

CHAPTER 18: DIRECT MARKETING: THE DIALOGUE BUILDER

Chapter Objective

To explain the role that direct marketing can play in an overall IMC program, and to identify the strengths and weaknesses of various direct marketing tools.

Chapter Key Points

Chapter Outline

- What are the strengths of direct marketing?
- What is the biggest strength of direct mail? The biggest limitation?
- What are the strengths and weaknesses of telemarketing?
- How can direct marketing efforts be evaluated?
- What are the major issues and concerns related to direct marketing?

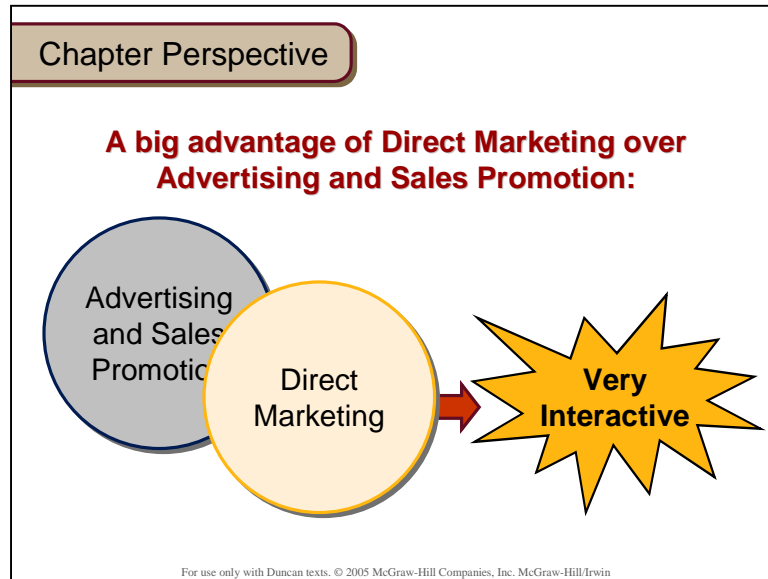
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This chapter addresses five key issues:

1. What are the strengths of direct marketing, and what are the major components of a direct marketing piece?
 - The chapter discusses the contributions direct marketing can make to an IMC program and explains the use of “front end” and “back end” functions.
2. What is the biggest strength of direct mail? The biggest limitation?
 - The chapter identifies direct mail’s key strength, addressability, and discusses some of its cost limitations.
3. What are the strengths and weaknesses of telemarketing?
 - The chapter identifies the strengths, addressability and interactivity, of telemarketing as well as its cost and intrusiveness limitations.
4. How can direct marketing efforts be evaluated?
 - The chapter identifies and explains some of the most common techniques for evaluating the effectiveness of direct marketing efforts, including “response rate” and “cost per sale.”

5. What major issues and concerns are related to direct marketing?
- The chapter discusses two major issues that impact the effectiveness of direct marketing: its “junk mail” image, and consumer privacy concerns.

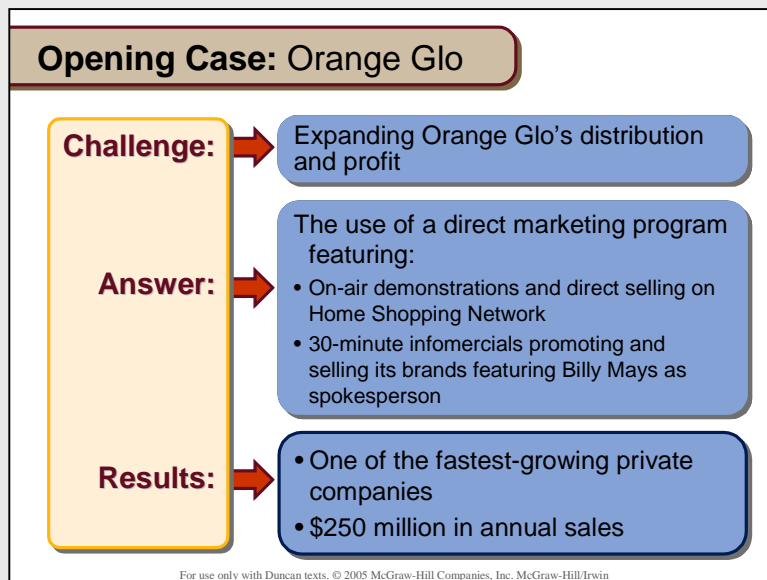
Chapter Perspective



As the text stresses throughout its chapters, one of the main things that differentiates IMC from the traditional practices of advertising and sales promotion is the increasing use of interactivity. The more personal this interactivity can be, the more persuasive it is. Direct marketing has been around for decades. However, its use has drastically changed with new communication and information technology. Interacting with customers is easier and less costly now than ever before.

