

## OFFLINE AND ONLINE DIRECT ADVERTISING

### Chapter Objectives

After studying this chapter, you should be able to:

1. Explain direct advertising and the reasons underlying its growth.
2. Describe the characteristics of direct-response advertising.
3. Discuss the distinctive features of p-mail advertising.
4. Explain the role of databases and data mining.
5. Perform lifetime value analyses of database entries.
6. Discuss the distinctive features and advantages of opt-in e-mail advertising.
7. Evaluate the role and future prospects of wireless advertising.

### Opening Vignette: Effective E-Mail Advertising for SmarterKids.com

SmarterKids.com is a company that has survived the great dot-com collapse that destroyed so many other companies. SmarterKids.com has endured because it offers a product line—educational toys, books, and games—that meets the needs of parents interested in their children’s educational achievements. The company also has become an effective e-mail advertiser. This success has been accomplished by conveying appealing advertising messages to finely targeted lists of parents who are Internet users.

How does a company like SmarterKids.com acquire a list of prospective customers? As described later in the chapter, companies sometimes put together their own mailing lists from consumers who have previously purchased their products or have indicated interest in their products. Alternatively, companies can purchase mailing lists from other companies that specialize in the marketing of up-to-date lists. SmarterKids.com pursued this latter tact by securing the services of PostMasterDirect.com (PMD), an opt-in e-mail marketing company.

PMD has accumulated a database of nearly 10 million consumers. Database “members” have provided PMD with their names and e-mail addresses and, more importantly, have granted permission to receive e-mail advertisements in designated areas of personal interest. From a list of 3,000 lifestyle categories, members select precisely those areas for which they are willing to receive commercial e-mail messages.

PostMasterDirect.com groups its millions of members into a subset of customer categories based on a combination of their demographic characteristics (age, gender, income, household size, children’s ages, etc.) and lifestyle interests. Companies such as SmarterKids.com then send mailings to PMD’s members who satisfy desired characteristics. For example, SmarterKids.com might specify that it is interested in e-mailing messages through PMD only to Internet users who are parents of children aged 5 through 12, who have incomes in excess of \$40,000, and who live in certain zip code areas. SmarterKids.com pays PMD a fee ranging from 10 to 35 cents for mailing SmarterKids.com’s e-mail advertisement to each name and address that satisfies the specified criteria.

By working through PMD, SmarterKids.com is able to target its message to desired households without having to put together its own list of prospects. This makes business sense because SmarterKids.com has expertise in marketing educational products, not in compiling mailing lists. PostMasterDirect.com regularly updates its list by constantly purging outdated and changed e-mail listings and removing members who have opted-out of receiving additional commercial messages. SmarterKids.com is thus able to contact prospective customers at a cost-per-thousand ranging between \$10 and \$35.

Source: Adapted from Heidi Anderson, “SmarterKids.com: List Rental Done Right,” Special Advertising Section on E-Mail Marketing to *Adweek*, *Brandweek*, and *Mediaweek*, 2001.

By mailing messages to PMD's list of people who specify SmarterKids.com's prospect-profile characteristics, SmarterKids.com has achieved *click-through rates* to its e-mail advertisements that over time have averaged 5 percent. In other words, 50 out of every 1,000 people receiving SmarterKids.com's messages click through to <http://www.SmarterKids.com>, where they can learn more about its products and place orders. Of the 50 out of 1,000 people who, on average, click through, the percentage ultimately making a purchase ranges between 5 to 20 percent. This percentage range is referred to as the *conversion rate*. Thus, a click-through rate of 5 percent and a conversion rate of, say, 10 percent, indicates that 5 out of 1,000 recipients to a SmarterKids.com e-mail message actually purchase something from the company – that is, 50 out of 1,000 click through and 10 percent of these, or 5, actually make a purchase. If each of these consumers purchases, on average, \$100 worth of merchandise, this means that SmarterKids.com generates \$500 revenue for a direct advertising investment as little as \$10 and at most \$35.

It should be obvious from this illustration that e-mail advertising can be a very profitable business model. Achieving success requires that the right message be sent to a well-targeted list of prospective customers, and that the message accomplish high click-through and conversion rates. SmarterKids.com in conjunction with PostMasterDirect.com has developed a winning formula for success.

The previous two chapters emphasized first, in Chapter 12, the major advertising media (television, magazines, newspapers, radio, and outdoor advertising), and then, in Chapter 13, alternative offline media and mass-oriented online advertising. These media have been used to reach *mass audiences* for purposes of creating brand awareness, conveying product information, and building or reinforcing brand images. Marketers, however, are turning increasingly to direct advertising and database marketing, the topics of the present chapter, to fine-tune their customer selection, better serve customer needs, and fulfill their own needs by achieving advertising results that can be measured by actual sales response.

This chapter covers the related topics of direct advertising and database marketing. **Direct advertising** involves the use of any of several media to transmit messages that encourage purchases of the advertiser's brands. Land-surface mail (postal mail) and electronic mail (e-mail) are the most important direct advertising media. Direct advertising is facilitated by the increasingly sophisticated practice of database marketing. **Database marketing** involves collecting and electronically storing (in a database) information about present, past, and prospective customers. Typical databases include customers' past purchase details (buyographic data), and other types of relevant information (demographic, geographic, and psychographic data). The information is used to profile customers and to develop effective and efficient marketing programs by communicating with individual customers and by establishing long-term communication relationships.<sup>1</sup>

By targeting advertisements to a company's best prospects – who can be identified by buyographic, geographic, demographic, and perhaps psychographic characteristics – direct advertising enables pinpointed communications, or what is also referred to as *niche marketing*. More powerful and faster computers have increasingly enabled "marketers to zero in on ever smaller niches of the population, ultimately aiming for the smallest consumer segment of all: the individual."<sup>2</sup>

In addition to the growth of consumer-oriented direct advertising, business-to-business (B2B) marketers have expanded their use of direct advertising. This is largely accounted for by the rising cost of personal sales calls, which on average exceed \$250 per call. As a result, postal mail and electronic mail marketing (along with telemarketing) have actually replaced the sales force in some B2B companies, whereas in others, direct advertising is used to supplement the sales force's efforts by building goodwill, generating leads, and opening doors for salespeople.

This chapter covers three major, interrelated topics: Database marketing and data mining, postal mail advertising, and electronic mail advertising. However, before proceeding, some shorthand language needs to be introduced. The term *electronic mail advertising* may have surprised readers who have learned to automatically truncate *electronic mail* into its shorthand, *e-mail*. By contrast, marketing academics and practitioners continue to call postal mail by its original but now

cumbersome name, direct mail. Because e-mail advertising also represents a form of direct mail, use of the term *direct mail* is misleading because it is unclear as to whether it refers to just the postal variety of direct mail or postal mail and electronic mail. To both clarify and simplify matters in this chapter, the postal mail version of direct mail is referred to as *p-mail* so that it is structurally equivalent to its much younger but already truncated *e-mail* cousin.

## DATABASE MARKETING AND DATA MINING

Successful direct mailing of both the *p* and *e* varieties necessitates the availability of computer databases and the *addressability* inherent in the databases.<sup>3</sup> That is, databases enable contacts with present or prospective customers who can be accessed by companies whose databases contain postal and electronic addresses along with the biographic, geographic, demographic, and, perhaps, psychographic data of the nature previously described. In general, an *address* is “anything that locates the customer uniquely in time and space in a database, so that responses, marketing actions, and respondents can be matched.”<sup>4</sup> Direct advertising, in comparison to broadcast advertising, does not deal with customers as a mass but rather creates individual relationships with each customer or prospective customer. The following analogy aptly pits addressable media, such as *p-mail* and *e-mail*, against broadcast media: “Broadcast media send communications; addressable media send and receive. Broadcasting targets its audience much as a battleship shells a distant island into submission; addressable media initiate conversations.”<sup>5</sup>

### Database Assets

An up-to-date database provides firms with a number of assets, including the ability to do the following:

1. Direct advertising efforts to those people who represent the best prospects for the company’s products or services.
2. Offer varied messages to different groups of customers.
3. Create long-term relationships with customers.
4. Enhance advertising productivity.
5. Calculate the lifetime value of a customer or prospect.<sup>6</sup>

Due to the importance of customer lifetime value, the following section focuses exclusively on the fifth database asset.

