
Why Behavioural Targeting Works Online

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This paper looks at some ways the internet is affecting consumer behaviour and describes ways to target online consumers more effectively.

It argues that online consumer behaviour is distinctive as a result of the large choice and predominance of search on the internet. It follows that companies supplying goods and media on the internet need to cater for this distinctive behaviour or risk losing the online consumer.

In view of online trends, it describes why behavioural approaches offer effective ways to target consumers online.

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A NEW DIGITAL CHANNEL

Historically, new channels to market have rent changes in consumer behaviour and businesses' responses. A prime example is the advent of mass media in the early 20th Century which led to pronounced changes as consumers and companies reacted to the new medium.

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Growth of mass media in the early 20th Century led to a growth in sales and marketing costs resulting from advertising and broadcasting to customers. Consumers began acting along demographic lines. Sales and marketing became essential profit drivers for successful businesses.

With the advent of digital media in the 21st century, marketing costs are again shifting, from broadcast to marketing more suited to the new medium. There is growth in techniques such as social and targeted advertising. Consumer behaviour changes as demographic segments disintegrate. Capturing the attention of the consumer becomes a critical concern for digital businesses in the crowded internet marketplace.

CHANGES IN CONSUMER BEHAVIOUR

Consumer behaviour changes online because people are influenced by the characteristics of the medium. The mass of available content means consumers only react to items which are relevant to them and they interact with a larger spread of companies.

Where consumer start shifting through digital content, their attention becomes a key asset for digital businesses and relevance becomes a key measure for consumer choice and action.

Online consumers can identify and consume media in its smallest practical denominator – e.g. a single song or a single web page. These micro content items are the preferred consumption elements because they are more relevant. Relevance then becomes motivational for the digital consumer and people react to relevant items.

Consumers' ability to access a large number of providers directly means they have more choice. The ease with which people can access different suppliers means that they spread their activity based on what gets their attention. The high growth in pay-per-click indicates that people are highly reactive to relevant cues that get their attention.

To understand how central relevance and attention are to online behaviour, we must understand how interchangeable content is on the internet. A website is a collection of content and each item can be reached independently through search engines. So for a consumer, the link that gets them to a page and the characteristics of the content are the determining factors that engage the consumer. The cost of shifting to other content is so low that people will move to other content if more relevant items get their attention.

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THE MOVE TO MICRO-TARGETING

The emergence of a new channel where consumers react to highly relevant items has prompted new kinds of customer targeting.

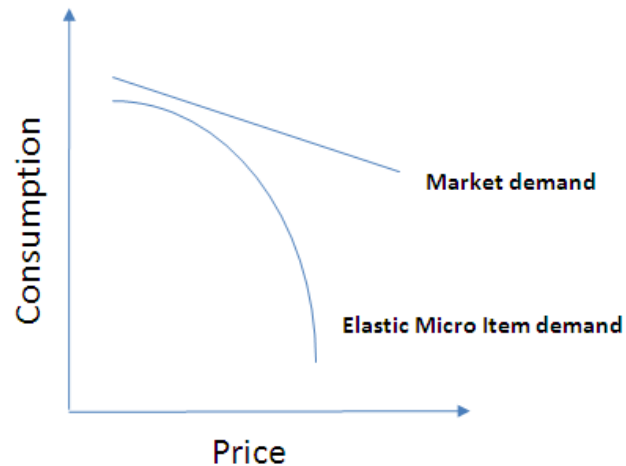
When mass communication was really only possible through a small number of channels (TV, newspapers and high street shops), advertising and broadcasting where the primary means to reach consumers. Newspaper circulations were in the millions, tens of millions watched the same TV shows and best sellers accounted for the vast majority of sales.

With the advent of the internet, the potential costs of reaching consumers dropped substantially. The oligopoly of broadcast channels could be sidestepped to reach consumers directly. However, consumer switching costs for the smallest items of media also reduced dramatically.

The consequences for consumer behaviour are pronounced. No longer do consumers need to purchase whole newspapers. They can select individual articles. So the time and money spent on the rest of 'the package' can now be spent on other more relevant items for the consumer. Furthermore, because alternatives are easier to access, the demand for individual items is more sensitive.

