

Direct marketing

LEARNING OBJECTIVES

By the end of this chapter you will:

- appreciate why direct mail has become so popular during recent years
- understand the individual elements that form direct marketing
- be aware of the value to marketers of direct marketing tactics
- know how to mount a direct marketing campaign

INTRODUCTION

We discussed some of the changes taking place in channels of distribution in Chapter 6. It was suggested that one of the growth areas of channels has been direct marketing. The term 'direct marketing' was first coined by Leslie Wunderman in 1961 following work he had done with American Express and Columbia Records. However, the principles of mail order catalogue marketing, which was an early form of direct marketing, can be traced back to Europe in the fifteenth century following Gutenberg's invention of type and production of trade catalogues from printer publishers.

The principal feature of direct marketing is that it sends messages direct to consumers and not via intervening media. This involves the use of direct mail, e-mail and telemarketing through business to consumers (B2C) and business to business (B2B) communications that are normally unsolicited. It attempts to persuade customers to make purchases that emphasize explicitly a 'call-to-action' that involves a prominent message to gain a positive measurable and trackable response from potential customers.

Direct marketing is a pro-active approach to marketing that takes the product or service to potential customers rather than waiting for them to come to a store or other point of access. It is a form of '**non-shop**' shopping and is sometimes referred to as '**precision marketing**' or '**one-to-one**' marketing.

Rather than the marketing firm sending out a general communication or sales message to a large group of potential customers, even if these constitute well-defined market segments, direct marketing tends to target specific individuals or households. In a B2B context this would be an individual or a specific organization. Direct marketing is not just concerned with marketing communications. It is also concerned with distribution. In using direct marketing, the firm is making a choice to cut out the use of marketing intermediaries and sell the product or service direct to customers. This has implications for both channels of distribution and logistical decisions.

Direct marketing comes in a variety of forms. It is one of the fastest growing areas of marketing and is being propelled by technical advances, particularly in the field of computer technology and the worldwide web (www). It has been taken up with enthusiasm in a wide variety of contexts. This medium of communication is not new, as many companies have sold products direct to the public for many years. For example, Kleeneze was established in 1923 by Harry Crook in Bristol. Another long established direct marketer is Avon Cosmetics, established over 120 years ago by David McConnell as the California Perfume company. Direct mail through the post and mail order catalogues has been utilized for a long time and all are forms of direct marketing.

Direct marketing originated in the early 1900s and the Direct Marketing Association (DMA) was established in the USA in 1917. It became an important force in the UK in the 1950s, but at this

stage of its development it was generally concerned with direct mail, mail order and door-to-door personal selling. Today the scope of direct marketing has expanded dramatically largely due to the use of the telephone and in particular the use of the Internet. Its scope includes all marketing communications elements that allow an organization to communicate directly with prospective customers, or prospects. This includes direct mail, telephone marketing, direct response advertising, door-to-door personal selling and the Internet.

Another form of direct marketing, which many think of as new, but has been with us for many years is 'Party Plan' selling. As the name suggests, party plan selling is selling products direct to customers in their own homes by throwing a 'party' for friends and relatives to attend. During the party they are sold the products by an agent. Perhaps the most iconic name in party selling is 'Tupperware'. Earl Silas Tupper introduced his new plastic kitchen storage products in 1942 in the USA. By 1946, Brownie Wise, one of his employees, was marketing products by organizing parties.

The telephone has been used for B2B sales for many years, particularly for the regeneration of 'routine' orders and for making sales appointments. It is now being used increasingly in domestic direct marketing programmes often to 'follow up' a posted personalized mail shot. Motoring organizations, such as the RAC and AA in the UK, have used direct personal selling for many years to sell membership of their organizations and today use direct mail extensively to keep members informed about product and service benefits. However, direct marketing has evolved with advances in computer technology. The use of computers to store, retrieve and manipulate customer information has revolutionized the way direct marketing firms operate. Companies can make use of the Internet and computer databases which allows them to access data 'warehouses' and gives them the capability to sort and aggregate or use what is termed **data fusion** to increase its value as a marketing resource.

As a component of direct marketing, the Internet has the potential to be the most powerful direct marketing tool ever. Owning a computer workstation that is wired to the Internet is now becoming almost as common as owning a TV. Children being taught at schools using new technology today and playing computer games at home take the use of the Internet as a shopping medium for granted. The Internet will continually evolve. We are at the beginning of the next business revolution that will affect the way we live, work and play. Online marketing using a computer, a modem and the Internet has been the fastest growing form of direct marketing in recent years and is set to grow substantially over coming years. Virtually every product or service that one can think of can now be bought directly through the Internet. Products and services such as books, travel and entertainment, have proved particularly suitable for this type of marketing, but now one can purchase houses, cars education, and even cosmetic surgery over the Net.

The telephone derives its power as a direct marketing medium from its transactional nature (i.e. one human being in a controlled conversation with another). What originally began as 'ordering by telephone' evolved into **telemarketing** which creates and exploits a direct relationship between the supplier and the customer through interactive use of the telephone.

There are still opportunities for traditional methods of communication that are well proven. Some of the more long established forms of direct marketing methods, like door-to-door selling, are still effective and widely used, and direct mail and telephone marketing techniques are still widely used. Computer technology continues to develop and ideas are change constantly. It will be interesting to see what direct marketing will look like in 10 or 20 years' time. Figure 10.1 illustrates its development.

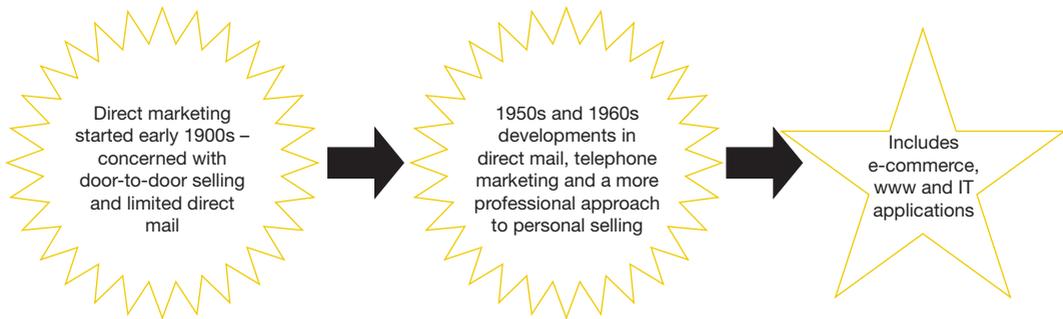


FIGURE 10.1 Direct marketing

OBJECTIVES OF DIRECT MARKETING

Much direct marketing activity is intended to result in a sale. However, in some situations a direct sale might be unlikely or inappropriate. In such cases some other form of measurable response might be used. For example, a direct mail campaign and a telephone-marketing programme may be used in the engineering industry to invite and encourage buyers to attend a machine tool exhibition. A leaflet drop for double-glazing might contain a free telephone number for the prospect to request a brochure or estimate. The result may not be a sale, but some specific, measurable action that will hopefully contribute to an ultimate sale. Although a sale may not be the immediate objective of a direct marketing campaign, some form of direct response on behalf of the recipient of the message will be. This, in turn, will contribute to the eventual sale. Hence, direct marketing is not necessarily the same as direct sales. It might be used to keep customers informed of new product developments or to send them specific discount offers.