### Lifetime Value Analysis

A key feature of database marketing is the need to consider each address contained in a database from a lifetime value perspective. That is, each present or prospective customer is viewed as not just an address but rather as a *long-term asset*. **Customer lifetime value** is the *net present value (NPV)* of the profit that a company stands to realize on the average new customer during a given number of years.<sup>7</sup> This concept is best illustrated using the data in Table 14.1.<sup>8</sup>

Assume, for illustration purposes, that a retailer has a database of 1,000 customers (the intersection of row A and Year 1 column in Table 14.1). The analysis examines the net present value of each customer over a five-year period. Row B, the *retention rate*, indicates the likelihood that people will remain customers of this particular retailer during a five-year period. Hence, 40 percent of 1,000 customers in Year 1 will continue to be customers in Year 2, or, in other words, 400 of the initial 1,000 customers will be remaining in Year 2 (see intersection of row A and the Year 2 column). Forty-five percent of these 400 customers, or 180 customers, will remain into Year 3, and so on.

Row C indicates that the *average yearly sales* in Years 1 through 5 are constant at \$150. That is, customers on average spend \$150 at this particular retail establishment. Thus, the *total revenue*, row D, in each of the five years is simply the

## Customer Lifetime Value

Table 14.1

	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Revenue</b>					
<b>A Customers</b>	1,000	400	180	90	50
<b>B Retention rate</b>	40%	45%	50%	55%	60%
<b>C Average yearly sales</b>	\$150	\$150	\$150	\$150	\$150
<b>D Total revenue</b>	\$150,000	\$60,000	\$27,000	\$13,500	\$7,500
<b>Costs</b>					
<b>E Cost %</b>	50%	50%	50%	50%	50%
<b>F Total costs</b>	\$75,000	\$30,000	\$13,500	\$6,750	\$3,750
<b>Profits</b>					
<b>G Gross profit</b>	\$75,000	\$30,000	\$13,500	\$6,750	\$3,750
<b>H Discount rate</b>	1	1.2	1.44	1.73	2.07
<b>I NPV profit</b>	\$75,000	\$25,000	\$9,375	\$3,902	\$1,812
<b>J Cumulative NPV profit</b>	\$75,000	\$100,000	\$109,375	\$113,277	\$115,088
<b>K Lifetime value (NPV) per customer</b>	\$75.00	\$100.00	\$109.38	\$113.28	\$115.09

product of rows A and C. For example, the 1,000 customers in Year 1 who spend on average \$150 produce \$150,000 of total revenue.

Row E reflects the cost of selling merchandise to the store's customers. For simplification it is assumed that the cost is 50 percent of revenue. Total costs in each year, row F, are thus calculated by simply multiplying the values in rows D and E.

*Gross profit*, row G, is calculated by subtracting total costs (row F) from total revenue (row D). The *discount rate*, row H, is a critical component of net present value analysis and requires some discussion. This rate reflects the idea that money received in future years is not equivalent in value to money received today. This is because money received today, say \$100, can be immediately invested and begin earning interest. Over time, the \$100 grows more valuable as interest accumulates and compounds. Delaying the receipt of money thus means giving up the opportunity to earn interest. This being the case, \$100 received in the future, say in three years, is worth less than the same amount received today. Some adjustment is needed to equate the value of money received at different times. This adjustment is called the *discount rate* and can be expressed as

$$D = (1 + i)^n$$

where  $D$  is the discount rate,  $i$  is the interest rate, and  $n$  is the number of years before the money will be received. The discount rate given in row H of Table 14.1 assumes an interest rate of 20 percent. Thus, the discount rate in Year 3 is 1.44, because the retailer will have to wait two years (from Year 1) to receive the profit that will be earned in Year 3. That is,

$$(1 + 0.2)^2 = 1.44$$

The *net present value (NPV) profit*, row I, is determined by simply taking the reciprocal of the discount rate (i.e.,  $1 \div D$ ) and multiplying the gross profit, row G, by that reciprocal. For example, in Year 3, the reciprocal of 1.44 is 0.694, which implies that the present value of \$1 received two years later is only about \$0.69 at an interest rate of 20 percent. Thus, the NPV of the \$13,500 gross profit to be earned in Year 3 is \$9,375. (You should perform the calculation for Years 4 and 5 to ensure that you understand the derivation of NPV. Recall that the reciprocal of a particular value, such as 1.44, is calculated by dividing that value into 1.)



The *cumulative NPV profit*, row J, simply sums the NPV profits across the years. This summation reveals that the cumulative NPV profit to our hypothetical retailer, who had 1,000 customers in Year 1, of whom 50 remain after five years, is \$115,088. Finally, row K, the *lifetime value (NPV) per customer*, shows the average worth of each of the 1,000 people who were customers of our hypothetical retailer in Year 1. The average lifetime value of each of these customers, expressed as NPV over a five-year period, is thus \$115.09.

Now that you understand the concept of lifetime value analysis, we can turn to more strategic concerns. The key issue is this: What can a database marketer do to enhance the average customer's lifetime value? There are five ways to augment lifetime value:<sup>9</sup>

1. Increase the *retention rate*. The greater the number of customers and the longer they are retained, the greater the lifetime value. It therefore behooves marketers and advertisers to focus on retention rather than just acquisition. Database marketing is ideally suited for this purpose, because it enables regular communication with customers (through newsletters, frequency programs, and so on) and relationship building. Customer relationship management (CRM) is a widespread marketing practice—a practice justified by the ability to enhance the lifetime value of the average customer.
2. Increase the *referral rate*. Positive relations created with existing customers can influence others to become customers through the positive word of mouth expressed by a company's satisfied product/service users.
3. Enhance the average *purchase volume per customer*. Existing customers can be encouraged to purchase more of a brand by augmenting their brand loyalty. The greater customer loyalty, the more often they will buy that brand rather than competitive offerings. Product satisfaction and capable management of customer relations are means to building the base of loyal customers.
4. Cut *direct costs*. By altering the channel of distribution via direct marketing efforts, a firm may be able to cut costs and hence increase profit margins.
5. Reduce *marketing communication costs*. Effective database marketing can lead to meaningful reductions in marketing communication expenses because direct advertising often is more productive than mass media advertising.

## Mailing Lists

Achieving p- and e-mail success depends greatly on the quality of mailing lists contained in a company's database. Mailing lists of past or prospective customers enable direct marketers to pinpoint the best candidates for future purchases. One observer has aptly dubbed mailing lists "windows to our pocketbooks."<sup>10</sup>

There are two broad categories of mailing lists, as summarized in Table 14.2: internal (house lists) and external (public lists). **House lists** are based on a company's internal list of present or prospective customers. For example, Disney has a list consisting of 31 million households. This list was compiled from various sources, including the Walt Disney Internet Group and customers of Disney's various products: Walt Disney World, Disneyland, the Disney stores, and miscellaneous other Disney offerings.<sup>11</sup> Because house lists contain the names of cus-

**Table 14.2**

**Types of Mailing Lists**

1. **A Company's Internal, or House, List**
2. **External Lists**
  - a. **House lists purchased from other companies**
  - b. **Compiled lists**
    - i. **Compiled by a company for its own purposes**
    - ii. **Purchased from a list compiler**

# IMC focus

## Golfers and Database Marketing at Taylor Made-Addidas Golf

Taylor Made-Addidas Golf (TMAG) is a company that manufactures and markets golf clubs and footwear. Both product lines are well known and widely used by millions of golfers in countries around the world. The golfing industry is highly competitive, with many prominent and heavily advertised brands competing for the golfer's dollars (or Euros, pesos, yen, etc.). However, TMAG's leadership in database marketing efforts has given it a significant advantage over its competitors.

TMAG's database consists of more than 1.4 million names and addresses compiled from a variety of sources. The list includes, among other information, golfers' birthdays and other demographic data, the type of courses—public or private—they regularly play, and whether they play golf while on vacations. The database enables TMAG to

maintain contact and enhance relations with the users of its products. For example, individuals on the list who have Internet access receive a weekly online magazine that provides information about golfing destinations and offers playing tips from professionals. In each mailing of the online magazine, readers are asked questions about what they are looking for in golf balls, what types of clubs they play with, what prices they prefer to pay for balls and clubs, and so on. This information is shared with product managers as one source of input into product design and pricing decisions. TMAG also merges its list with the lists of subscribers to golf magazines and then tailors e-mail ads to specific categories of subscribers. It estimates having an ongoing dialogue via e-mail with about 100,000 customers.