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To identify and reach people that will consume these more relevant items, companies switch spend from mass broadcast to highly targeted attention grabbing activities for tighter segments of consumers. This has been termed 'micro-targeting'.

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Micro-targeting is not only effective as part of traffic acquisition activities. It is also necessary on destination websites. Consumers can move to an alternative item or competitor in a few clicks, so micro-targeting activities are an important ingredient in engaging acquired traffic. Amazon and Netflix have pioneered approaches to offer alternatives and drive consumer sales by micro-targeting relevant items.

WHY MICRO-TARGETING IS EFFECTIVE ONLINE

To understand why micro-targeting is effective online, we must look at how the internet works and the issues it creates for consumers.

The internet is a marketplace which at first glance exhibits the characteristics which neo-classical economists saw as underpinning an efficient market:

- Price transparency between firms
- Potential perfect knowledge of the marketplace
- Large number of buyers and sellers

An efficient market means that internet users can potentially get a better deal online. However, there are some issues that stop this model working with maximum efficiency. The predominance of search means that items

higher up results lists get a lot more traffic and users plump for suboptimal items as they can't find the optimum ones. With billions of pages to search, the sheer technical difficulty in identifying the right results from this huge search space acts as a blocker to efficiency. The problem is so pronounced that we may be able to determine a real effect that will not significantly diminish as search technology gets better. Search becomes a serious cost in the buying process.

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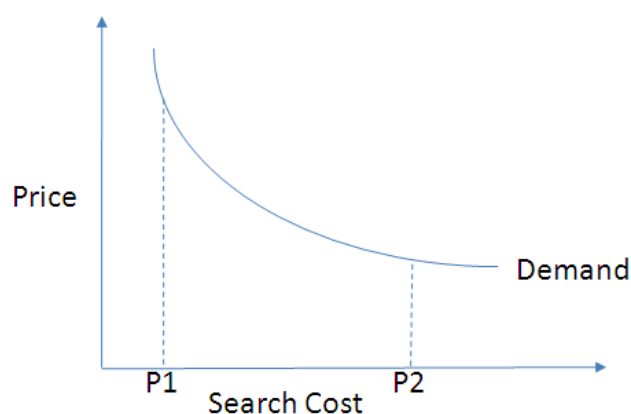
Furthermore, consumers interact with items online through 'content'. So all items necessarily have an important element of published content. It is this content that people interact with in the search and buying process, so providing relevant content becomes a necessary part of customer acquisition.

Micro-targeting reduces the costs associated with search and choice by providing relevant content. Where there are a large number of options, consumers have to choose, and the time and effort involved in choice becomes a psychological cost that consumers seek to minimise, just as they try to get the best price for a product. For evidence of this, note the way that consumers navigate to the better search engines (google.com) and comparison websites (shop.com). If the cost of search is a real cost to a consumer then the cost of an item can be expressed as:

Cost of item = cost of search + item price.

A rational consumer will pay a premium on the potential item price to reduce the cost of search when targeted with relevant content.

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Another consequence of search inefficiencies is that popular items will tend to get reinforced by popular engines that show these items first. This is a consequence of

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relating results to search terms that return common items for common keywords. A recent study found that 70% of Google searches returned Wiki pages as their top item (5). This makes it more difficult for individuals to find the most relevant 'longer-tail' content and increases the cost of search for searchers.

A further consequence of the cost of search is that long-tail items will not necessarily deliver higher profit margins as has been argued (2). Either excess profit will be used to target consumers or individuals will demand lower prices for items which are harder to find.

NEW APPROACHES TO SEGMENTATION

The demographic categories that were traditionally understood have been becoming less significant for some time.

In order to target micro-content, new approaches are needed to identify customers to target. Offline segmentation is less effective in the digital sphere as consumer behaviour changes.

Traditionally, segmentation comprised identifying demographic traits for consumers and tailoring offerings based on these segments. However, the demographic categories that were understood have been becoming less significant for some time. The boundaries between categories have blurred due to changes in society and populations. With the advent of digital content consumer patterns shift further and demographic categorisations become even less relevant. Consumers have greater choice and access to alternatives. They have the opportunity to behave more individually and research indicates that they take advantage of this (4).

