create brand awareness. Researchers claim that if a consumer can easily recall a certain brand then awareness of that particular product exists. In other words, the advertising mechanism should be one that enables the user to easily remember the brand and most importantly the website. (Danaher & Mullarkey, 2003) did a detailed study on factors that influence online advertising recall and according to them, factors that might impact advertising recall include features of the website such as quantity of text and webpage background color. It’s extremely important that web designers take good care of these issues.

In addition to creating consumer awareness for a dot.com, marketer communication may also create an initial impression of the dot.com, that is; off- and online advertisements, promotions and the likes can be used to build a unique identity for an online company (Page & Lepkowska-White, 2002).

Although a lot of money is spent on these advertising mechanisms it is still important not to sit back and expect good results, extra efforts need to be put in. Some means of communication with the visitors and customers need to be organized as well, not only do we need to have new customers but we need to keep (retain) the ones we have as well. It is often suggested that to improve total recall one needs to communicate frequently. Repetition is important for memory improvement.

6.4 Complexity

By complexity we mean the extent to which a page’s contents are kept simple, these include the text, page background and the likes. Successfully done, the implemented advertising mechanism will attract visitors to the website. However, it is strongly believed that the complexity of a website may be a stumbling block when it comes to converting visitors to customers.

The effects of complexity issues are believed to be tied with the user’s experience, meaning that it depends on the user’s experience. Complexity to a non-experienced user could be frustrating at times, unlike the experienced user who knows how to find his way around. In summary complexity generates an attitude towards the site, the implications of this is that complexity is very likely to have a negative impact to the non-experienced, however with the experienced it may not have an impact.

Complexity also seems to have an impact on brand and website recall, which plays vital role in awareness. According to (Danaher & Mullarkey, 2003), of the factors that might impact web advertising recall and recognition there is also webpage context factors that include text and page background complexity. There is evidence that that complexity can have a negative impact on the attitude-toward-website, taking this into serious consideration suggests that while people could describe complex web pages as interesting they may also develop negative attitudes toward the page and site (Bruner & Gordon, 2000).
7. Conclusion

E-commerce firms are very much dependent on their websites to run the day-to-day business operations and generating profit at the same time. And just like any other kind of business it is important to keep the customers happy. When it comes to these factors, managers, marketing professionals and website designers need to be vigilant. This is because if neglected, these factors can cost business the very customers that it is supposed to be run through. One thing that needs to be highlighted is that as much as it is easy to get visitors and customers in an instant, it also very easy to loose them in an instant again.

It is unlikely that the perfect answer or advertising mechanism can be found, somewhere somehow with each strategy there will be some positive and negative factors that impact the ROI. The Internet is still growing, more people get exposed to it everyday. This is a “one way in and no way out” situation, it actually means that once a person starts using the internet they can not turn back, after all the future is moving that direction. As a result people get more familiar and more experience on the internet and at this stage we can not rely on banner advertisement’s animations and sounds to attract the digital consumer to our website. During the literature review some contradictory statements on banner ads were found. This leads to beliefs that the effects of banner adverts may be dependent upon several factors including time (looking at how mature the Internet was at that time) and the user's level of exposure to the Internet.

These are some of the issues that need to be investigated before choosing any website visibility and advertising mechanisms as an implementation of an online marketing strategy. No one wants invest their money on some outdated form of advertising.

Every marketing professional knows that there has to be a specific market that is targeted before coming up with any strategies. Bearing that in mind, it should be remembered that while some things are a pain to others, to some it is “music to their ears”. This should be considered when working on the attitude factor. Special attention should be paid on what mood you set by looking at things like, what colors set the right mood for which target and what will persuade site visitors to buy (this could include incentives). It is also advisable to keep away from any form of intrusive advertising mechanism.

When addressing the relevancy factor, some researchers feel that it is very important that the differences between the types of results are transparent to users, by appearing under the heading of “sponsored links”. This is because paid-for results are often thought of as being misleading and irrelevant. Consumers can be weary of such, this is what should be taken into serious consideration before spending money on paying for position and inclusion.

It is also advisable to keep all web pages simple and straight forward, than to try and impress while on the other hand the non-experienced user is frustrated and the experienced just does not care. Although it is virtually impossible to find the perfect solution, but the idea here is to try and keep all kinds of consumers happy.
8. Further Research

Future research will be investigating the effects of banner advertising based on time and user’s internet exposure level. This may generate clarity on the contradictions identified during this study by the different authors. Aspects that will be looked at include the actual time in which those studies were conducted, finding out how mature the internet was then and the internet exposure level of the research population.

9. Acknowledgement

The Cape Technikon is hereby acknowledged as providing overheads to make this project possible, as well as the National Research Foundation for providing a bursary.

10. References