Source: Adapted from Chuck Stogel, "Driving to Break Par," *Brandweek*, February 28, 2000, p. 46. © 2000 VNU Business Media, Inc.

tomers who previously responded to a company's offering, they are generally more valuable than external lists. (See the *IMC Focus* for another example.)

There are various means by which companies acquire names and addresses for compiling their house lists. For a retailer or direct marketer, it is a matter of saving the names of past customers or those who have interacted with the company's Web site and provided address information. The situation is more complicated, however, for manufacturers who market their products through retail outlets. With creativity, they too can generate databases. Following are some methods used by marketers that lack direct contact with consumers—such as manufacturers using indirect channels of distribution—to obtain database information:<sup>12</sup>

- *Feedback from promotions.* When a company includes a promotional offer in or on a package (such as a game or contest), customers must identify their names and addresses to participate in the promotional offer. These names are entered into the marketer's database for future contact. For example, Black & Decker built an impressive database by offering free vacuum cleaner bags to its Dust Buster purchasers. Lea & Perrin built a list of its sauce buyers by offering free recipe books.<sup>13</sup> Online promotions are another source for collecting names and addresses. Thousands of names can be acquired in the first month of a sweepstake, contest, game, or other type of brand promotion. However, a potential drawback with using online promotional offers for capturing data is that some of the addressees will be people who are interested in the promotional offer alone but not the brand.<sup>14</sup> Any additional efforts directed at marketing products at such consumers will likely be ineffective.
- *Information from warranty cards.* When a customer mails a completed warranty card for, say, a new television, the manufacturer has another address for its database.
- *Data from registration programs.* Manufacturers often have consumers complete registration cards that reveal the date of product purchase and provide classification information about the purchaser. At one time Levi

Strauss placed registration cards in every pair of jeans it sold in the United States.<sup>15</sup>

- *Participation in rebate programs.* To receive rebates, customers supply information that the database builder enters for future contact.
- *Telemarketing efforts.* Names and addresses can be requested from toll-free callers and entered into the database. In-bound customer service calls represent a good opportunity to collect p- and e-mail addresses.

The other type of mailing list is the **external list**, which comes in two forms. The first, *another company's house list*, is bought by a firm to promote its own products. This type of list is effective because it comprises the names of people who have responded to another company's direct-response offer. The greater the similarity of the products offered by both the buyer and the seller of the list, the greater the likelihood that the purchased list will be effective.

For example, imagine a company that markets coverings that protect automobile exteriors from exposure to the elements. New automobile purchasers who do not have a garage are the best market for this company's products. The coverings marketer could purchase and merge mailing lists from automobile manufacturers and rental companies and specify names of buyers who have purchased an automobile within, say, the past six months and who rent apartments rather than own homes. Additionally, this marketer, using geodemographic segmentation (as discussed in Chapter 3), could identify zip code areas that are known to consist of high proportions of smaller homes without garages and send blanket mailings to all households in those areas.

*Compiled lists*, the second type of external list, include lists compiled by a company for its own purposes or lists purchased from another company that specializes in list compilation. The first type of compiled list is illustrated by a direct marketing effort at Kimberly-Clark, makers of Huggies disposable diapers. Each year, Kimberly-Clark's database developers identify by name 75 percent of the approximately 3 million to 4 million new mothers in the United States. (The names are obtained from hospitals and doctors.) Kimberly-Clark sends the new mothers personalized letters, educational literature about caring for a new baby, and cents-off coupons for Huggies.<sup>16</sup> Huggies' database program has been extremely effective, resulting in market share growth and an accompanying decrease in media expenses.<sup>17</sup>

The other type of compiled list comes from businesses that specialize in compiling lists and selling them to other companies. List compilers are typically involved in businesses that give them access to millions of consumer names and vital statistics. For example, the Lifestyle Selector File, a service of R. L. Polk & Co. (see [http://www.polk.com/products/lifestyle\\_data.asp](http://www.polk.com/products/lifestyle_data.asp)), is a database that contains more than 35 million names as well as demographic characteristics (age, sex, education, etc.) and lifestyle characteristics (sports participation, travel activities, etc.). The list is updated every six weeks.

The Lifestyle Selector enables a direct advertiser to order a list containing names and addresses that have been identified based on any combination of lifestyle and demographic characteristics. A manufacturer of men's sporting goods, for example, would be able to request a list matching its desired target market—for example, people between the ages of 35 and 54 who are outdoor enthusiasts; who are business executives, professionals, or technicians earning \$75,000 or more annually; and who possess an American Express credit card.

Other companies compile lists and make them available (for a fee) on CD-ROM and DVD. Figure 14.1 shows, for example, several types of compiled lists marketed by a company called infoUSA (<http://www.directoriesUSA.com>). For example, the list of 120 million U.S. households (see Figure 14.1) contains names, addresses, and telephone numbers as well as age, income, and other demographic data. Purchasers of this CD-ROM, which costs \$795, can use this information for targeting prospective customers, designing p-mail campaigns, undertaking telemarketing efforts, and other purposes. The physicians and surgeons directory is a database containing 575,000 medical professionals, including their names, mailing addresses, telephone numbers, areas of specialization, office size, age, gender, and even psychographic details. This CD-ROM, costing \$695, would be invaluable for companies marketing their products and services to medical specialists.

## Illustration of Compiled Lists Available on CD-ROM

## Figure 14.1

**Sales Leads & Databases** on CD-ROM

*The Most Powerful Sales Tools Ever Developed!*

**11 Million U.S. Businesses**  
*businessUSA*

**128 Million U.S. Households**  
*householdsUSA*

**194,000 Businesses with 100 or more Employees**  
*500 BUSINESSES DIRECTORY*

**645,000 Manufacturers**  
*MANUFACTURERS DIRECTORY*

**675,000**  
*PHYSICIANS & SURGEONS*

**11 Million U.S. Households**  
*HOUSEHOLDS DIRECTORY*

**645,000 Manufacturers**  
*MANUFACTURERS DIRECTORY*

**194,000 Businesses with 100 or more Employees**  
*500 BUSINESSES DIRECTORY*

**675,000**  
*PHYSICIANS & SURGEONS*

**11 Million U.S. Households**  
*HOUSEHOLDS DIRECTORY*

**SO VALUABLE** – over two million copies sold. Each CD-ROM contains in-depth information to give you the marketing power only available to Fortune 500 companies. Now even a small business can have the same might. Use it to generate sales leads in minutes, analyze markets, divide sales territories, select prospects for any Zip code, for direct mail or telemarketing. Select by any Zip code, area code, city, county, state or even U.S.

Information right at your fingertips:

- Type of Business
- Number of Employees
- Annual Revenues
- Key Contacts
- Credit Rating Codes
- Name
- Age
- Estimated Home Value
- Estimated Income
- And Many More

Print or download in minutes. You're in control.

Grow your business beyond your wildest dreams.

For a **FREE Trial Call:**  
**800-999-0580**

On the Internet:  
[www.directoriesUSA.com](http://www.directoriesUSA.com)

**infoUSA**  
Member: infoUSA

1711 S. Main Circle • P.O. Box 27147 • Omaha, NE 68127  
Phone: (402) 591-4343 • Fax: (402) 596-8996  
1-800-999-0580 • E-Mail: [usa@infoUSA.com](mailto:usa@infoUSA.com)

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Compiled lists are not as desirable as a company's house list because they do not contain information about the willingness of a person to purchase the marketer's products. The characteristics of the members of compiled lists may also be too diversified to serve the purposes of the p-mailer. However, some compiled lists are put together with considerable care and may well serve the p-mailer's specific needs.