As consumer behaviour changes, companies have begun taking different approaches to segmentation.

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One approach is to form alternative general segments. For example, 'genographics' (targeting individuals based on the generation - baby boomers, Generation-x etc) and 'psychographics' (segmenting individuals based on lifestyle categories). However, these approaches assume a level of predictable behaviour by segments, and have difficulty dealing with the spread of consumer behaviour associated with internet consumption. With competitors and alternatives a few clicks away, individual behaviour becomes sufficiently unpredictable to drive down the return on general segmentation. This drives businesses to one-to-one marketing which promises to capture an unpredictable

consumer. But how can we identify which consumers to target?

If consumers are behaving sufficiently unpredictably, it follows that the main means to identify people's likelihood to consume is not their general segment but their behaviour before they consume. Therefore digital customer segmentation is derived from behavioural analysis not analysis based on attributes.

BEHAVIOUR BASED SEGMENTS

Behaviour based segments are groups of individuals who behave in similar ways. If you can group individuals by behaviour you can identify micro content which is most relevant to them - getting their attention. As customers interact with you, behavioural portraits can be built up and groupings naturally emerge. These groupings are powerful as they point to the micro content which is most relevant for each group. So a natural segmentation develops, based around micro content which can be used to target members of these groups.

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Behaviour based segments are by nature industry specific, as customer behaviour varies by industry segment. For example, if you sell shoes then a search based on a search term "new shoes" puts a consumer right in your behavioural segment. However, the search term will not tell you what micro content she is searching for and targeting a general ad will lack relevance. Alternatively, if you identify the micro content that people are most likely to react to, an ad containing those items will get the attention of significantly more people.

Behaviour based targeting does not stop after a customer first lands on a website. As micro content is the atom used to target, visitors can be targeted with other more relevant content as they travel and consume content on the site. So dynamic targeting becomes integral to the website experience. Personalized sections and variations in the online experience by segment lead visitors onto the final goal.

METHODS TO TARGET CONSUMERS

There are currently 3 main techniques which are used to target people with micro content.

- 1) Rules based: show items based on rules – for example target toy offers to those with young children. This approach is good if markets have a good classification and items fit classifications. However, it will not cater for items that have loose classifications and has difficulty dealing with individual behaviour.
- 2) Comparative filtering: show related items based on user ratings – for example people who liked this also liked. This approach is good for highlighting collections of items. There is a growing body of research to show that that it promotes most popular and closely related items and so has difficulty dealing with individual behaviour.
- 3) Behavioural targeting: show items based on inferred behavioural segments – for example Susan prefers economics articles. This is highly targeted, but has the flaw that people are targeted with items which were only relevant in the past, if the current behavioural context is not taken into account.

VARING CONTENT INFLUENCES CONSUMERS

The propensity of people to react to content depends on visual cues which prompt them to act. A number of well documented multi-variant and A/B tests show surprising results when varying copy and presentation (3). The principle is simple – if visual cues get people's attention they are more likely to act.

Varying content items is important in engaging consumers. Text and content characteristics have a measurable effect on consumer behaviour. A growing body of evidence (3) shows that varying content influences the behaviour of consumers as their attention is gained to varying degrees.

It follows that companies that want to influence consumer behaviour and lead them to specific outcomes i.e a purchase, sign-up etc, need to vary content and test how different content will affect consumers.

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CONCLUSION

One-to-one marketing and targeted micro content have a profound effect on the activities of businesses and how they acquire customers.

In the digital business, customer behaviour is central to defining what is offered and how it is offered.

Business activities and spend need to shift to attention procurement activities. Here, procuring attention and proving relevance is key and personalization is the norm. Online marketing activities such as personalized targeting, publishing content and testing variants become more mainstream activities.

In the digital business, customer behaviour is central to defining what is offered and how it is offered. By taking a behaviour driven approach, digital businesses can flourish as they are more likely to touch and sell to the online consumer. In doing so they provide the relevance customers demand.

About the Author

Paul Edmunds has developed high profile comparative shopping websites, managed development for the largest online stockbroker in Europe and headed IT for a UK bank. He holds post graduate degrees in both Computer Science and Economics.