



Direct and Online Marketing

Building Direct Customer Relationships

Chapter Preview In the previous three chapters, you learned about communicating customer value through integrated marketing communication and about four elements of the marketing communications mix: advertising, publicity, personal selling, and sales promotion. In this chapter, we examine direct marketing and at its fastest-growing form, online marketing. Actually, direct marketing can be viewed as more than just a communications tool. In many ways it constitutes an overall marketing approach—a blend of communication and distribution channels all rolled into one. As you read this chapter, remember that although

direct marketing is presented as a separate tool, it must be carefully integrated with the other elements of the promotion mix.

For starters, let's look at Amazon.com. In only about 15 years, Amazon has blossomed from an obscure dot-com upstart into one of the best-known names on the Internet. According to one estimate, 52 percent of people who shop on the Internet start at Amazon. How has it become such an incredibly successful direct and online marketer? It's all about creating direct, personal, and satisfying online customer experiences. Few direct marketers do that as well as Amazon.com.

Amazon.com: Creating Direct and Satisfying Online Customer Experiences

When you think of shopping on the Web, chances are good that you think first of Amazon. The online pioneer first opened its virtual doors in 1995, selling books out of founder Jeff Bezos's garage in suburban Seattle. Amazon still sells books—*lots and lots* of books. But it now sells just about everything else as well, from music, videos, electronics, tools, housewares, apparel, cell phones, and groceries to loose diamonds and Maine lobsters. Many analysts view Amazon.com as the model for direct marketing in the digital age.

From the start, Amazon has grown explosively. Its annual sales have rocketed from a modest \$150 million in 1997 to more than \$28 billion today. In the past five years, despite the shaky economy, its sales have more than tripled. Although it took the company eight years to turn its first full-year profit in 2003, Amazon's profits have since surged more than 25-fold. Last year alone, sales grew 28 percent; profits popped nearly 40 percent. This past holiday season, at one point, the online store's more than 88 million active customers worldwide were purchasing 110 items per second.

What has made Amazon one of the world's premier direct marketers? To its core, the company is relentlessly customer driven. "The thing that drives everything is creating genuine value for customers," says Bezos. The company starts with the customer and works backward. "Rather than ask what are we good at and what else can we do with that skill," says Bezos, "we ask, who are our customers? What do they need? And then [we] learn those skills."

For example, when Amazon saw an opportunity to serve its book-buying customers better through access to e-books and other e-content, it developed its own product for the first time ever—the innovative Kindle, a wireless reading device for downloading books, blogs, magazines, newspapers, and other matter. The Kindle took more than four years and a whole new set of skills to develop. But Amazon's start-with-the-customer thinking paid off handsomely. The Kindle is now the company's number one selling product, accounting for 2 percent of total sales; e-books account for another 1.5 percent of sales. The Kindle Store now offers more than 550,000 e-books, including new releases and bestsellers, at \$11.99 or less. And various Kindle apps let customers enjoy e-books on devices ranging from BlackBerrys and Droids to iPhones and iPads.

Perhaps more important than *what* Amazon sells is *how* it sells. The company wants to do much more than just sell books or DVDs or digital cameras. It wants to deliver a special *experience* to every customer. "The customer experience really matters," says Bezos. "We've focused on just having a

Amazon.com excels at creating direct, personalized customer relationships and satisfying online experiences. Many analysts view Amazon as *the* model for direct marketing in the digital age.

better store, where it's easier to shop, where you can learn more about the products, where you have a bigger selection, and where you have the lowest prices. You combine all of that stuff together and people say, 'Hey, these guys really get it.'"

And customers get it, too. Most Amazon.com regulars feel a surprisingly strong relationship with the company, especially given the almost complete lack of actual human interaction. Amazon obsesses over making each customer's experience uniquely personal. For example, the Web site greets customers with their very own personalized home pages, and its "Recommendations for You" feature offers personalized product recommendations. Amazon was first to use "collaborative filtering" technology, which sifts through each customer's past purchases and the purchasing patterns of customers with similar profiles to come up with personalized site content. "We want Amazon.com to be the right store for you as an individual," says Bezos. "If we have 88 million customers, we should have 88 million stores."