## The Practice of Data Mining

Databases can be massive in size with millions of addresses and hundreds of variables for each database entrant. The availability of high-speed computers and inexpensive computer software has made it possible for companies to literally mine their data warehouses for the purpose of learning more about customers' buying behavior. The process of **data mining** has been defined as an "information extraction activity whose goal is to discover hidden facts contained in databases."<sup>18</sup> Sophisticated data miners look for revealing relations that can be used to better target prospective customers, develop cooperative marketing relations with other companies, and otherwise better understand who buys what, when, how often, and along with what other products and brands.

Consider, for example, a credit card company that mines its huge data warehouse and learns that its most frequent and largest-purchase users are disproportionately more likely than the average credit card user to vacation in



exotic locations. The company could use this information to design a promotional offering that has an exotic vacation site as the grand prize. A furniture store chain mining its database learns that families with two or more children rarely make major furniture purchases within three years of buying a new automobile. Armed with this information, the chain could acquire automobile purchase lists and then direct advertisements to households that have *not* purchased a new automobile for three or more years. These examples are purely illustrative, but they provide a sense of how databases can be mined and used for making strategic advertising and promotion decisions.

Another use of data warehouses is to segregate a company's customer list by the *recency (R)* of a customer's purchase, the *frequency (F)* of purchases, and the *monetary value (M)* of each purchase. Companies typically assign point values to accounts based on these classifications. Each company has its own customized procedure for point assignment (i.e., its own R-F-M formula), but in every case more points are assigned to more recent, more frequent, and more expensive purchases. The R-F-M system offers tremendous opportunities for database manipulation and mail targeting. For example, a company might choose to send out free catalogs only to accounts whose point totals exceed a certain amount.

Another application of the R-F-M categories is for a company to divide customers into equal-sized groupings such as quartiles (four equal-sized groups) or quintiles (five equal-sized groups) for each of the R, F, and M categories. Hence, with respect to recency of purchase, the first quintile would consist of the top one-fifth of the customer database who have most recently purchased from the company, and the last quintile would include the bottom one-fifth of customers who have least recently purchased the company's products. Likewise, customers' purchase frequencies also would be delineated into five equal quintiles, ranging from the top (most frequent purchasers) to bottom quintiles (least frequent purchasers). Finally, customers' amount of purchases of the company's products would also be delineated into five equal-sized quintiles. These quintile delineations of the R-F-M categories would thus lead to 125 total combinations of customer groupings, or cells—that is, 5 recency quintiles  $\times$  5 frequency quintiles  $\times$  5 monetary value quintiles. Cell 1 (cell 125) would include customers who have purchased the company's products most (least) recently, have purchased most (least) frequently, and have spent the most (least) amount in purchasing from the company. Customers in the 123 intermediate cells would fall between these two extremes.

Having delineated all customers into one of 125 cells, a company can then test the effectiveness of a proposed p-mailing or catalog distribution using the following procedure:

1. Take a representative random sample of customers from each of the 125 cells.
2. Distribute a catalog, brochure, or other p-mailing to the sampled customers from each of the 125 cells. This mailing would encourage recipients to purchase the company's advertised product(s).
3. Provide sufficient time for sampled customers to respond to the mail offering.
4. After sufficient time has elapsed (based on past mailing experience), determine the response rate and average expenditure for each of the 125 R-F-M cells.
5. Project these statistics to the full membership of each of the 125 groupings.
6. Based on these response rate and average expenditure projections, and with knowledge of the cost of distributing the mailing to all customers in each group, it is easy to calculate whether distributing the mailing to *all* customers in a particular cell would be a profitable proposition.
7. The decision rule is simple: Based on the sample results, mail the catalog, brochure, or other piece only to those cells whose revenue potential outstrips the mailing expense.

It should be clear from this description that testing of the sort just described can be performed to determine which customers in a company's database represent the best prospects for future mailings. Based on these results, a decision is made to mail, say, a catalog just to a portion of database entrants who occupy

only a subset of the R-F-M cells. In the absence of testing a proposed new mailing, a company would be taking a “shot in the dark” if it were to mail its catalog to all customers in its database. The testing procedure represents a systematic approach that likely will produce a more profitable outcome compared with blanketing a mailing to all database occupants.

## P-MAIL ADVERTISING

**P-mail advertising** refers to any advertising matter delivered by the postal service to the person whom the marketer wishes to influence. These advertisements can take the form of letters, postcards, programs, calendars, folders, catalogs, videocassettes, blotters, order blanks, price lists, menus, and so on. A direct-mail campaign for the Saab 9-5 typifies effective p-mailing.<sup>19</sup> In the late 1990s, Saab, the Swedish automobile maker, introduced a new luxury sedan named the Saab 9-5. This model represented Saab’s first entry in the luxury category and was designed to compete against well-known high-equity brands, including Mercedes, BMW, Volvo, Lexus, and Infiniti. A total of 200,000 consumers, including 65,000 current Saab owners and 135,000 prospects, were targeted with the objective of encouraging them to test-drive the 9-5. The Martin Agency of Richmond, Virginia, developed an IMC strategy, prominent among which were multiple p-mailings and outbound telemarketing. The effort was designed to engage prospects in a dialogue about the new 9-5 and to learn more about their automobile purchase interests. Mailings provided prospects with brand details, made an appealing offer for them to test-drive the 9-5. Names of the most qualified prospects were then fed to dealers for follow-up.

The Martin Agency designed four mailings: (1) a countdown mailing announced the new Saab 9-5, provided a “teaser” photo of the car, and requested recipients to complete a survey of their automobile purchase interests and needs; (2) a subsequent qualification mailing provided respondents to the countdown mailing with product information addressing their specific purchase interests (performance, safety, versatility, etc.) and offered a test-drive kit as an incentive for returning an additional survey; (3) a third mailing included a special issue from *Road & Track* magazine that was devoted to the Saab 9-5’s product development process; and (4) a final test-drive kit mailing extended an offer to test-drive the 9-5 for three hours and also provided an opportunity for prospects to win an all-expenses-paid European driving adventure (through Germany, Italy, and Sweden) as incentive for test-driving the 9-5.

An outbound telemarketing campaign was conducted as a follow-up to the p-mailings. Telephone calls were made to all people who responded to the “countdown” and “qualification” mailings as well as to all prospects who had automobile leases or loans that were expiring prior to mailing of the test-drive kit. These callings reinforced the European test-drive offer and set up times for local dealers to call back to schedule a test-drive.

The direct marketing effort for the 9-5 was fabulously successful. Of the 200,000 initial prospects who were contacted by the introductory mailing, 16,000 indicated interest in test-driving the 9-5 (an 8 percent response rate), and more than 2,200 test-drives were scheduled.

In general, distinctive features of p-mailing (shared also by e-mailing efforts) include targetability, measurability, accountability, flexibility, and efficiency.

- *Targetability.* P-mail is capable of targeting a precisely defined group of people. For example, The Martin Agency selected just 200,000 consumers to receive mailings for the Saab 9-5. These included 65,000 current Saab owners and 135,000 prospects who satisfied income, car ownership, and other hurdles.
- *Measurability.* With p-mail it is possible to determine exactly how effective the effort was because the marketer knows how many mailings were sent and how many people responded. This enables ready calculations of cost-per-inquiry and cost-per-order. As previously noted, more than 2,200 consumers signed up for test-drives of the Saab 9-5. Proprietary dealer

sales data reveal how many of the initial 200,000 mailings resulted in purchases.

- *Accountability.* Every business decision must be held accountable for results. Marketing communicators increasingly are being required to justify the results of their communication efforts. P-mailing simplifies this task. Because results can be readily demonstrated (as in the case of the Saab 9-5), brand managers can justify budgets allocated to p-mail.
- *Flexibility.* Effective p-mail can be produced relatively quickly (compared with, say, producing a TV commercial), so it is possible for a company to launch a p-mail campaign that meets changing circumstances. For example, if inventory levels are excessive, a quick postcard or letter may serve to reduce the inventory. P-mail also offers the advantage of permitting the marketer to test communication ideas on a small-scale basis quickly and out of the view of competitors. Comparatively, a mass media effort cannot avoid the competition's eyes. P-mail also is flexible in the sense that it has no constraints in terms of form, color, or size (other than those imposed by cost and practical considerations). It also is relatively simple and inexpensive to change p-mail ads. Compare this with the cost of changing a television commercial.
- *Efficiency.* P-mail makes it possible to direct communication efforts only to a highly targeted group, such as the 200,000 consumers who received mailings for the Saab 9-5. The cost-efficiency resulting from such targeting is considerable compared with mass advertising efforts.