Direct marketing should not only be used as a simple tactical marketing communications tool, but should be integrated with the rest of the communications mix. All marketing communications elements interact to some extent. Direct marketing is likely to form a major part of communications strategy of many companies and not simply be used as a tactical adjunct. Other forms of communication are likely to be used in conjunction with direct marketing programmes even if these are only general corporate advertising programmes. Many firms use direct marketing predominantly, but not to the exclusion of other communication methods. Direct marketing is often used as part of integrated CRM programmes, as discussed in Chapter 9, and such CRM programmes, by their very nature, are long term and strategic in nature.

The goal is to provide customers with information relative to their needs and interests. A profile on the direct and interactive marketing industry offers a useful way of looking at it as a cyclical process with six distinct phases:

- 1 the creative stage and design phase, where the marketing plan is constructed and appropriate media channels are selected;

- 2 data compilation where both internal data, such as customer lists and outside data from a database company or list broker is assembled in preparation for the next stage in the programme;
- 3 database management, where information is mined, fused, aggregated or disaggregated, enhanced and standardized for use in the programme;
- 4 database analysis, or fine tuning the database which further focuses on an optimal target market;
- 5 execution and fulfilment where customer inquiries and orders are acted upon and information on response rates is collected for final post programme analysis;
- 6 response analysis where the results of the campaign are examined for effectiveness before the cycle begins again.

SCOPE OF DIRECT MARKETING

Direct marketing is broadly defined as any direct communication to a consumer or business recipient that is designed to generate a response in the form of a direct order, a request for further information (lead generation) or a visit to a store or other place of business for the purchase of a specific product or service (traffic generation). The emphasis is on direct marketing communication.

Dibb and Simkin¹ define direct marketing as:

A decision by a company's marketers to select a marketing channel that avoids dependence on marketing channel intermediaries, and to focus marketing communications activity on promotional mix ingredients that contact directly targeted customers.

Pickton and Broderick² describe the essence of direct marketing with emphasis on its use of customer information:

Direct Marketing is a marketing system based on individual customer records held on a database. These records are the basis for marketing analysis, planning, implementation of programmes, and control of this activity.

Fill³ defines direct marketing as a strategy:

A strategy used to create a personal and intermediary free dialogue with customers. This should be a measurable activity and it is very often media based, with a view to creating and sustaining a mutually rewarding relationship.

Direct personal selling formed the bedrock of the direct marketing industry at the time of the establishment of the Direct Marketing Association (DMA) in the USA in 1917. The World Federation of Direct Selling Associations was founded in the USA in 1978 as a non-governmental, voluntary organization representing the direct selling industry globally to support direct selling associations in areas of governance, education, communications, consumer protection and ethics in the marketplace.

We have examined the nature of direct marketing and its role in the communications mix. The discussion that follows is not exhaustive, but it covers the main direct marketing tools and examines their application in different marketing situations. We start with direct mail and e-mail and its use which has seen enormous growth as a direct marketing tool over the past 30 years. We then discuss the use of telephone or telemarketing, which has been used particularly in B2B marketing. Telemarketing and the use of direct mail were the two main pillars of the direct marketing industry when the DMA was established. Direct marketing tools include developments in applying Internet technologies including database marketing and techniques of data mining and data fusion that are central to the direct marketing revolution. We also examine direct response in television, newspaper and radio applications.

DIRECT MAIL

Direct mail is not a new promotional tool, but it has been a major growth area. Many factors have fuelled this growth, but of particular importance in this respect have been access to more accurate, detailed and up-to-date mailing lists allied to extensive consumer database systems. Most direct mail involves the marketer sending out promotional material through the mail direct to homes or offices of target customers.

Direct mail may involve sending out technical information, notice of special offers and general information about a company and its products, and it can include free samples, questionnaires, promotional gifts and order forms, to name but a few. It may be sent to householders or to organizational buyers and directed at existing or prospective customers (this is discussed in more detail later).

Greater accuracy in mailing lists and more sophisticated databases on customers have made such mailings more cost effective. A major issue when using direct mail marketing is response rates. Response rates can be very low. In direct marketing there are estimates that response rates vary from approximately two per cent for mail shots to existing customers down to one per cent when mailing new or lapsed customers, <http://www.gaebler.com>.

Direct mail campaign planners realize that one of the most critical factors in success is getting the addressee to open the envelope. Careful targeting and skill in the design of the direct mail package can significantly increase the percentage of consumers who will open the direct mail envelope and proceed to read the promotional material. Undoubtedly, direct mail remains one of the most unpopular techniques of promotion amongst many consumers. Improved techniques and increased social and customer conscience on the part of direct mail marketers, possibly backed up with an effective regulatory system, might be required if direct mail is to achieve its full potential as a constructive promotional tool. Unsolicited direct mail is disparagingly referred to as **junk mail**. This derogatory term has been reinforced by the fact that the sheer growth in direct mail in recent years has meant that consumers in many developed economies are inundated with direct mail on a daily basis. Post Office/Royal Mail statistics show a continuing rise in the annual volume of direct mail and in the number of organizations using it for business and consumer communication. A number of factors account for this increased use and acceptance of direct mail, the most significant of which is the increased fragmentation of media. There are three UK terrestrial commercial television channels as

well as a wide choice of satellite and cable television available to subscribers. In the USA there are literally hundreds of commercial channels. In the print media, there has been the rapid growth of 'free-sheets' alongside traditional local press, coupled with proliferation of special interest magazines.