Visitors to Amazon.com receive a unique blend of benefits: huge selection, good value, and convenience. But it's the "discovery" factor that makes the buying experience really special. Once on the Web site, you're compelled to stay for a while—looking, learning, and discovering. Amazon.com has become a kind of online community in which customers can browse for products, research purchase alternatives, share opinions and reviews with other visitors, and chat online with authors and experts. In this way, Amazon does much more than just sell goods on the Web. It creates direct, personalized customer relationships and satisfying online experiences. Year after year, Amazon comes in number one or number two on the American Customer Satisfaction Index, regardless of industry.

To create even greater selection and discovery for customers, Amazon.com allows competing retailers—from mom-and-pop operations to Marks & Spencer—to offer their products on Amazon.com, creating a virtual shopping mall of incredible proportions. It even encourages customers to sell used items on the site. The broader selection attracts more customers, and everyone benefits. "We are becoming increasingly important in the lives of our customers," says an Amazon marketing executive.

Based on its powerful growth, many have speculated that Amazon.com will become the Walmart of the Web. In fact, some argue, it already is. As pointed out in Chapter 10, although Walmart's total sales of more than \$400 billion dwarf Amazon's \$28 billion in sales, Amazon's Internet sales are 12 times greater than Walmart's. So it's Walmart that's chasing Amazon on the Web. Put another way, Walmart wants to become the Amazon.com of the Web, not the other way around. However, despite its mammoth proportions, to catch Amazon online, Walmart



will have to match the superb Amazon customer experience, and that won't be easy.

Whatever the eventual outcome, Amazon has forever changed the face of online marketing. Most importantly, the innovative direct retailer has set a very high bar for the online customer experience. "The reason I'm so obsessed with . . . the customer experience is that I believe [our success] has been driven exclusively by that experience," says Bezos. "We are not great advertisers. So we start with customers, figure out what they want, and figure out how to get it to them."¹

Online pioneer Amazon.com does much more than just sell goods on the Web. It creates direct, personalized customer relationships and online experiences. "The thing that drives everything is creating genuine value for customers," says founder and CEO Jeff Bezos, pictured above.

Many of the marketing and promotion tools that we've examined in previous chapters were developed in the context of *mass marketing*: targeting broad markets with standardized messages and offers distributed through intermediaries. Today, however, with the trend toward narrower targeting and the surge in digital technology, many companies are adopting *direct marketing*, either as a primary marketing approach, as in Amazon's case, or as a supplement to other approaches. In this section, we explore the exploding world of direct marketing.

Objective OUTLINE

Objective 1

Define direct marketing and discuss its benefits to customers and companies.

The New Direct Marketing Model (496–497)

Growth and Benefits of Direct Marketing (497–499)

Customer Databases and Direct Marketing (499–500)

Objective 2

Identify and discuss the major forms of direct marketing.

Forms of Direct Marketing (500–508)

Objective 3

Explain how companies have responded to the Internet and other powerful new technologies with online marketing strategies.

Online Marketing (508–513)

Objective 4

Discuss how companies go about conducting online marketing to profitably deliver more value to customers.

Setting up an Online Marketing Presence (513–518)

Objective 5

Overview the public policy and ethical issues presented by direct marketing.

Public Policy Issues in Direct Marketing (518–520)

Direct marketing

Connecting directly with carefully targeted segments or individual consumers, often on a one-to-one, interactive basis.

Direct marketing consists of connecting directly with carefully targeted consumers, often on a one-to-one, interactive basis. Using detailed databases, companies tailor their marketing offers and communications to the needs of narrowly defined segments or individual buyers.

Beyond brand and relationship building, direct marketers usually seek a direct, immediate, and measurable consumer response. For example, as we learned in the opening story, Amazon interacts directly with customers on its Web site to help them discover and buy almost anything and everything on the Internet. Similarly, GEICO interacts directly with customers—by telephone, through its Web site, or even on its Facebook, Twitter, or YouTube pages—to build individual brand relationships, give insurance quotes, sell policies, or service customer accounts.

Author Comment | For most companies, direct marketing is a supplemental channel or medium. But for many other companies today—such as Amazon, eBay, or GEICO—direct marketing is a complete way of doing business.