An alleged disadvantage of p-mail is its *expense*. On a cost-per-thousand (CPM) basis, p-mail typically is more expensive than other media. For example, the CPM for a particular mailing may be as high as \$200 to \$300, whereas a magazine's CPM might be as low as \$4. However, compared with other media, p-mail is much less wasteful and will usually produce the highest percentage of responses. Thus, on a *cost-per-order basis*, p-mail is often *less expensive* and a better bargain.

Perhaps the major problem with p-mail is that many people consider it excessively *intrusive and invasive of privacy*. Americans are accustomed to receiving massive quantities of mail (on average, American households receive 12.5 pieces of p-mail each week, a third of which is trashed without being read)<sup>20</sup> and so have been "trained" to accept the voluminous amount of p-mail received. It is not the amount of mail that concerns most people but the fact that virtually any business or other organization that has a product, service, or idea to promote can readily obtain their names and addresses.

## What Can P-Mail Accomplish?

Research and practical experience indicate that p-mail campaigns achieve the following objectives. This list is straightforward and requires no explanation.<sup>21</sup>

1. Increase sales and usage from current customers.
2. Sell products and services to new customers.
3. Build traffic at a specific retailer or Web site.
4. Stimulate product trial with promotional offers and incentives.
5. Generate leads for a sales force.
6. Deliver product-relevant information and news.
7. Gather customer information that can be used in building a database.
8. Communicate with individuals in a relatively private matter and thereby minimize the likelihood of competitive detection; in other words, p-mail advertising, unlike mass advertising, reaches the customer and prospects "under the radar" of your competitors.

## Who Uses P-Mail Advertising?

All types of marketers use p-mail as a strategically important advertising medium. Seventy-seven percent of U.S. companies reported using p-mail in a survey conducted by the Gallup Organization.<sup>22</sup> *Business Week* magazine claimed (albeit with some hyperbole) that marketers of all types of consumer goods "are turning from

the TV box to the mailbox.”<sup>23</sup> Some automobile manufacturers, for example, budget as much as 10 percent of their advertising expenditures to p-mail, with mailing expenditures in the U.S. alone having exceeded \$70 million in 2000.<sup>24</sup>

Both B2B companies and marketers of consumer goods have turned increasingly to database marketing and p-mailing as advertising options. Packaged goods companies such as Philip Morris, RJR Nabisco, Ralston Purina, Adolph Coors, Kraft, Gerber Products, Sara Lee, Quaker Oats, Sandoz Consumer, and Procter & Gamble are some of the primary users of p-mailings.<sup>25</sup> P-mailing by firms such as these is especially valuable for introducing new brands. Packaged goods companies increasingly use the mail for distributing product samples. A typical mailing includes (1) a product sample, (2) attractive coupons to encourage consumers to make a brand purchase following sample usage, and (3) detailed consumer surveys that provide the brand marketer with names and addresses for its database along with valuable information regarding respondents’ purchases of other product categories and brands marketed by the company.

### Why the Trend Toward P-Mailing?

At least four factors account for the widespread use of p-mail by all types of marketers. First, the *rising expense of television advertising* along with increased audience fragmentation have led many advertisers to reduce investments in television advertising. Second, as noted earlier, p-mailing enables *unparalleled targeting* of messages to desired prospects. Why? Because, according to one expert, it is “a lot better to talk to 20,000 prospects than 2 million suspects.”<sup>26</sup> Third, increased emphasis on *measurable advertising results* has encouraged advertisers to use the medium—namely, p-mail—that most clearly identifies how many prospects purchased the advertised product. Fourth, consumers are responsive—surveys indicate that Americans like mail advertisements. For example, Louis Harris & Associates learned that 40 percent of consumers would be “very or somewhat upset” if they could not get mail offers or catalogs.<sup>27</sup>

In addition to the above reasons for p-mail’s surge, this medium also provides marketers with a valuable means for *offsetting competitors’ marketing efforts*. For example, the USA Carnation division of Nestlé was faced with a competitive challenge from Heinz, which was introducing its brand of Reward dog food and spending \$10 million in introductory advertising and promotions. To blunt this brand introduction, which assuredly would have stolen share from Carnation’s own brand, Mighty Dog, Carnation delivered coupons via p-mail for Mighty Dog to user households two weeks before Reward’s launch. The coupons were of high value and also included a proof-of-purchase premium offer to create purchase continuity. The coupons were mailed to more than 525,000 households. The coupon redemption rate was an extremely high 6.7 percent, and the premium offer obtained a 13 percent redemption rate, both of which are far above typical redemption rates. This effort resulted in a minimal loss of Mighty Dog’s market share to Reward. Carnation was able to blunt Heinz’s brand introduction for a total expenditure of only \$400,000.<sup>28</sup>

### The Special Case of Catalog Marketing

No treatment of p-mailing would be complete without at least a brief discussion of catalog marketing, which, though a form of direct mail, deserves a separate discussion due to its distinctiveness and importance. Catalog marketing is a huge enterprise, with more than 16 billion catalogs distributed in 2000.<sup>29</sup> Name a product, and at least one company is probably marketing that item by catalog—food items (cheese, candy, pastry, steaks), clothing, furniture—the list goes on and on. New catalogs appear regularly. Levi Strauss recently introduced a catalog aimed at teenagers. Limited Too, a division of giant retailer Limited Inc., came out with a clothing catalog targeted to preteen girls.

The growth rate for catalog sales in the United States has exceeded that enjoyed by fixed-site retailers. Various factors account for this. From the *marketer’s perspective*, catalog selling provides an efficient and effective way to reach prime prospects. From the *consumer’s perspective*, shopping by catalog offers several



advantages: (1) It saves time because people do not have to find parking spaces and deal with in-store crowds; (2) catalog buying appeals to consumers who are fearful of shopping due to concerns about crime; (3) catalogs allow people the convenience of making purchase decisions at their leisure and away from the pressure of a retail store; (4) the availability of toll-free 800 numbers and online Web sites, credit card purchasing, and liberal return policies make it easy for people to order from catalogs; (5) consumers are confident in purchasing from catalogs because merchandise quality and prices often are comparable, or even superior, to what is available in stores; and (6) guarantees are attractive.

Illustrative of this last point, consider the policy of L. L. Bean, the famous retailer from Maine:

*All of our products are guaranteed to give 100 percent satisfaction in every way. Return anything purchased from us at any time if it proves otherwise. We will replace it, refund your purchase price or credit your credit card, as you wish. We do not want you to have anything from L. L. Bean that is not completely satisfactory.*

Although catalog marketing is pervasive, signs indicate it has reached the mature stage in its life cycle. First, industry observers note that the novelty of catalog scanning has worn off for many consumers. Second, as typically is the case when a product or service reaches maturity, the costs of catalog marketing have increased dramatically. A primary reason is that firms have incurred the expenses of developing more attractive catalogs and compiling better mailing lists in an effort to outperform their competitors. Costs have been further strained by third-class postal rate increases in recent years and sharp increases in paper prices.

Some catalog companies have responded to the slowdown by sending out even more catalogs than they mailed in the past. Other companies have scaled back their efforts. Marginal companies have dropped out, which invariably is the case when an industry reaches maturity. Many catalog companies have found it unprofitable to remain in the catalog business, but the best companies continue to flourish. In their efforts to achieve steady growth, some U.S. catalogers have expanded to markets overseas, and European catalogers have made inroads into the U.S. market. For example, Lands' End has opened a distribution center in Japan and mass mails catalogs to consumers in that country. Lands' End also is actively pursuing German consumers, which is understandable in view of the fact that mail order accounts for nearly 6 percent of overall retail sales in Germany compared with 3 percent in the United States. L. L. Bean mails catalogs to more than 100 countries, although nearly 70 percent of its international sales comes from Japan alone. Achieving success in global markets requires that U.S. catalog companies undertake aggressive marketing communications backed up with high-quality offerings, provide reliable and dependable delivery, and achieve high customer service levels. Catalog companies, just like marketers in every other endeavor, are challenged by the need to enhance brand equity by creating name awareness in countries where they are just beginning to establish an identity and building strong and favorable brand associations among consumers in these countries.