This fragmentation has meant that media buyers and advertisers either have to spend more money to ensure they reach as wide an audience as previously, or spread the same amount of money more thinly over a range of media. Developments within the direct mail industry have removed many difficulties that have previously deterred large advertisers, particularly in respect of the inferior quality of large mail shots that have led to the 'junk mail' terminology. IT advances have made it possible to 'personalize' good quality mail shots, targeted to individuals by name. There have been tremendous technical strides in all areas of direct mail, including computer aided design of direct mail material and use of mail merge software that produces results that look like letters. Direct mail uses mailing lists that have usually been purchased to target recipients considered most likely to respond positively, e.g. a person might be on a database for having an interest in rugby so will be a good target for rugby-related products. This is referred to as database marketing. Bulk mailings are popular for businesses operating in the financial services, home computer and travel industries and also charities. Bulk mailout rates enable marketers to send mail at economical rates. To effectively segment and target markets and gain best value for money, organizations are increasingly opting for the benefits of direct mail i.e. flexibility, selectivity and personal contact.

A direct mail campaign may be aimed at eliciting an immediate response, or simply to increase awareness or interest. In other words, the purpose of direct mail is very wide ranging. In essence, it represents an impersonal promotional activity sent directly to prospective customers in their own homes or offices. A direct mail shot may consist of anything from a letter to weighty catalogues of product offerings. Regular users of direct mail techniques are the Readers Digest and the Automobile Association. It is a method of communicating a message directly to a particular person, household or firm. As such it falls under the more general heading of direct marketing, which includes many other forms of direct communication.

Direct mail and direct advertising are subsets of direct marketing. The latter consists of printed matter that is delivered by the advertiser direct to the prospect. This material is sent by mail and other means like house-to-house leaflet drops, handed out to passers-by, or put under the screen wipers of parked cars.

E-mail and viral marketing

One of the latest tools available to the direct marketer is **e-mail**. Most people regularly send and receive e-mails both in our homes our places of work. To a large extent e-mail has replaced the letter as a form of communication. Just like the letter an e-mail can be personalized to a particular individual and sent direct to a previously identified receiver. Compared to communicating by post, e-mails have the advantage of being much cheaper, easier to produce and customize and have an increasing global reach. Not surprisingly marketers and direct marketers in particular were quick to spot the potential for e-mails in marketing campaigns. As a result e-mails are now a major tool of the marketer. Brassington and Pettit⁴ show that e-mailing is now widely used to generate awareness, attract customers to a website, extend the mailing list through third party referrals and in the context of direct marketing specifically, in some cases to generate a direct order.

Systems have been developed that can delineate and select target customers for unsolicited commercial e-mail (Moustakas *et al.*⁵). A major disadvantage of e-mail as a direct marketing tool is when e-mails arrive in e-mail boxes unsolicited. This type of e-mail from a company we have not contacted, or asked to send information, is known as ‘spam’ and has become a major problem in the direct marketing industry. Quite simply, most customers object to receiving unsolicited e-mails especially when a lot of it is for products in which they have no interest. There is now a strict code of regulation and industry practice in many countries to protect customers from the worst excesses of spam marketers (Brubaker⁶). Many anti-virus systems now include programmes for blocking unsolicited commercial e-mails.

Related to e-mail marketing is the growth of **viral marketing**. As the term implies viral marketing is based on the idea that an e-mail sent to one person may, if planned effectively, be forwarded on by that person to their friends and acquaintances so ‘spreading the message’ about a product or brand. In this way, the marketer can overcome some of the problems with unsolicited commercial e-mails. After all, we are more likely to open an e-mail if it comes from someone we know personally. In this way, viral e-mails make use of the known effectiveness of ‘word-of-mouth’ communication. The real issue for the marketer in using viral e-mail based marketing is to ensure that the initial receiver passes the e-mail on. Marketers have used a number of devices for this, ranging from straightforward financial inducement, to the use of humour or simply inherent interest which persuades a recipient to pass the message on to others.

We are still in the early stages of using viral marketing and particularly, as shown by Cruz and Fill,⁷ when it comes to evaluating viral marketing efforts, but as a means of communication, viral marketing is now firmly established in the armoury of the direct marketer.

DIRECT RESPONSE ADVERTISING

This is a strategy of using specially designed advertisements, usually in newspapers and magazines, to invoke a direct response rather than a delayed one. The most familiar type is the coupon-response press advertisement, in which a coupon is provided that the reader may use to order the product or service or request further information or a sales call. Other variants involve incentives to visit the retail outlet immediately, such as preview invitations and money-off coupons. Direct mail can also be used for **direct response advertising**.

Improvements in database software have revolutionized the direct marketing industry. Nothing has driven the direct marketing industry forward more than IT developments, especially in database software and applications. **Database marketing** is a system that continually gathers, refines and utilizes information and data that drives relevant marketing and sales communications programmes. It is used extensively, but not exclusively, in direct marketing. Examples are sales calls, direct mail and advertising to selected companies to acquire new customers, retain customers, generate more business from existing customers and create long-term loyalty. The Internet, e-commerce, rising costs of direct marketing and more emphasis on customer retention over customer acquisition are only a few salient factors affecting the way firms carry out business today. Firms have to move quickly and keep up with the latest developments and trends and invest in appropriate software and systems to stay ahead of the competition.

Database marketing describes a way of organizing a company's total marketing and sales processes. It is broad and can impact through market research and product development to customer service. Accurate information about customers that is readily available can transform marketing. It allows you to take information you have in your customer databases, analyse it to find patterns like purchasing associations and relationships, and use information that has been gained to produce and instigate better marketing and sales programmes. This means targeting specific groups with specific messages about products that are important to them. This means more resources can be spent on prospects that are most likely to buy, increasing the return on marketing and sales investment.

Proper use of databases gives marketing better tools through which to operate and improves the effectiveness of marketing campaigns, allowing for the more effective allocation and utilization of marketing resources. Database marketing is sometimes referred to as **precision marketing** and directing a marketing programme from a well constructed and managed database is analogous to shooting a rifle at a target using a precision telescopic sight rather than a conventional sight. Developments in database marketing have done more to drive the direct marketing industry forward than any other development.