Direct response can be used as a sole business driver or integrated into a MC mix. It allows companies to accurately measure the effectiveness of this marketing communication function. When done properly, the profitability of *each* customer can be determined. As companies continue to demand more accountability, direct marketing continues to grow. This chapter explains basic principles of direct mail and telemarketing, and how to direct marketing can be used to integrate customers and prospects into a company’s operations.

Opening Case: Orange Glo



Challenge: Expanding Orange Glo's distribution and profit

Answer: The use of a direct marketing program featuring:

- On-air demonstrations and direct selling on Home Shopping Network
- 30-minute infomercials promoting and selling its brands featuring Billy Mays as spokesperson

Results:

- One of the fastest-growing private companies
- \$250 million in annual sales

Discussion Starters:


- 1) Orange Glo infomercials on the air, and calculate the “fenestration rate” of the show.
- 2) What did Orange Glo do to make sure that customers made repeat purchases?
- 3) Ask students what needs to be done to make an infomercial attention getting and motivational.

Lecture Outline

I. Personalized and Interactive Communication

A. Direct marketing

Direct Marketing

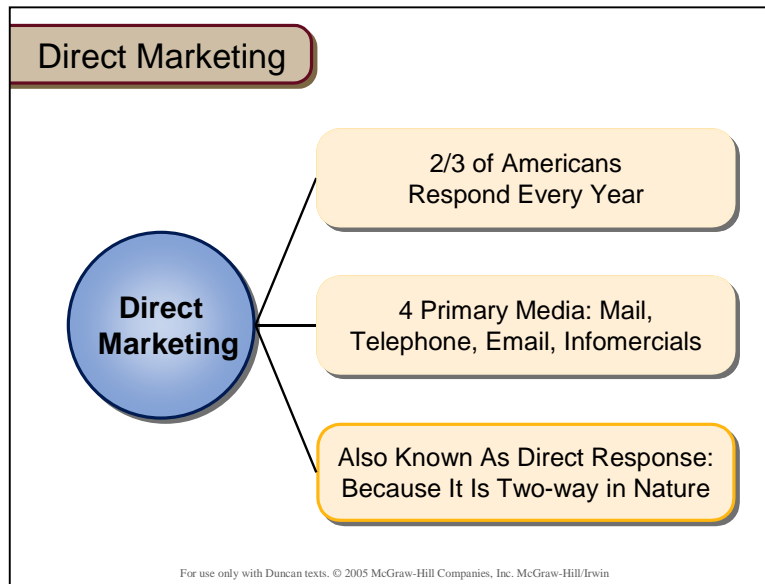


Direct marketing:
An interactive, database-driven messaging system that uses a range of media to motivate a response from customers and prospects

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- i. *An interactive, database-driven messaging system that uses a range of media to motivate a response from customers and prospects*