European catalogers have also intensified their marketing efforts in the attractive U.S. market. The strongest European catalogers are huge concerns that offer a vast array of merchandise—everything from clothing and furniture to consumer electronics and appliances. U.S. catalogers, by comparison, tend to concentrate on specialty lines of merchandise. European catalogs are massive, ranging in size from 700 to 1,300 pages. Most European catalog companies are experienced international marketers. For instance, the French cataloger La Redoute earns about one-third of its sales in 12 other countries. Otton Versand, a German cataloger, earns almost one-half of its sales outside Germany.<sup>30</sup>

## E-MAIL ADVERTISING

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Internet users love the ability to send and receive e-mail; indeed, a study by a major consulting firm determined that 83 percent of Internet users regarded e-mailing as their primary reason for using the Internet.<sup>31</sup> With millions of people presently online and the numbers substantially increasing each year, it is little wonder that

marketing communicators have turned to e-mail advertising as a viable alternative or complement to their p-mail programs.

What is e-mail advertising? **E-mail advertising** is simply the use of the Internet for sending commercial messages in the form of e-mail messages as an alternative to banner ads, pop-ups, or other forms of rich-media presentations. As with any other advertising medium, there is no such thing as a single type of e-mail message; rather, e-mail messages appear in many forms, ranging from pure-text documents to more sophisticated versions that use all the audio-video powers of the Internet. E-mail now is the most heavily used form of Internet advertising and far exceeds the amount invested in alternative advertising forms such as banners, pop-ups, and interstitials.

It has been estimated that over 20 percent of the e-mail that users receive is marketing related.<sup>32</sup> Expenditures on e-mail advertising in 2000 were less than \$500 million but are expected to exceed \$2 billion by 2003 and exceed \$9 billion by 2006.<sup>33</sup> Roughly half of the marketing-related e-mail is opt-in, or permission-granted, e-mail, whereas the remainder is unsolicited, or so-called “spam.”

### Opt-In E-Mailing Versus Spam

**Opt-in e-mailing** is the practice of marketers asking for and receiving consumers' permission to send them messages on particular topics. The consumer has agreed, or opted-in, to receive messages on topics of interest rather than receiving messages that are unsolicited. Imagine, for example, that a hypothetical consumer is interested in purchasing a digital camera and visits a Web site that came up when she conducted a Google.com search for “digital cameras.” While logged into this Web site, which was quite informative, she received a query that asked whether she would be interested in receiving more information about photographic equipment. She replied “yes” and provided her e-mail address as well as other information. The Web site electronically recorded her “permission granted” and, unknown to the unsuspecting shopper, sold her name and address to a broker that specializes in compiling lists. This list broker, in turn, sold her name and e-mail address to companies that market photographic equipment and supplies. Our hypothetical Internet user's name and e-mail address would eventually appear on a variety of lists, and she would receive regular e-mail messages for photographic equipment and supplies.

In theory, opt-in e-mailing serves both the marketer's and the consumer's interests. However, frequency and quantity of e-mail messages can become intrusive as more and more companies have access to your name and areas of interest. Consumers feel especially violated when the e-mail messages deal with topics that are tangential to their primary interests. For example, when granting the original Web site permission to send photography-related messages, our unsuspecting consumer may have been interested only in information about digital cameras, when in fact she subsequently was bombarded with messages involving more aspects of photography and more photography products than she ever could have imagined. She knew not what she had opted for—some of the information received was relevant, most was not.

Although this example may appear to cast a negative evaluation of opt-in e-mail, the fact remains that advertisers who send messages to individuals whose interests are known, if only somewhat broadly, increase their odds of providing consumers with relevant information. Moreover, sophisticated marketers are using a more detailed opt-in procedure so they can better serve both their own needs for accurate targeting and consumers' needs for relevant information. For example, a consumer might say “Send me information about men's clothes; but I don't have any kids, so don't send me anything about kids' clothiers. And I want to hear from you only once a month.”<sup>34</sup>

Compare this with the practice of sending unsolicited e-mail messages, a practice pejoratively referred to as spam. As you may know, Spam is a brand of canned, processed meat that people love to joke about. For whatever reason, Internet users and pundits began using the word **spam** in reference to unsolicited and unwanted commercial e-mail messages. Such messages offer little prospect that recipients will do much more than click on and then rapidly click off. It could be argued that spam at least has a chance of influencing brand awareness, perhaps much



## E-mail Advertising Is Highly Regulated in Europe

Much of the e-mail received by North American consumers is spam. Moreover, when consumers provide companies and other organizations with their e-mail addresses and supply personal information about themselves, there is a high likelihood that this information will be sold to a list broker, who in turn will sell the information to other companies and organizations. In short, once given, your address and other marketing-pertinent information virtually becomes part of the public domain.

Regulation is more stringent in Europe. In 1999 the European Commission of European Union (EU) countries issued a directive designed to create an EU-wide standard to regulate the way marketers are permitted to collect, retain, and disseminate consumers' private data. Marketers, in keeping with this directive, must inform consumers about what data is being collected and retained, instruct them as to how the data will be used in the future, and then provide consumers with the opportunity to opt in or out of the process. The European Commission's directive also prevents any company with European operations from sending data on European

consumers or B2B customers to any country whose consumer protection laws do not equal those of the European Commission.

Beyond this EU-wide directive, individual countries have developed laws that are stricter than the European Commission's direction. Germany has the strictest consumer-protection laws in the EU. German courts are in the process of stopping unsolicited e-mail all together. The United Kingdom also has strict protection laws, including, for example, the limit against transferring consumer data to other countries unless these countries have regulations that are as strict as the U.K.'s. Moreover, every Web site in the U.K. must register two people who will be held responsible, and thus accountable, for upholding data protection laws for that site.

Marketers must be careful to abide by these regulations. The regulations are not insurmountable, however, and e-mail advertising in Europe is attractive because response rates in Europe are much higher than in North America.

Source: Adapted from Lisa Bertagnoli, "E-Marketing Tricky in Europe," *Marketing News*, July 16, 2001, p. 19. Reprinted with permission from *Marketing News*, Published by the American Marketing Association.

like may happen when the consumer is perusing a magazine and unintentionally comes across an ad for a product in which she or he has little interest. However, whereas the consumer expects to see ads in magazines and realizes that this is part of the "cost of entry," the consumer does not, at least at the present time, expect to receive unsolicited e-mail messages. Hence, any brand awareness gain a marketer might obtain from e-mailing unsolicited messages is likely to be offset by the negative reaction consumers have to this form of advertising. At the present time (as of early 2002), regulations against unsolicited e-mail are much more stringent in Europe than in North America. (See the *Global Focus* for elaboration.)

## The Virtues of E-Mail Advertising

E-mail advertising is no different than p-mail in the sense that both forms of direct advertising have the objective of putting "an actionable message in front of a predisposed buyer."<sup>35</sup> The following discussion focuses on e-mail advertising's merits, yet it should be realized that many of these qualities apply as well to the older form of p-mail direct advertising. Points of distinction between e- and p-mail will be noted where appropriate. Table 14.3 lists seven virtues of e-mail advertising, each of which is now described.

**Targeting.** As described earlier when discussing databases and mining of data warehouses, e- as well as p-mailers can target specific messages to well-

## Virtues of E-Mail Advertising

## Table 14.3

- **Targeting**
- **Personalization**
- **Efficiency**
- **Effectiveness**
- **Measurability/Accountability**
- **Speed**
- **Safety**

defined groups of present customers or prospects by selecting just those who have particular “graphic” characteristics (buyographic, demographic, geographic, psychographic, or some combination of these). When discussing the role and importance of targeting back in Chapter 3, the point was made that marketing communicators, like golfers, should take dead aim on their target. No advertising medium provides this capability better than the Internet. By gaining detailed opt-in data, advertisers know precisely which prospects or past customers are likely to respond favorably to e-mail messages.