PRACTICAL ASPECTS OF DATABASE MARKETING

Illustrations are provided below of basic principles and applications of database marketing. This is not an exhaustive or definitive list, but it serves to illustrate the main principles:

- Consider characteristics your best customers have in common so you can target your next programmes to prospects with similar characteristics. Evaluate which market segments buy from you. You might think you know this, but analysis could uncover market segments you have sold a significant amount to, but did not realize it. This process enables the firm to improve its segmentation by refocusing and redefining existing segments or it may highlight unexpected new segments.
- Ascertain whether different market segments buy different products. This allows you to spend marketing and sales resources more effectively by marketing each of your products to the best potential industries, firms or prospects. Study which market segments bring most revenue and which ones bring highest average revenue. This is the application of differentiated marketing, which divides the total market into segments, and then has a slightly different marketing strategy for each segment.
- Find out what types of industries, firms or individuals respond to which types of marketing communication, so you can decide where to spend advertising and marketing resources next time. Ascertain that they not only respond to your programmes, but also actually buy, and which customers buy from you repeatedly. These might have been different demographic profiles or different in some other way, which might be commercially exploitable, and you may then decide to modify your targeting tactics and only market to segments that buy more frequently.
- Calculate the average lifetime value of customers. This can be done using discounted cash flow (DCF) procedures which is a method of valuing a project, company, or an asset using the time value of money. Here, future cash flows are estimated and discounted to obtain their current

present values. This information can be used to find out which customers are not achieving their potential. Programmes can then be devised to encourage more purchases. Reward the most frequent buyers and buyers that bring the highest revenue. The concept of lifetime value is central to the idea of customer retention and long-term relationship marketing.

Database marketing has grown because more and more information about individuals and households can be collected, stored, retrieved and analysed. Moreover, developments in computing technology and systems mean that data storage and analysis is now more cost effective. Databases can be readily combined to provide detailed profiles of customers including for example data on purchasing patterns, life styles, credit ratings, incomes and even health and medical histories.

Database marketing has grown to the extent that data collection and analysis is an industry in its own right. The marketer can purchase any number of data types from companies that specialize in providing this type of information. Marketers, however, need to be careful about what to collect, handle, analyse and disseminate on consumers. Most countries have strict regulations about data protection and the penalties for contravening these can be severe.

CONSUMER DIRECT MAIL

The uses of consumer-targeted direct mail are only limited by the scope of imagination. Some of the more common uses are:

- *Selling direct* – Direct mail is a good medium for selling to customers without the need for middlemen. Product offerings can be described fully and orders can be sent straight back to the advertising company.
- *Sales lead generation* – If a product requires a meeting between the customer and a specialized salesperson (e.g. fitted kitchens, central heating and insurance) direct mail is a useful method of acquiring potentially useful, qualified leads for the company's salespeople. Sales calls are expensive, so anything that improves success rates is welcome. A well planned mail shot can act as a sieve, pinpointing the best prospects and ranking others in terms of sales potential. The 'warmer' the lead, the more effective will be the sales discussion with fewer wasted calls. Responses, indicating potential interest can be followed up by direct mail, a telephone call or a personal visit by a salesperson. Potential customers can be placed in a personal selling situation by issuing an invitation to view the product in a retail outlet, showroom or exhibition. This is useful for products that salespeople cannot take to prospects for demonstration because of their size or function. Direct mail creates a receptive atmosphere for the company's salespeople through 'cordial contact' mailings that build on the reputation of the company and through the impression created. Well executed mailing places the company in a favourable light to prospects, setting up goodwill or creating a latent desire that might be triggered into action by a later mailing.
- *Sales promotion* – Direct mail can send promotional messages e.g. money-off vouchers and special offers to selected targets. This is a useful way of encouraging people to visit a shop or exhibition.

Book a Place in History

Interested in the crusades, or perhaps Henry the VIII and his dissolution of monasteries? Whatever your specific interest happens to be, the History Guild Book Club probably has a book or more on it. This well established book club provides its members with a monthly magazine from which they can choose from a range of books on topics selected on the basis of information provided by the member.

In addition, members can interact with the company's website 24 hours a day 7 days a week to obtain information on new topics, new titles etc. The company claims to offer titles at up to 40 per cent off the published price and payment can be by credit card, direct billing on-line, phone or post. With all this there really is no excuse to be ignorant about the past.

Source: <http://uk.book-club-offers.com/history-guild>.

- *Clubs* – Book clubs are an example of the use of direct mail as a medium of communication and transaction between a club and its members. Other items can be marketed by the club system particularly 'collectibles' e.g. records, porcelain and miniatures.
- *Mail order* – Mail order companies use direct mail to recruit new customers and local agents as well as direct selling.
- *Fundraising* – An advantage of direct mail is its ability to communicate personally with an individual. This makes it a powerful method of raising money. It can carry the 'long copy' often needed to convince recipients of the worthiness of the charity, and make it more likely that the reader might respond with a donation.
- *Dealer mailings* – If a product is sold through dealers/agents, direct mail can be used to reach prospective customers in their area just as a producer might do.
- *Follow-up mailings* – The company's name can be promoted to customers by following any kind of sales activity with a mailing e.g. checking that the customer is satisfied with their purchase or informing them that perhaps a car they bought last year is coming up for its annual service. Most of the major car brands do this including, for example, Mercedes-Benz who contact every customer shortly after purchasing a new car, asking them to complete a customer satisfaction survey. Customers are kept informed of new developments, latest products and improved services. They regularly and systematically use their customer database to contact customers about new models and launch evenings. 'Exclusive offers' are made and invitations issued. Using direct mail in this way helps maintain contact quickly, personally and effectively and this can increase repeat sales.

BUSINESS DIRECT MAIL

Business markets are made up of closely defined, discrete groups of individuals. These groups cannot be best reached by mass advertising. Direct mail can be used to accurately identify different market sectors and provide messages appropriate to each sector. Some of the more common uses are:

- *Product launch* – Often the launch of a new industrial product or business service entails getting the message across to a small, but significant, number of people who will influence buying decisions e.g. catering managers and car fleet managers.
- *Sales lead generation* – As in consumer markets, direct mail can effectively reach qualified sales leads for a company's sales force.
- *Dealer support* – Direct mail can keep dealers, retail outlets, franchise holders, etc. more fully informed of tactical marketing promotions and plans.
- *Conferences and exhibitions* – These are means of communicating with potential customers and business colleagues. Direct mail can be used to invite delegates, who may be attracted if the event relates to a specific theme of direct interest to them.
- *Follow-up mailing using the customer base* – Much business takes the form of repeat sales to existing customers. Since these are existing clients it can be worthwhile mailing them regularly, as long as the content of the mail-out relates to something that is new or of specific interest rather than simply being 'junk mail'.
- *Marketing research/product testing* – This type of direct mail is suitable both in a consumer and business context. Marketing research can be conducted amongst existing and potential customers. Questionnaires can be used as part of a regular communication programme, with levels of response being increased by some kind of incentive. Small-scale test mailings can be made to sample a target market. The results can give a quick and accurate picture of market reaction, with minimum risk. An approach that is successful in a 'test mailing' can later be mailed to the full list.