B. Direct marketing's usage and types



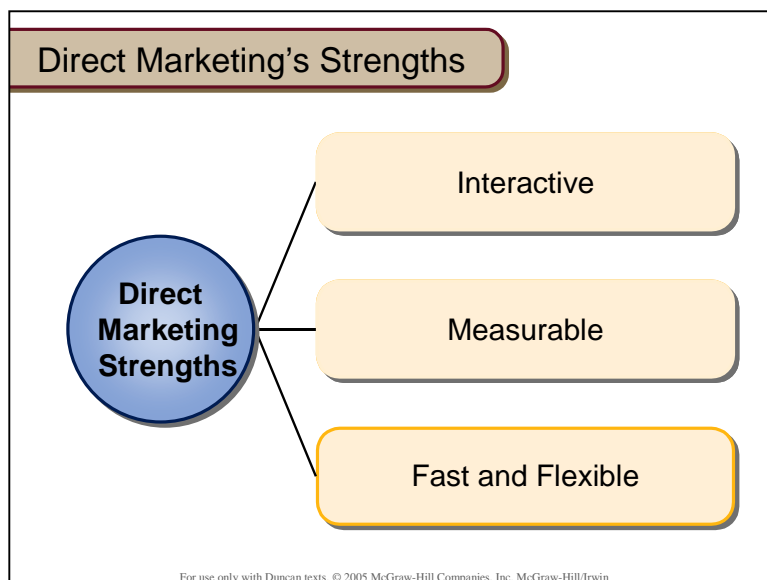
i. 2/3 of Americans respond every year

1. 4 primary media
 - a. Mail
 - b. Telephone
 - c. Email
 - d. Infomercials

C. Also known as direct response

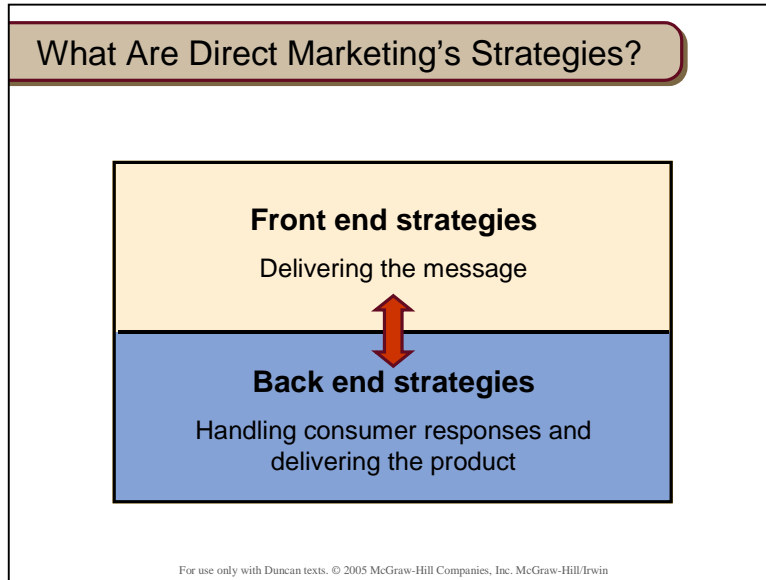
- i. Because it is two-way in nature
 1. The Company can initiate dialogue with consumers...
 2. ...and customers can initiate dialogue with the company

D. Direct marketing strengths



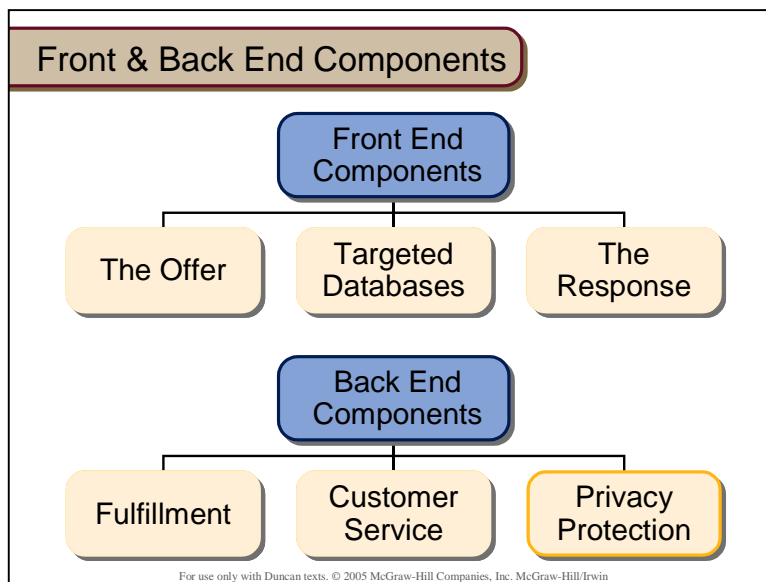
- i. Interactive
- ii. Measurable
- iii. Fast and flexible

E. Front end strategies



- i. Delivering the message


- ii. Front end components



1. The offer

The Offer

The offer: *Everything, both tangible and intangible, promised by a company in exchange for money or some other desired behavior*



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An Offer From an Exclusive Resort



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- a. *Everything, both tangible and intangible, promised by a company in exchange for money or some other desired behavior*
2. Targeted database types
 - a. Response lists
 - *Made up of people who have responded to related direct-marketing offers*
 - b. Compiled lists
 - *Names and addresses collected from public sources, such as car registrations*

- c. Subscriber lists
 - *Subscribers to magazines that often specialize in one subject such as golf*
 - 3. The response
 - a. *Something said or done in answer to a marketing communication message*
- F. Back end strategies
- i. Handling consumer responses and delivering the product
 - ii. Back end components
 - 1. Fulfillment
 - a. *Getting the product or the information requested to the customer in a convenient, cost-effective, and timely fashion*
 - 2. Customer service
 - 3. Privacy protection

IMC In Action: 1-800-Flowers

IMC In Action: 1-800-Flowers



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IMC In Action: 1-800-Flowers