**Personalization.** In addition to targeting, e-mail messages can be personalized to individuals’ unique information needs. J. C. Penney, for example, has a database containing nearly 5 million e-mail addresses from customers who have opted to receive e-mail messages from the retailer. J. C. Penney tailors messages to the individual customer’s interest and needs. Digital Impact, a California-based company that makes its services available to brand marketers, created a 100,000-recipient e-mailing for one client in which there were 35,000 variations of the same message!<sup>36</sup> Digital Impact and other specialists in the e-mail business personalize messages based on where people live, what products and brands they have purchased in the recent past, and, based on a predictive model of past behavior, what people in their demographic/psychographic category generally look for and want in products. Barnes & Noble, the well-known book retailer, personalizes messages in a variety of ways. For example, if an author were at a particular store signing his or her latest book for interested purchasers, Barnes & Noble would send e-mail messages just to customers in zip codes located within the store’s trading area.<sup>37</sup> Because e-mail advertising is so inexpensive, it is possible (and desirable) to test various versions of e-mail ads against samples drawn from different customer/prospect groups and then, based on results from this testing, to customize messages based on which worked best with each customer group.

**Cost-Efficiency.** E-mail advertising is a relative bargain compared with p-mail. Whereas (as of 2001) it cost about 18 cents to send a letter at the bulk postage rate, e-mail messages cost as little as half a cent to deliver.<sup>38</sup> The price of e-mail varies as a function of volume, but a typical rate is around 5 cents per message.<sup>39</sup> (Only when millions of e-mail messages are sent does the rate fall as low as a penny or less per mailing.)

**Effectiveness.** Response rates to p-mail messages often are less than 2 percent. Comparatively, response rates to e-mail messages sometimes exceed 20 percent. However, an important cautionary note is needed in this regard. E-mail advertising is a relatively novel practice at the time of this writing (early 2002). As the practice increases in magnitude and as consumers are increasingly bombarded, it can be expected that response rates to e-mail messages will fall considerably to a level only slightly higher than that achieved with p-mail messages. Beyond the comparison with p-mail, the evidence at this point indicates that e-mail advertising is substantially more effective than banners, pop-ups, and interstitials in generating click throughs and in terms of other performance metrics such as return on investment.

E-mail advertising is effective in one other sense. In particular, it has been demonstrated to be a very effective means of generating word-of-mouth buzz (of



the type discussed in detail in Chapter 6) among Internet users. Buzz generation, also referred to as viral marketing, perhaps works even better online than offline because it is so easy to forward e-mail messages. This is why so many e-mail advertisements encourage the recipient to forward the message to a friend.

**Measurability/Accountability.** A feature common to p- and e-mail messages is that both call for a *specific action* from message recipients—place an order, request a visit from a salesperson (in the case of B2B advertising), participate in a game, and so on. The comparative beauty of e-mail advertising, however, is that because the response medium is the same as the advertising medium (the Internet in both instances) it is possible to directly calibrate the percentage of message recipients that undertakes the requested action. It is in this sense, then, that e-mail is a highly measurable and thus accountable advertising medium, because response rates can readily be translated into return-on-investment terms.

**Speed.** E-mail messages to millions of people can be transmitted rapidly and received as quickly as recipients read their e-mail. The two-to-three day period required for domestic p-mail deliveries (and up to a week or more for international deliveries) is not a problem from which e-mail suffers. Messages can be delivered throughout the world within a day of each other (due to time zone differences), and prospective customers can respond quickly via the same Internet medium from which they received the message. E-mail messages also can be changed relatively quickly, if conditions demand adjustments, inasmuch as printing time is eliminated.

**Safety.** Sad to say, but in a world where terrorists and crazy people mail letters laced with anthrax and other dangerous items or hazardous substances, e-mail avoids the hazards of p-mail. A balanced perspective must recognize, on the other hand, that electronic viruses are problematic when opening e-mail messages. Many Internet users immediately delete messages from senders whose identities are unknown, especially after news of a recent electronic virus. P-mail has historically been a very safe medium, and absent additional anthrax-type scares of the sort following the World Trade Center and Pentagon bombings on September 11, 2001, it may be that e-mail is no more safe (and even less safe due to electronic viruses) than its p-mail cousin.

## Acquiring Opt-In Lists

As with p-mail, e-mail advertising is only as effective as the list of customers and prospects to whom the message is sent. Although e-mail advertisers, like their p-mail counterparts, often purchase external lists from list brokers, it is generally considered that a house list is considerably better in generating high response rates to the action requested. The *Opening Vignette* described the practice of list rental in some detail in the context of the SmarterKids.com discussion. Now that you have a better understanding of the issues, it would be worthwhile to return to that story for a more complete reading.

## The Special Case of Wireless E-mail Advertising

Laptops with wireless modems, handheld computers—so called personal digital assistants, or PDAs (see Figure 14.2)—cell phones, and pagers are invaluable tools for millions of businesspeople and consumers around the globe. These mobile appliances enable people to remain connected to the Web without being tethered to a wired laptop or desktop PC. Needless to say, advertisers would like to reach businesspeople and consumers on their wireless devices just as much as they covet contacting them when they are electronically wired into the Internet. This section offers a brief discussion of the nature and future of wireless advertising. Because wireless advertising is in its infancy, the following comments are necessarily somewhat speculative.

Wireless devices are widespread. It is estimated that by 2005 more than 60 million North Americans will be using Internet access devices such as cell phones

## The Palm Handheld Device for Internet Access

## Figure 14.2



Courtesy of Palm, Inc.—Palm is a trademark of Palm, Inc.

equipped with wireless access protocol (WAP), PDAs, and two-way messaging devices.<sup>40</sup> Vodafone estimates that about 70 percent of wireless users also use the Internet, and Motorola speculates that by 2004 more people will access the Internet via a wireless than wired device.<sup>41</sup>

These statistics clearly indicate considerable potential for advertisers to reach people through their wireless devices. Perhaps the more important issue, however, is whether people want to be accessed via their wireless items. Because mobile phones, PDAs, and pagers are highly personal items (i.e., they go with us everywhere and often are in constant contact with our bodies), many critics of wireless advertising (as well as advertisers themselves) are concerned that unwanted messages represent an invasion of privacy. Feeling invaded, recipients of undesired advertisements may immediately zap the intruding item and hold negative feelings toward the offending advertiser—“How dare you send me a message for a product or service about which I have absolutely no interest!”

In addition to privacy invasion, others are skeptical about wireless advertising's future on grounds that advertising is antithetical to the reasons why people own wireless devices in the first place.<sup>42</sup> The argument, in other words, is that people own wireless devices for reasons of enhancing time utilization and increasing work-related productivity while away from the workplace or home, and the last thing they want to happen while using these devices is to receive unwanted, interrupting advertising messages. Another potential limit on the immediate future of effective wireless advertising is that the small screens on cell phones and handheld devices (see Figure 14.2) limit the space for presenting a creative advertising message.

It would seem, based on the downside arguments just noted, that wireless advertising is not a viable prospect. Only the future will tell for sure. It is certain at the present time, however, that many advertisers much desire the opportunity to reach prospective customers via their wireless appliances. Another certainty is that successful e-mail advertising on wireless devices must be based on an opt-in model, where message recipients have absolutely indicated their interest in receiving certain types of messages via their wireless devices. Wireless ad recipients must, in other words, have complete *control* over the advertising content they are willing to receive as well as when and where they receive ad messages.<sup>43</sup> Advertisers must secure the wireless device user's permission to send him or her ad messages and make the user a quid pro quo: If you grant me (the advertiser) permission to send messages to you regularly, say once a week, I will provide you with useful information on topics of interest to you.<sup>44</sup> Such an arrangement benefits the interests of both advertiser and consumer and thus provides an opportunity for the advertising community to profit from ads placed on wireless devices.

Many who are skeptical of a successful future for wireless advertising nonetheless believe this ad medium may have value for local retailers such as restaurants, entertainment complexes, and various service operations.<sup>45</sup> Retail outlets can send promotional offers, price discounts, and other pertinent information to consumers who are in the vicinity of the retailer's store. This is made possible by positioning systems (similar to the Global Positioning Satellite) available on all wireless devices that pinpoint a wireless user's location to a particular retail outlet within 100 or less feet (30.5 meters or less). For example, Jiffy Lube, the retail chain offering quick oil changes, tested the use of wireless advertisements in San Francisco. Recipients received oil change reminders on their pagers or cell phones whenever they passed a Jiffy Lube franchise and were promised an attractive discount if they came in for an oil change during nonpeak times.<sup>46</sup>

In the final analysis, wireless advertising offers a potentially attractive advertising medium, but there are notable problems that may or may not be overcome. It is clear that spamming wireless device users is totally ineffective and that successful advertising must gain the user's permission and allow him or her control over message content and how often, when, and where message receipt is acceptable. The next several years will provide us with a rearview mirror perspective on whether wireless advertising is merely a passing fad or a long-term, viable advertising medium.