MAIL ORDER

This form of direct marketing uses a catalogue or brochure from which the customer places orders. Often the catalogue is part of a mail shot, or it may have been provided in the company's retail outlet. Some catalogue marketers use agents who generate orders from friends and acquaintances. The first catalogue mail order company was reputedly established in the USA by Benjamin Franklin in 1744, selling scientific and academic books. Specialist mail order companies have seen a resurgence of its popularity. In part, this is due to increasingly busy lifestyles, making it difficult for many customers to visit retail outlets. Mail order marketers have also improved their marketing techniques. Catalogues now tend to be well produced and are used by up-market brands and retailers, whereas in the 1960s mail order had a down-market image. New and easier methods of payment via credit and debit cards have helped facilitate the popularity of this direct marketing method.

An effective catalogue marketer is the NEXT Company. Although essentially a retailer, NEXT appreciate that many of their customers are busy working women for whom shopping through a catalogue at home represents a significant advantage. NEXT was one of the first companies to move up-market with catalogue marketing. Their catalogues are expensively produced and designed to show their fashion products in the best possible light. Back-up systems for NEXT's catalogue marketing activities include easy delivery, payment and return systems. Unlike many of the established mail order companies NEXT charge potential customers for their catalogue, a practice which has become more and more widespread amongst top end mail order catalogue marketers.

Planning direct mail

The following represent the key steps in conducting a direct mail campaign:

1 *Identify target recipients/compiling the mailing list*

The greatest proportion of direct mail is thrown away unopened. Any that is opened is often only partly read, and even less is acted upon. The principal reason is that most direct mail is unsolicited by the recipient. One of the most important factors determining the effectiveness of direct mail is the identification on the part of the direct mail campaign planner of the target recipients of the mail campaign. It is vital to identify recipients who are most likely to be interested in the subject of the direct mail campaign and are most likely to respond positively. Identifying and understanding the target audience are essential in planning any marketing communications. In the case of direct mail, this identification is normally done using a mailing list. A mailing list obviously contains the names and postal and/or e-mail addresses of targets for the mail campaign, but, in turn, the mailing list itself must be based on customer details and information that allows only the most appropriate recipients for the mail shot to be identified. Because of this, in addition to straightforward names and addresses, a mailing list is built using information and data about potential recipients. This information and data may include details of, for example, lifestyles, incomes, qualifications, family details and past purchases.

A major reason for its growth is the increase in consumer information and databases. A mailing list, therefore, is the driving force of direct mail planning and any data and information on which the mailing list is based must be relevant and up to date. Increasingly, commercial market research companies, advertising agencies, and specialist direct mail and mailing list agencies supply appropriate mailing lists for a campaign. For example, CACI, the developer of the ACORN system also supply mailing lists, in this case linked to ACORN groups. Similarly, the Royal Mail is a major supplier of UK mailing lists.

2 *Setting objectives*

As with all marketing activities it is important to determine the objectives of a direct mail campaign. Specifically, the marketer needs to consider what response the direct mail campaign is designed to elicit from the target recipients. For example, we need to determine whether the mail shot is designed to elicit, say, a telephone enquiry from a customer, or whether it is designed to 'break the ice', the direct mail shot being followed up by a telephone call. At this stage it is important to determine what constitutes an appropriate target for the campaign so the marketer needs to determine what percentage rates of return are being sought.

3 *Producing the direct mail package*

This step in conducting a direct mail campaign includes decisions such as what to include in the direct mail shot e.g. samples, the covering letter, any free gifts, money-off or discount vouchers. In addition to what is inside the direct mail package, decisions must be made about the outside of the package i.e. the envelope or parcel the recipient will receive, and about what to say in the direct mail campaign. Designing effective direct mail packages is a specialized and skilled task, and the resultant end products must ensure that at the very least the customer is interested enough to open

the package in the first place. This is a crucial step when determining the effectiveness of the campaign. To be effective, a mailing list should be built upon information about target customers.

4 *Evaluation, control and follow-up*

All spending on direct mail should be evaluated and controlled. The marketer must consider whether pre-determined objectives have been met, and if not, why not. Direct mail often requires a planned follow-up by contacting mailed customers by telephone. A campaign will only be as good as the quality of the follow-up.

USING THE INTERNET AS A DIRECT MARKETING TOOL

Customers now have more products and services to choose from and more information available to them to help them make purchasing decisions. Conventional communications, principally media advertising, is not as effective as it used to be. This is partly because there is more for consumers to digest, and partly because people have learned to ignore it. The rise of the Internet means that companies can go further than conventional communications would allow them to in the past.

There is a new group of products and services that relies on customers registering their interest in them with the company. Amazon.com for example, encourages customers to review books and publishes their comments on the website, so both the firm and other users can read and make use of them. A US airline invites customers to register their preferences for last-minute offers via its website, and then emails potential customers with details of weekend breaks at their preferred resorts. These are examples of the precision that can be achieved with direct marketing.

There have been some disasters as regards some of the newer Internet companies and there are still problems for the consumer in purchasing using this medium: security and non-delivery being examples. www.Boo.com in the UK and www.Webvan.com in America are just two high profile examples of spectacular Internet start-up failures. These two companies are amongst the most spectacular failures from the dotcom boom in the late 1990s. Both companies went from nothing to multi-million pound businesses in the space of a few months. www.Boo.com specialized in selling branded fashion apparel over the Internet, but despite spending an estimated \$135 million of venture capital money within 18 months, it went into receivership. Similarly, www.Webvan.com started selling grocery products on its website and in eighteen months had spent over \$1 billion on expansion. After 18 months the company was liquidated with the loss of over 4,000 jobs. In both cases these companies had tried to expand too quickly giving rise to problems like slow delivery, cash flow troubles and poor customer service.

The Internet has demonstrated that it is significantly changing the way people interact with each other, particularly in the sphere of direct marketing. The Internet crosses boundaries of geography, politics, religion, time zones and culture. Some areas of marketing are totally underpinned information technology. The Internet has reduced the planet to a global village, accelerated the pace of technology, opened up possibilities for direct marketers and altered the way they think about doing business. It has started the new revolution in direct marketing which is the most important since the development of commercial advertising. The e-commerce revolution is projected to rebuild the economy and change the way marketing and business is conducted.