Challenge:

Promoting and delivering flowers nationwide

Answer:

The use of an IMC program featuring:

- TV, radio, and direct mail messages delivering the offer
- 1-800-FLOWERS; web site, handling responses
- 2,500 local florists fulfilling orders

Results:

Named “top gift site on the web”

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- TV, radio, and direct mail messages delivering the offer
- 1-800-FLOWERS; web site, handling responses
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Results:

- Named “top gift site on the web”

Discussion Starters:

- 1) A good initial question might be to poll the class to see how many students are aware of this brand.
- 2) An interesting follow-up question would be to ask which other flower delivery services students are aware of and record these “awareness” scores on the board (including local florists).
- 3) As a final question, ask students which of the services on the board they would prefer to use—and why.

II. Direct Mail
A. Direct mail

Direct Mail


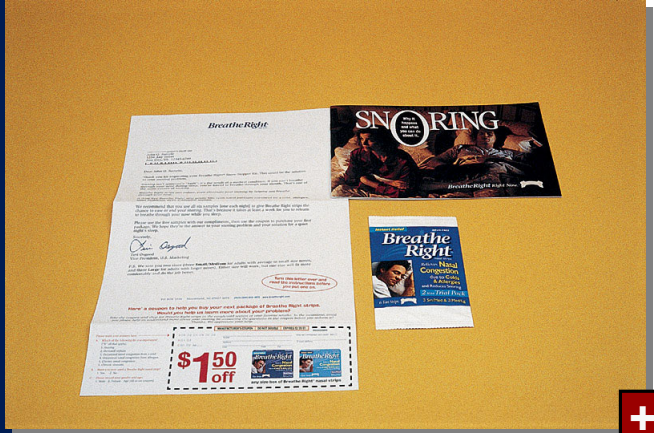
Direct mail: One form of direct response advertising that uses mail rather than other media to deliver a brand offer



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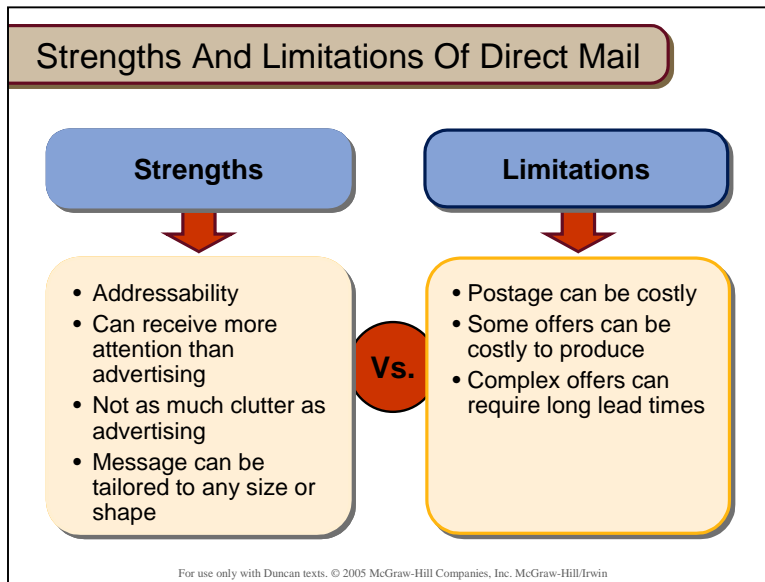
- i. *One form of direct response advertising that uses mail rather than other media to deliver a brand offer*

An Example Of a Set Of Materials In a Mail Package



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- B. Two most common types:
- i. Catalogs
 - ii. Mail packages



C. Strengths

- i. Addressability
- ii. Can receive more attention than advertising
- iii. Not as much clutter as advertising
- iv. Message can be tailored to any size or shape

D. Limitations

- i. Postage can be costly
- ii. Some offers can be costly to produce
- iii. Complex offers can require long lead times

III. Telemarketing

A. Telemarketing



The slide features a title box at the top left with the word "Telemarketing". To the right is a small icon of a pen writing on a notepad. The main text defines telemarketing as "The practice of using the telephone to deliver a brand message designed to create a sale or sales lead". Below this, it states "Controversial... ... but Big Business". On the left is the "NATIONAL DO NOT CALL REGISTRY" logo, and on the right is a large "\$ 43 Billion" figure. At the bottom, there is a small copyright notice: "For use only with Duncan texts. © 2005 McGraw-Hill Companies, Inc. McGraw-Hill/Irwin".