## SUMMARY

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Direct advertising is an important and rapidly growing aspect of marketing communications activity. Direct advertising, in comparison to broadcast advertising, does not deal with customers as a mass but rather creates individual relationships with each customer or prospective customer. Historically, most organizations regarded direct advertising as a minor supplement to their mass advertising efforts. Today, however, direct advertising is increasingly being viewed as a critical component of successful IMC programs. Indeed, rather than treating direct advertising as an afterthought, or little more than a practice that completes a mass-oriented advertising program, many firms are handling direct advertising as the cornerstone of their communication efforts. The increased sophistication of database marketing has been largely responsible for the growing use and effectiveness of direct advertising. Major advances in computer technology and database marketing have made it possible for companies to maintain huge databases containing millions of prospects and customers.

Successful direct advertising, of both the postal (p-mail) and electronic (e-mail) varieties, necessitates the availability of computer databases and their inherent addressability. Direct advertising's notable advantages vis-à-vis mass advertising are that marketers can target messages to specific market segments and determine success (or failure) virtually immediately. P- and e-mail also permit greater personalization than mass media advertising and are not subject to the same degree of clutter as with print and broadcast media. On a cost-per-order basis, direct advertising is often less expensive and more efficient than alternative media.

Direct advertising requires the advertiser to maintain a current database of present and prospective customers or to acquire a list of prospects from a company that specializes in list construction. An up-to-date database allows targeting of messages to prime prospects, provides for an ability to vary message content to different groups, enhances advertising productivity, enables the determination of a customer's lifetime value, and affords an opportunity to build long-term relations with customers. Databases can be massive in size with millions of addresses and hundreds of variables for each database entrant. The availability of high-speed computers and inexpensive computer software has made it possible for companies to literally mine their data warehouses for the purpose of learning more about customers' buying behavior. Sophisticated data miners look for revealing relations that can be used to target prospective customers, develop cooperative marketing relations, and otherwise better understand who buys what, when, how often, and along with what other products and brands.

In addition to the widespread use of p-mailing by all types of marketing communicators, e-mail advertising represents a potentially huge growth area. E-mail now is the most heavily used form of Internet advertising, far exceeding the amount invested in alternative advertising forms such as banners, pop-ups, and interstitials. Estimates peg the percentage of marketing-related e-mail received by Internet users as over 20 percent of all the e-mail transmitted. Roughly half the marketing-related e-mail is opt in, or permission granted, whereas the remainder is unsolicited, or so-called spam. European countries are more rigorous in their regulation of unsolicited e-mail than are regulators in North America. Virtues of e-mail advertising include (1) the ability to target messages to well-defined customer/prospect groups, (2) the opportunity to personalize messages to fit each group's unique information needs, (3) the relative inexpensiveness of e-mail versus p-mail, (4) the effectiveness in obtaining high response rates, (5) the ability to measure effectiveness and thus accomplish financial accountability, (6) the speed of transmission, and (7) the relative safety in comparison to p-mail, where anthrax-type scares are a fact of life in the post-September 11 world.

Wireless e-mail advertising (to handheld computers, cell phones, and pagers) provides another horizon for direct advertisers. Although there is considerable potential for advertisers to reach people via their wireless appliances, there is much concern that people do not want to be bothered. Only time will tell whether wireless advertising achieves the prominence that some optimists forecast it will.

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## DISCUSSION QUESTIONS

- Four types of “graphics” are used in compiling databases: buyographics, demographics, geographics, and psychographics. Provide one illustrative variable that a catalog marketer of women’s clothing might include in its database for each of these “graphics.”
- Explain the meaning and importance of database “addressability.”
- The section describing database assets included the claim that an up-to-date database allows a marketing organization to create long-term relationships with customers. Offer an explanation of what this means to you.
- Assume you are a direct marketer for a line of merchandise imprinted with the logos of major universities. These items are targeted to the fans and supporters of university athletic programs. Detail how you would compile a mailing list. Use your college or university for illustration.
- Following is a lifetime value analysis framework similar to that presented in the chapter. Perform the calculations necessary to complete row K.

	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Revenue</b>					
<b>A Customers</b>	2,000	_____	_____	_____	_____
<b>B Retention rate</b>	30%	40%	55%	65%	70%
<b>C Average yearly sales</b>	\$250	\$250	\$250	\$250	\$250
<b>D Total revenue</b>	_____	_____	_____	_____	_____
<b>Costs</b>					
<b>E Cost percentage</b>	50%	50%	50%	50%	50%
<b>F Total costs</b>	_____	_____	_____	_____	_____
<b>Profits</b>					
<b>G Gross profit</b>	_____	_____	_____	_____	_____
<b>H Discount rate</b>	1	1.15	_____	_____	_____
<b>I NPV profit</b>	_____	_____	_____	_____	_____
<b>J Cumulative NPV profit</b>	_____	_____	_____	_____	_____
<b>K Lifetime value (NPV)</b>	_____	_____	_____	_____	_____

- You may have noticed that Web sites seem to know more and more about you each time you visit. For instance, you may bookmark a popular site such as <http://www.cdnw.com> or <http://home.microsoft.com> and find that the computer on the other end knows not only that you’ve been there before but exactly when you last visited, what you were looking at the last time you visited, and so forth. Most Web sites accomplish this with HTTP cookies. A cookie is a small piece of information that’s sent to your browser along with an HTML page when you access a particular site. When a cookie arrives, your browser saves this information to your hard drive; when you return to that site, some of the stored information is sent back to the Web server, along with your new request. The Web site <http://www.cookiecentral.com> is dedicated to explaining ex-

actly what cookies are and what they can do. Visit this site and present a discussion on how cookies can be and are used to compile direct marketing lists. Additionally, comment on the ethical debate surrounding the use of cookies.

7. Your college or university no doubt has an organizational unit that is responsible for marketing merchandise to alumni and other customers – items such as sweatshirts, T-shirts, caps, cups emblazoned with your school’s logo, and so on. Assume that this unit in your school does *not* have an up-to-date computerized database. Explain how you would go about putting together such a database. What specific information would you maintain in your computerized database for each customer? How would you use this information?
8. As a consumer who probably has spent considerable time perusing the pages of different catalogs, provide your perspective on the value of catalogs to you. Why (or why not) would you purchase from a catalog company?
9. What has been your personal experience with e-mail advertising? Are you part of any opt-in lists whereby you receive regular (say once a week) e-mail messages? Can you recall having been spammed?
10. One virtue of e-mail advertising is that different messages for the same product or service can be mailed to various customer groups who differ with respect to pertinent buyographic, demographic, or other characteristics. This ability to “mass customize” messages should increase MarCom effectiveness, yet a cynic might look at this practice as a bit deceptive – somehow saying different things about your product to different audiences seems misleading. What is your view on this?
11. During the relatively few years in which e-mail advertising has been practiced, it has been able to achieve considerably higher response rates in comparison to its older and more established p-mail cousin. Do you think this response-rate differential between p- and e-mail will remain by, say, 2010, or will the two forms of direct mailing ultimately be equally effective after the novelty of e-mail wears off?
12. E-mail advertising is claimed to be very effective for viral marketing purposes – that is, buzz generation. This is accomplished by requesting an e-mail recipient to forward the message to a friend. Return to the discussion of buzz generation in Chapter 6, and then present your views on the effectiveness of the e-mail viral marketing practice. In other words, explain what makes e-mail buzz generation effective or not.
13. Present your views on the future of wireless advertising. That is, do you expect wireless devices such as handheld computers, cell phones, and pagers to be effective ad media. Offer your specific views on the effectiveness of each of these mobile devices rather than lumping them together as if they are identical.

## ENDNOTES

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