TELEPHONE MARKETING

This is a long established direct marketing tool, mainly in B2B situations. Much routine reordering can be handled over the telephone without the need for an expensive personal visit. The telephone is used to keep in touch with customers between visits. It can be used to make 'cold call' appointments and re-appointments with established clients. In consumer markets it is now used extensively and has grown in importance as a marketing tool. Services like banking are offered over the telephone and customers can give instructions to pay bills and receive a balance on their account using special access codes.

Telephone marketing is divided into incoming and outgoing call telemarketing. With incoming call telemarketing the prospect makes the call to the marketing firm, usually in response to a direct mail advertisement or direct response television advertisement giving a free phone or toll free telephone number. Hence, telemarketing is often used with other direct marketing tools as a part of an integrated programme. The caller may wish to sign up to a service such as insurance, apply for a loan over the telephone, order a product seen on the television or in a direct response advertisement or ask for further details. The call is logged. The caller is followed up with an outgoing telephone call later, or sent information through the post. A personal visit might be arranged for example from a kitchen surveyor. Outgoing telephone marketing may simply be the return of an incoming call. Often existing customers are telephoned to ask if they want to take advantage of a special offer. For example, if a loan has been taken out with a finance company by a good customer, the firm may ring that customer to offer another loan at a special discount rate. A bank may telephone a customer to ask if they would like to make an appointment at the branch to have their house borrowing reviewed or discuss house insurance.

Often telemarketing involves making telephone calls to individuals in their own homes or businesses which are unsolicited. The marketer has not obtained or even sought the customer's permission to call and usually has had no previous contact with the customer. This is referred to as **cold calling** and is often outsourced to specialist call centres. This type of telephone selling can cause annoyance to some customers and many believe it is intrusive and should be outlawed. This has led some countries to introduce legislation including fines. In the USA, a national 'do-not-call' list came into effect in 2003 and it is now illegal for telemarketers, who are fined, if they call anyone who has registered themselves on the list. After one year over 62 million people in the USA had signed up. The telemarketing industry is opposed the creation of such lists as it restricts their commercial activities.

Jobber and Lancaster⁸ cite a set of guidelines that have been suggested by Bell Telephone Systems of America in relation to best practice for this type of telemarketing, particularly in B2B situations, as follows:

- 1 identify yourself and your company;
- 2 establish rapport: this should come naturally since you have already researched your potential customers and their business;
- 3 make an interesting comment (e.g. to do with cost savings or a special offer);

- 4 deliver your sales message: emphasize benefits over features (e.g. your production people will like it because it helps to overcome down time through waiting for the material to set);
- 5 overcome objections: be skilled at objection handling techniques;
- 6 close the sale: when appropriate – do not be afraid to ask for the order (e.g. ‘Would you like to place an order now?’) or fulfil another objective (e.g. ‘Can I send you a sample?’)
- 7 action agreement: arrange for a sales call or the next telephone call;
- 8 express your thanks.

Like direct mail, telemarketing has developed something of a poor image. As already mentioned, many householders and businesses resent unsolicited telephone calls to sell something. As we have discussed, there are codes of practice in the industry regarding the use of this tool, but the more unscrupulous telemarketers can legitimately be accused of pestering customers in their own homes.

Despite these problems and criticisms, telemarketing’s importance as a marketing tool is underlined by a growth rate, in the UK at least of approximately 20 per cent per year over the past ten years. The advantages of telemarketing include easy and widespread access to customers in their own homes or offices; low cost per contact compared to personal selling; and the ability to contact customers outside normal shopping hours.

When setting up a telemarketing system staff must be recruited and suitably trained. In addition, suitable equipment and software packages must be acquired, and in the first instance many newcomers to telemarketing use agencies at least as the first step.

Companies can exploit the telephone as a marketing tool in a number of ways:

- *Cost savings* – Telephone selling provides customized communications. Greater sophistication in telemarketing equipment and services, new marketing approaches and developments in applications have turned the use of the telephone into ‘telemarketing’. The telephone may not have the quality of a personal sales call, but it is significantly cheaper. Sometimes in the initial stages of a direct marketing programme a personal visit is not necessary or appropriate.
- *Supplement to a personal visit* – Professional salespeople use a system of differential call frequency to plan their visits to customers. Salespeople may have to prioritize their calls on a key account basis. Although they may not be able to visit less important customers with the same frequency as more important customers, they can make a telephone call on a regular basis to keep customers informed and build and maintain relationships.
- *Gaining marketing intelligence* – Marketing firms can speak to customers on a regular basis, not only to maintain relationships, but also to ask questions about their needs and wants and purchasing intentions. This information can be recorded and fed into the organization’s marketing information system (MkIS) for future use. Buying intentions can be used to produce sales forecasts for future planning. On establishing customer needs, telephone marketers can introduce new products to clients and use the call to sell further products.
- *Supplement to direct mail and other advertising* – Many direct mail and other forms of direct response advertising, on television, press or radio for example, will carry a free phone message. This enables the prospect to make telephone contact at no cost. Prospects can make an immediate commitment to purchase while the advertising message is still fresh in their minds.

If they do not ring to make a purchase, they may telephone for further information, which in turn produces a qualified lead for further marketing action.

The above list is not exhaustive, but it serves to demonstrate how versatile the telephone can be as a direct marketing tool. As we have seen, the use of the telephone is still growing as a marketing tool and advances in technology and the linking of the telephone to television and the Internet is bringing further developments, thus making it an even more important marketing medium.

OTHER DIRECT MARKETING APPLICATIONS

Broadcast faxing is less common than other forms of direct marketing. This is largely due to laws in the USA which make it illegal, and also because the fax has declined in popularity as a communications medium, coupled with the fact that other forms of direct marketing, especially through the Internet, are more advanced and more effective.

Another type of direct marketing in the context of telemarketing is **voicemail marketing**. Due to the omnipresence of e-mail marketing and the expense of direct mail, an economical means by which to reach people has been developed through the medium of the human voice. However, like telemarketing, applications of this technique have resulted in a profusion of 'voice-spam', and have quickly brought about legislation to curb its excesses. Some businesses use **guided voicemail** where pre-recorded voicemails are guided by live callers to achieve a more personal B2B aura that was previously the province of telemarketing.

Leaflet distribution services are used widely by fast food companies and other B2C businesses that have a local focus. Similar to direct mail, this method is targeted by area and is less expensive than mailshots due to not having postage charges or having to buy address lists.

Couponing is used in print media where a coupon which the reader cuts out is presented at the retail checkout which provides a discount.