- i. *The practice of using the telephone to deliver a brand message designed to create a sale or sales lead*

B. Telemarketing is controversial buy a huge business

- i. "Do Not Call List" issues

C. Two key categories of telemarketing:

i. Outbound

1. *Calls initiated by a marketing organization*

ii. Inbound

1. *Calls initiated by prospects and customers*

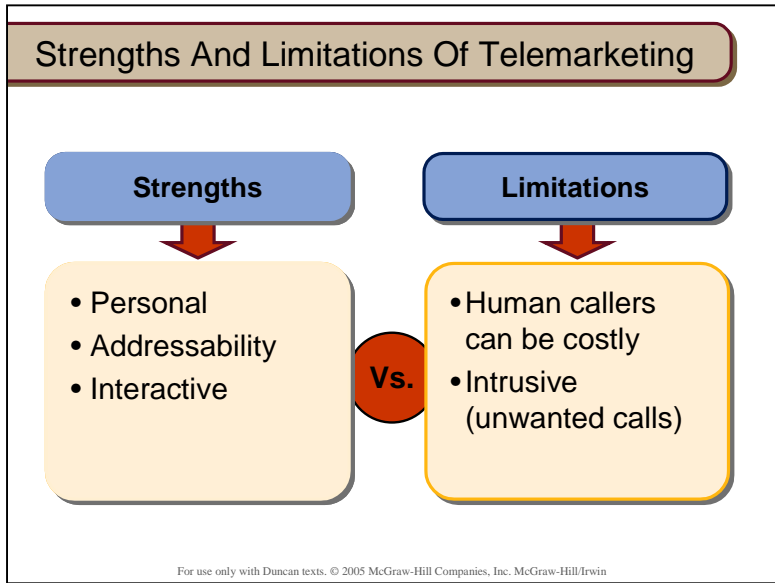
2. *Inbound call issues*

- a. *Automated answering systems can be annoying*

- b. *Firms now have more options*

iii. Outbound and inbound handled by a call center

1. *A bank of telephones staffed by sales representatives whose dialogue is guided by computer-generated scripts*



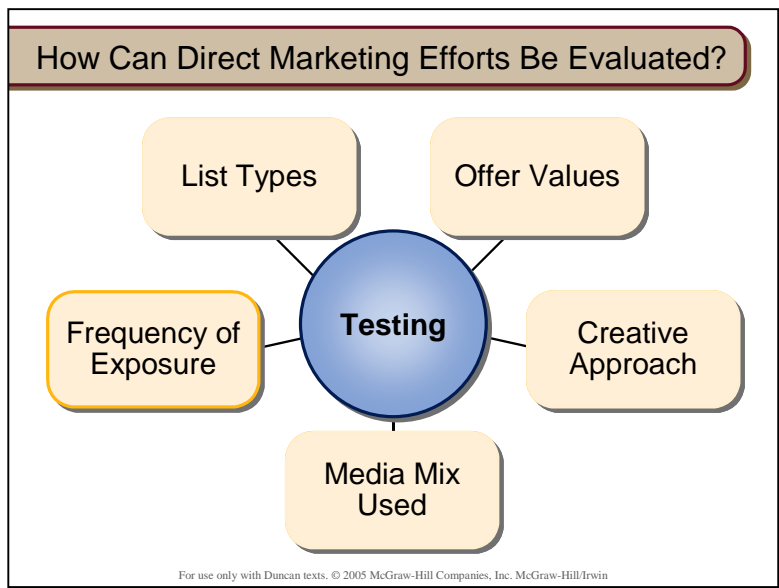
D. Strengths of telemarketing

- i. Personal
- ii. Addressability
- iii. Interactive

E. Limitations of telemarketing

- i. Human callers can be costly
- ii. Intrusive (unwanted calls)

IV. Evaluating Direct Marketing



- A. Alternative campaign elements can be tested
 - i. List types
 - ii. Offer values
 - iii. Creative approach
 - iv. Media mix used
 - v. Frequency of exposure

B. Ultimate test: effectiveness

Ultimate Test: Effectiveness

Number of responses
 Number of offers mailed

=

**Response
Rate**

5 / **100**

=

20

Total cost of mailing
 Number of sales made

=

**Cost
Per Sale**

\$1,000 / **5**

=

\$200

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- i. 2 measures:
 1. Response rate = $\frac{\text{Number of responses}}{\text{Number of offers mailed}}$
 2. Cost per sale = $\frac{\text{Total cost of mailing}}{\text{Number of sales made}}$

▷ **INSTRUCTOR IN-DEPTH INSIGHT: TRACKING CUSTOMER COSTS/PROFITS**

Insight: Tracking Customer Costs/Profits



Direct marketers are very proficient tracking their costs and profits because the medium is the easiest to measure in terms of cost per sale. One rule of thumb: in most direct-marketing programs, a customer isn't profitable until the third time he or she buys.

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V. What Are The Major Issues And Concerns Related To Direct Marketing?

- A. 2 major concerns
 - i. "Junk mail" image
 - ii. Privacy



TALES FROM THE REAL WORLD

Tales From the Real World

The public often wonders: “how did they get my name (or address, phone number, or email account)?”

In the real world, it's fairly easy to acquire a database list of many different types of individuals. In fact, it's amazing how specific some of the lists can be. Some examples of lists offered for sale by a list broker in their catalog: “acupuncturists,” “golfers,” and “nuclear physicists.”

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VI. Final Note

Final Note:

- *The increasing amount of clutter and privacy concerns suggests that the Direct Marketing winners will be those organizations who:*
 - *Are creative in making their appeals stand out*
 - *Are sensitive to consumer privacy concerns*

- A. The increasing amount of clutter and privacy concerns suggests that the Direct Marketing winners will be those organizations who:
1. Are creative in making their appeals stand out
 2. Are sensitive to consumer privacy concerns

Answers to Review Questions

1) Strengths And Components Of Direct Marketing

- a. Define direct marketing.

Answer: Direct marketing is an interactive, database-driven messaging system that uses a range of media to motivate a response from customers and prospects. There are three basic types of media used by direct marketers: mail, telephone, and email.

- b. Why do we say that direct marketing is a “microcosm” of the entire marketing process?

Answer: The text uses this analogy because, like marketing, it begins with research, segmentation, and message creation. Like marketing as a whole, it also employs a wide variety of media to deliver its offer. It also incorporates the functions of distribution, fulfillment, and follow-up, as well as the use of customer databases.

- c. What are the main strengths of direct marketing? The primary limitations of direct marketing?

Answer: The three primary strengths of direct marketing are: first, its ability to be interactive in its communication with consumers; second, the fact that it is very measurable; and third, its speed and flexibility. The primary limitations are its lingering “junk mail” image, and its intrusiveness which annoys some consumers and raises privacy concerns.

- d. What role do databases play in a direct-marketing program?

Answer: By employing sophisticated customer databases, companies are able to be more strategic in the use of direct response programs. Specifically, they can use databases to more accurately identify their best possible prospects and to focus direct marketing offers, materials, and media directly on this group. This has two key benefits. First, the messages can be more tailored to the consumer, and second, the greater focus creates much less media waste, thereby minimizing costs.

- e. Explain the role of the primary components of direct marketing?

Answer: There are four primary components of a direct marketing effort. First, the database of targeted prospects provides the foundation for targeting consumers; Second, the marketer’s offer provides “the hook” for luring interested consumers. Third, the response is critical because it represents the beginning of

the two-way dialogue between the marketer and the consumer. Fourth, the role of fulfillment, customer service, and privacy protection are to ensure that the marketer delivers on its promises and succeeds in developing a positive relationship with the consumer.

- f. What are front-end and back-end operations? Give examples of each.

Answer: Front-operations include the marketing communication and media mix used to explain and deliver an offer. The back-end strategies include operations management regarding how responses to offers will be received and processed, inventory control, shipping of orders, invoicing, handling returns, and other customer-service functions. In essence, the front-end strategies sets expectations and the back-end strategies determine how a company meets (or fails to meet) these expectations

- g. What media are used by direct marketing?

Answer: Direct marketers deliver their offers using a variety of media including mail, TV, radio, print, catalogs, telephone, and the Internet.

- h. How does an infomercial differ from a traditional TV commercial? What are the elements that make an infomercial effective?

Answer: An infomercial is different from traditional TV commercials in several key ways. First, infomercials typically have a duration of 30 minutes versus typical TV commercial lengths of :15, :30 or :60. Second, the average cost of producing a top quality 30-minute infomercial (about \$200,000) is less than the average cost of producing a quality 30-second national TV spot (about \$350,000). Third, most infomercials use “talking heads” and only one set while most :30 commercials use a variety of sets and actors plus complex production techniques.

Some of the elements that make infomercials effective include popular and/or entertaining hosts, the use of demonstrations that show a product generating impressive results (i.e., dramatically cleaning something or causing drastic weight loss), and the use of graphics that feature a simple response mechanism (usually a toll free number) and sometimes even a counter indicating the number of units being sold—to encourage viewers to “jump on the bandwagon.”