Direct marketing on television (**DRTV**) can be in a long form (typically half-hour or more segments explaining a product in detail and termed **infomercials**) and in shorter forms of around 30 seconds that ask viewers for an immediate response, usually to call a phone number on screen or go to a website. DRTV advertisements that are intended to produce a direct sale through an order by the customer are part of direct marketing. Although it can be used to build brand awareness or develop a customer database, most frequently it is used to generate an immediate sale. For example, the viewer may be given a telephone number to ring to place a direct order. Direct response television marketing is growing. It is particularly suited to fundraising marketing for charities, causes, etc. It is widely used for products such as CDs, chat lines and novelty products.

Direct response advertising has witnessed an enormous growth over recent years. It is a major part of direct marketing. It uses carefully crafted marketing communications to generate a response directly from the advertisement itself. This could be a telephone call to you asking for an appointment to provide further information, or an order in the post, a request for a brochure or a coupon presented for a discount or free sample. Credit cards are convenient charging platforms when selling direct over the telephone, and these have helped to expand this type of business. Many products are

advertised on television that cannot be purchased elsewhere, and the only way to obtain the product is to telephone a free phone or toll free number given in the advertisement. There is sometimes a related 'free gift' such as an extra product if you place the order within a short period of time.

Since the firm is generating and monitoring responses, management can measure the contacts and income produced by each individual advertisement or mailing. Conventional advertising is difficult to evaluate in terms of sales response, where it is more appropriate to evaluate the communications effect rather than the sales effects following advertising. Management can test different forms of advertising in consecutive issues of the same publication, or schedule the same advertisement in different publications, and learn which is most effective in producing the desired response. Direct response is a unique type of advertising, as it allows evaluation of the effectiveness of operations in relation to specific, measurable objectives.

It is sometimes difficult for a firm to evaluate specific sales responses from conventional advertising because of 'multiple causation'. An advertisement is only one of a number of communications being used by firms simultaneously. It is difficult to separate out the effects, particularly sales effects, in respect of each of these forms of promotion. As they do not have any response generator or tracking mechanism in place for quantifying sales results, it is difficult to ascertain which medium is working and which is not. Lord Lever of household detergent fame once said: 'I know that half my advertising is wasted, but I don't know which half'.

Direct Response Advertising relies on compelling and persuasive material whose objective is not merely to inform, but to bring about a desired specific response that can be objectively measured. With direct response advertising, creative writers use artwork copy, page layout, plus carefully crafted text, to explain salient reasons to purchase a product or service.

DIRECT PERSONAL SELLING

Marketing communications can be classified into personal and impersonal methods, and in the context of direct marketing, selling is now discussed. A detailed discussion of selling has, of course, already been provided in Chapter 8.

In the context of direct marketing, selling is personal and involves interaction with a prospect. This interaction can be at a distance e.g. over the telephone. However, most personal selling is carried out on a face-to-face basis and this dimension is a key strength of personal selling. Selling is more expensive on a cost-per-contact basis, but sometimes there is no substitute for a personal approach as building personal relationships is a key element in the context of customer care, which was the theme of Chapter 9. Consumers can benefit from direct selling because of the convenience and service it provides, as it includes personal communication, demonstration and explanation of products to a higher standard than in conventional retail outlets or through the printed media.

The task of direct selling differs according to products or services being marketed. In some situations it is more a matter of keeping customers satisfied and the task then calls more for skills of personality and caring. In other situations, contractual negotiations might be the main emphasis of selling where skills of prospecting, negotiating, demonstrating and closing a sale will be greater criteria for success. In organizational marketing, reliance is placed on personal communication, and

in this context the proportion of selling within the total market budget can outweigh all other marketing expenditure. Owing to its personal nature, direct selling provides a channel of distribution for companies with innovative or distinctive products not readily available in traditional retail outlets. It may be that products on offer are produced by a relatively small firm that cannot afford to compete through advertising and promotion, because of the costs associated with gaining space on retail shelves of major outlets. Hence, customers gain by being able to purchase products that would have been unavailable had the marketing company to operate through conventional retail outlets. Direct selling enhances the retail distribution infrastructure and can serve customers with a convenient source of products that may not be available elsewhere.

Direct selling is described as marketing products and services directly to consumers face to face generally in their homes, at their workplace and other places away from permanent retail locations. It typically occurs through explanation or personal demonstration by a direct salesperson, or direct seller.

Products and services sold by direct sellers are varied as are people involved in the direct selling industry: insurance, financial services, cosmetics, skin care products, personal care items, home appliances, household cleaning products, nutritional products, toys, books, clothing, jewellery, fashion accessories, etc. Sometimes, such products are sold in the context of group presentations (party plan selling). We saw earlier how the Tupperware were one of the first companies to successfully use the idea of party plan selling with its range of kitchenware and food and drink storage boxes. The normal approach in party plan selling is for an appointed company demonstrator/salesperson to persuade individuals to invite friends and relatives to a 'party' in their home with perhaps food and drink being provided. Invited guests are informed that products will be on sale and that a demonstrator will be present. During the party, the direct salesperson demonstrates products to the group of guests and afterwards they are invited to place orders which are then delivered to their homes, often by the party organizer. The company sales agent receives commission on any orders and the party organizer usually receives a 'free' gift of some of the company's products. Tupperware has now departed from this type of selling, but many companies find that party selling works for them including companies such as Virgin Vie (cosmetics) and Anne Summers (adult products).

By contrast other types of direct home selling often explain and demonstrate the products being offered to customers in the comfort of their homes at a time that is convenient for them on a personal one-to-one basis rather than in a party group. Avon Cosmetics uses freelance agents to visit people in their own homes and demonstrate and explain the use of a range of beauty products.

Direct selling provides benefits to individuals who desire an opportunity to earn income and build their own business. It also offers an alternative to consumers who want something different from traditional shopping.

MULTI-LEVEL MARKETING (MLM)

Like many innovative marketing systems, MLM was developed in the USA and exported to other parts of the world. Some suspicion surrounds MLM as there is confusion with **pyramid selling**. This

was an unethical business practice that is banned in the UK. It is also referred to as **network marketing**, **structured marketing** or **multi-level direct selling**, and has proved to be a successful and effective method of compensating direct sellers for marketing and distributing products and services direct to consumers. Unlike 'pyramid selling' MLM is an ethical business practice that uses the principle of '**team building**' in terms of stimulating salespeople to aspire to better levels of performance to sell products. Direct salespersons are usually self-employed people working on a freelance basis for commission on sales. However, as salespersons are self employed there is an obvious inducement on their part to sell, and enthusiastic salespeople will obviously be tempted to use 'high pressure' sales techniques to obtain the sales upon which their commission and income depends.