- i. Very few people will watch a 30 minute infomercial for the full time. Why is this type of direct marketing message successful?

Answer: One way infomercials can be effective is through the constant repetition of important selling points. This is by design in order to “catch” surfers who may come across the infomercial and stay for only a minute or two.

2) Direct Mail

- a. Explain the strengths and limitations of direct mail.

Answer: The number one strength of mail is its addressability. If a company is able to identify its customers and prospects, mail can be a cost-effective medium because it can minimize waste. Addressability also enables a company to personalize its messages. Addressability allows marketers to measure response rates to direct mailings. This makes mail a much more accountable medium than most other media. Direct mail can also generate more attention than any mass media message, especially when it is well designed and inviting. Finally, direct mail can feature a brand message of any size or configuration. In general, the more complex and expensive-looking it is, the more likely it will attract attention and be opened—although some marketers have found that small postcards inscribed with a “handwritten” message can cut through mailbox clutter.

On the downside, one of the major limitations of direct mail is that it is costly to use. Not only is postage costly, but also most mailings are considerably more costly to produce than other types of brand messages. Another weakness is long lead time. It can take weeks and even months to create, produce, and send out a mailing. The more complex the piece is, generally the longer the lead time.

- b. How does the cost of mail compare to that of other mass media forms? With this in mind how could you justify using mail?

Answer: Direct mail can be considerably more costly to produce than other types of brand messages. For example, a TV commercial may cost \$350,000 to produce, but once it is completed, it can be “delivered” to millions of people without any more production costs. For direct marketing, however, every message delivered must be produced. Nevertheless, direct mail can still be a very attractive option if the database being used is highly targeted and the message being delivered is compelling and tailored specifically to those receiving it.

- c. How important is mail as a marketing communication medium?

Answer: Direct mail can be a very important complement to other forms of MC media because unlike ads in newspapers and magazines, direct mail has no editorial competition for attention (just other direct mail). In addition few people take things from their mailbox and just throw them away without first sorting through them. This fact alone virtually guarantees that a direct-mail envelope will be noticed and given some consideration. According to household diary reports, 52 percent of unsolicited mail pieces are opened. The percent of mass media messages that receive similar attention ranges only between 8 and 35.

- d. If you were a list manager for a national retail chain, what would be your duties?

Answer: One key duty of this position would be the constant monitoring of database information about current customers. This person would want to ensure that the best customers were receiving the appropriate amount of communication from

the company, and incentives to invite customers to purchase more frequently. Part of this analysis would also include the identification of the best tier of customers, and the delivery of rewards to these individuals for their business. Another major duty of a list manager would be the development of new lists of potential customers. A key part of this duty would be the identification of demographic and psychographic profiles of current customers that could then be used to target new consumers who share these characteristics, but who are not currently customers of the firm.

3) Telemarketing

- a. How important is the phone as a marketing communication medium?

Answer: The telephone is an important marketing communication medium, both in terms of the definition of media as a means of connecting companies and customers, and in terms of its use by marketers. Specifically, telemarketing is big business, accounting for \$80.3 billion in spending in 2002—more than was spent on TV advertising.

- b. Compare and contrast outbound and inbound calls in a marketing communication program.

Answer: Outbound calls are those initiated by a marketing organization. Since it's the human participation that makes outbound calls so expensive, some companies use pre-recorded calls, especially for sending reminder messages. On the other hand, Inbound calls are those initiated by prospects and customers who are responding to a brand offer or calling with an inquiry, complaint, or request for more information. Often these come in over a company's 800 number, which means they are free for the calling party. The calls can result from messages delivered in a variety of media—print or broadcast advertising, Internet or email as well as direct mail and telemarketing.

- c. What are the key strengths and limitations of telemarketing?

Answer: Telemarketing has three key strengths. First, it is addressable, and second, it occurs in real-time. The combination of these factors makes it more personal than mass media messages. As with face-to-face personal selling, telemarketing personalizes sales calls, making it possible to respond immediately to objections and perhaps generate an instant action. The third strength of telemarketing is that it demands attention. Although some consumers use caller ID and answering machines to screen calls, most people will pick up a ringing phone. Telemarketing's two major weaknesses are cost, especially when calls are being made by a human (rather than a computer), and intrusiveness. When used for delivering commercial messages, the phone probably has the worst image of all media because of its intrusiveness. An unwanted phone call from a telemarketer can upset even the gentlest, kindest, and most mature of people.

4) Evaluating Direct Marketing

- a. Why can direct marketing message be evaluated more accurately than a typical TV commercial or publicity release?

Answer: Direct marketing efforts can be evaluated more accurately because, unlike TV or PR, it is an addressable medium so the sender of the messages knows how many and to whom the messages are being sent—and can measure how many respond. Two measures that are typically used are response rate and cost-per-sale. To determine the response rate, you simply divide the number of responses by the number of mailed offers. If there were 50,000 responses from a mailing of 500,000, that would equal a 10 percent response rate. To determine cost-per-sale, you simply add up all the costs involved in making a direct marketing offer, and then divide this figure by the number of responses.

- b. What elements of a direct marketing program can be tested?

Answer: All of the key elements of a proposed program can be tested prior to rolling it out to its ultimate audience. First, the list of recipients itself can be tested to determine how different groups of consumers will respond. Second, the offer being made in the program can also be tested on smaller groups to determine its impact at different possible values. Third, the creative approach and copy used in conveying the offer can also be tested to determine which approach is most effective. Third, different types of media can be tested to determine which one, or combination of media, delivers the best response. And finally, the frequency of messages can be tested to determine the optimal number of contacts with consumers.

- c. When in the planning and executing of a marketing plan should direct marketing offers be tested?

Answer: The testing of direct marketing efforts should be conducted very early in the planning process—definitely before a full scale mailing or phone effort is executed. The reason for this is that some offers are now being delivered to 10 million or more households. If testing prior to that deliver determines a way to increase just one percentage point difference in the rate of response, the result can be worth hundreds of thousands of dollars.

5) Issues and Concerns

- a. What is spam and why is it a problem?

Answer: Spam is a term that applies to bulk e-mail and fax messages. It has created a great deal of problems for the direct marketing industry because it is intrusive and often poorly targeted to people who aren't interested in the product. It often creates extra costs for those organizations that are targeted, both in terms of wasted fax paper used to print out spam faxes and lost productivity of employees who are spending more and more time filtering their email messages to delete spam.

- b. Why is protecting customer's privacy listed as an important component of direct-response? What are companies doing to better address the privacy problem?

Answer: Consumers today are very concerned about their privacy. They especially don't like the idea of having their names and other personal information passed around to different types of businesses. As a result, consumers have become leery about providing the very information direct marketers need to segment and target effectively. While companies must respect and protect consumer information, the good news is that successfully doing so can give a company an edge over its competitors. As a result, many more organizations are now adhering to a list of 10 consumer privacy principles published by the Direct Marketing Association.

Chapter Challenge

Writing Assignment

Take one issue of a magazine and pull out all of the direct response ads and separate them into two categories, one that represents good examples of direct response messages and the other containing the ones that you consider to be weaker. Write an analysis of each group of these ads, explaining how the good ones differ from the weaker ones.

Presentation Assignment

Collect a week's worth of direct mail that comes to your mailbox. Analyze how personalized it is. Prepare a presentation to your class that sets up a continuum of personalization for your set of direct-mail pieces. In other words, which one is the most personalized, which one is the least personalized, and where would you put the other pieces in between?

Internet Assignment

Find the websites of three companies (addresses on packages and in brand messages). Contact these companies with an inquiry or complaint using the response instructions on each of their websites and keep track of: 1) how long it takes each company to respond, 2) rate each response on how personal it is (was response personalized or a stock message?), 3) record to what extent your question was answered or your complaint addressed, and 4) record to what extent company made an effort find out more about you.

Research Assignment

Interview 10 people and ask them to name the last product they bought by responding to a direct response offer. For each product bought this way, ask why they bought it "directly" rather going to a store and buying it (many consumer products sold by direct response are also available in retail stores).

IMC Plan Team Assignment

At this stage in their semester-long project, students must begin to identify the types of direct marketing components they would like to incorporate into their overall IMC plan, if any. This assignment asks students to discuss specific direct marketing plans they are considering.

IMC Final Project Checklist #18

Due Date: _____

Your Agency Name:

Direct Marketing Media

Provide specific information for each of the following types of direct marketing efforts, discussed in the chapter, that your agency is considering for inclusion in your IMC plan.

- **Mail**

- **Telephone**

- **Email**

- **Infomercials**

Direct Marketing Components

Discuss specific aspects of each of the key components of a direct marketing program discussed in the chapter.

- **Front end components**

- The offer

- Targeted database types

- The response

- **Back end component**

- Fulfillment