Figure 10.2 shows how MLM is structured.

Salespersons normally start by selling goods and services to the public, often in the first instance, to people they know such as friends and work colleagues. They then move up the hierarchy to not only sell products themselves, but to recruit other direct sellers to sell as part of their own team. They not only receive commission on the goods they sell themselves, but also earn 'downstream' commission on products the people they have recruited have sold. Eventually they may move from selling direct themselves, and concentrate on managing others in their team. As the team grows so does the 'downstream' commission that accrues to the original team organizer. Eventually the team leader may have a network of many direct selling staff at different levels in the hierarchy. Some will be content to sell some products direct on a part-time basis. Some may want to recruit a small team. Some may want to be senior team leaders and put in effort to lead a whole networking team of direct personal selling staff and reap the rewards of commissions based on the selling effort of their team, combined with their own motivational, leadership and managerial skills.

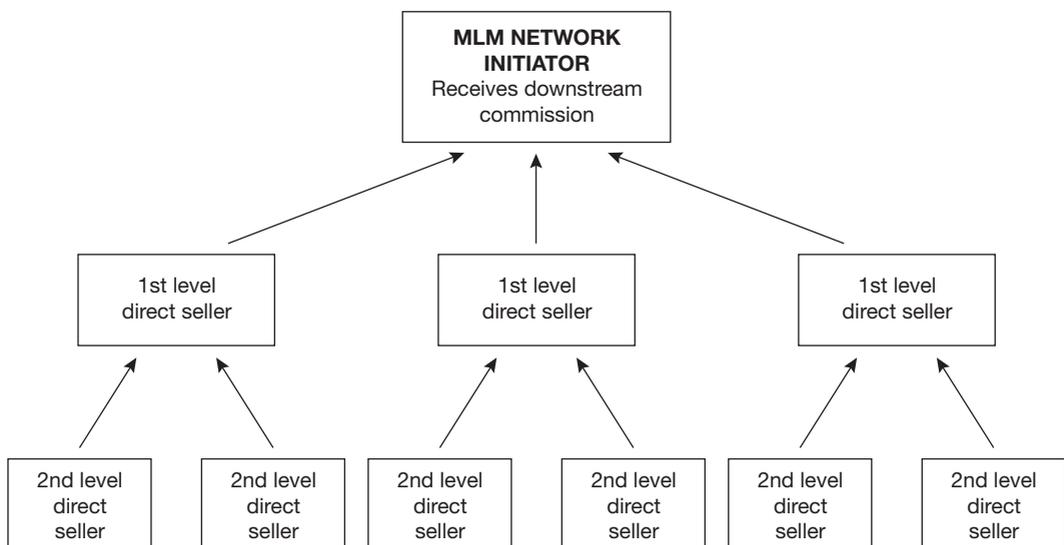


FIGURE 10.2 Principles of multi-level marketing (MLM) showing team originator receiving downstream commission from those lower in the network

SUMMARY

Direct marketing refers to a collection of methods that allows companies to communicate with, and obtain a direct response from, prospects. It allows firms to target customers more precisely than conventional non-direct marketing techniques and they are collectively referred to as precision marketing. It is a branch of marketing that has witnessed rapid growth and technological change over the past 30 years. It is an important marketing process and some organizations base their entire marketing strategy on direct marketing methods. Worldwide, the direct marketing industry is huge. As firms seek ways of obtaining more value from marketing budgets, direct marketing is likely to become even stronger in the future.

Direct marketing techniques are constantly being improved and developed, and new innovative media are likely to be developed in the future. At present, the main methods employed within the direct marketing industry are the use of the telephone, direct mail, the Internet, direct 'face-to-face' personal selling and direct response advertising using television, radio and newspapers, trade journals, magazines and the Internet. The industry is being driven by a desire for greater accuracy and economy in marketing operations and by developments in IT that can be applied to direct marketing. Database marketing in particular has revolutionized the way organizations use direct marketing and has increased efficiency in areas like direct mail and telephone marketing, yet direct marketing is not solely driven by IT. Some traditional methods that were used in 1917 when the Direct Marketing Association was founded are still being used successfully, particularly face-to-face direct personal selling. However, even these traditional techniques have benefited from the information revolution in terms of retrieval of customer information and improved targeting. Direct marketing is a major force within marketing and its influence is likely to increase in future.

Direct marketing has a number of strengths including for example: low cost, flexibility and of course direct contact with the customer. On the other hand its weaknesses include: low response rates for some direct marketing tools, the risk of customer annoyance, and in some countries, a stringent regulatory framework.

KEY TERMS

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CASE STUDY

Woodvale Products Ltd

Karen Rees, director of marketing at Woodvale Products Limited, has called an urgent meeting with her fellow directors of the other functional areas of the business. The overriding reason for calling this meeting is that Rees feels her efforts to improve the marketing standing of the company through improved customer orientation are being thwarted by other functional managers. In addition, and as part of the overall problem, over the past twelve months since Rees was appointed there has been considerable conflict between members of her marketing team and other members of the company.

One of the first things that Rees organised when she was appointed marketing director was an update of the product range, including the introduction of several new products. In Rees's view, the product range was badly out of date and this was directly affecting sales and market share. However, the battle that Rees had to fight in order to get the design team and the engineering and production staff in the company to go along with her ideas had been very bruising indeed. In short, they had vehemently

resisted these innovations. Rees felt vindicated now because the new product range had been welcomed by the existing customer base.

However, this was not the only battle that Rees had to fight. Over the past twelve months she has had battles with finance over pricing and costs of delivery and distribution, complaints about customer service, battles with personnel over proposed customer awareness training for all company employees (which had been turned down on the grounds that such training would be too expensive), and even battles with the sales department, which was independent from marketing, over suggestions for increasing call rates by sales representatives on key accounts. In short, Rees was not happy with the way things were in the company.

The company is currently organized on a functional basis, including her own marketing department. Most of the sales team come from engineering backgrounds and the company is strongly engineering and product oriented. At the moment, she feels that she does not even have the support of the senior management team regarding her views that the company needs to become more customer focused.

CASE STUDY QUESTION

What problems and issues might Rees highlight to her fellow directors at the forthcoming meeting as regards the marketing organization and culture in the company? She is also thinking of a move towards direct marketing which would allow control over sales. What proposals might Rees make in order to try and resolve some of these problems and issues?

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