The New Direct Marketing Model (pp 496–497)

Early direct marketers—catalog companies, direct mailers, and telemarketers—gathered customer names and sold goods mainly by mail and telephone. Today, however, spurred by rapid advances in database technologies and new marketing media—especially the Internet—direct marketing has undergone a dramatic transformation.

In previous chapters, we discussed direct marketing as direct distribution—as marketing channels that contain no intermediaries. We also include direct marketing as one element of the promotion mix—as an approach for communicating directly with consumers. In actuality, direct marketing is both of these things and more.

Most companies still use direct marketing as a supplementary channel or medium. Thus, Lexus markets mostly through mass-media advertising and its high-quality dealer



● The new direct marketing model: Companies such as GEICO have built their entire approach to the marketplace around direct marketing: Just visit geico.com or call 1-800-947-AUTO.

network but also supplements these channels with direct marketing. Its direct marketing includes promotional DVDs and other materials mailed directly to prospective buyers and a Web page (www.lexus.com) that provides customers with information about various models, competitive comparisons, financing, and dealer locations. Similarly, most department stores, such as Sears or Macy's, sell the majority of their merchandise off their store shelves, but they also sell through direct mail and online catalogs.

However, for many companies today, direct marketing is more than just a supplementary channel or advertising medium—it constitutes a complete model for doing business. Firms employing this new *direct model* use it as the *only* approach. ● Companies such as Amazon, eBay, and GEICO have built their entire approach to the marketplace around direct marketing.

Growth and Benefits of Direct Marketing (pp 497–499)

Direct marketing has become the fastest-growing form of marketing. According to the Direct Marketing Association (DMA), U.S. companies spent \$149.3 billion on direct marketing last year, 54 percent of the total dollars spent on advertising. In 2009, an investment of \$1 in direct marketing advertising expenditures returned, on average, an estimated \$11.65 in incremental revenue across all industries. Put another way, these expenditures generated an estimated \$1.2 trillion in direct marketing sales, which is about 8 percent of total sales in the U.S. economy. The DMA estimates that direct marketing sales will grow 5.3 percent annually through 2013, compared with a projected 4.1 percent annual growth for total U.S. sales.²

Direct marketing continues to become more Web-oriented, and Internet marketing is claiming a fast-growing share of marketing spending and sales. For example, U.S. marketers spent an estimated \$23 billion on online advertising last year, 16.2 percent of all media expenditures and more than twice as much as they spent only four years earlier. These efforts generated nearly \$300 billion in online consumer spending.³

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Benefits to Buyers

For buyers, direct marketing is convenient, easy, and private. Direct marketers never close their doors, and customers don't have to trek to and through stores to find products. From their homes, offices, or almost anywhere else, customers can shop the Web at any time of the day or night. Business buyers can learn about products and services without tying up time with salespeople.

Direct marketing gives buyers ready access to a wealth of products. Direct marketers can offer an almost unlimited selection to customers almost anywhere in the world. Just compare the huge selections offered by many Web merchants to the more meager assortments of their brick-and-mortar counterparts. For instance, log onto Bulbs.com, the Web's number one light bulb superstore, and you'll have instant access to every imaginable kind of light bulb or lamp—incandescent bulbs, fluorescent bulbs, projection bulbs, surgical bulbs, automotive bulbs—you name it. Similarly, direct retailer Zappos.com stocks more than 2.7 million shoes, handbags, clothing items, and accessories from more than 1,300 brands. No physical store could offer handy access to such vast selections.

Direct marketing channels also give buyers access to a wealth of comparative information about companies, products, and competitors. Good catalogs or Web sites often provide more information in more useful forms than even the most helpful retail salesperson can provide. For example, Amazon.com offers more information than most of us can digest,

ranging from top-10 product lists, extensive product descriptions, and expert and user product reviews to recommendations based on customers' previous purchases. Catalogs from Sears offer a treasure trove of information about the store's merchandise and services. In fact, you probably wouldn't think it strange to see a Sears' salesperson referring to a catalog in the store for more detailed product information while trying to advise a customer.

Finally, direct marketing is immediate and interactive: Buyers can interact with sellers by phone or on the seller's Web site to create exactly the configuration of information, products, or services they desire and then order them on the spot. Moreover, direct marketing gives consumers a greater measure of control. Consumers decide which catalogs they will browse and which Web sites they will visit.

Benefits to Sellers

For sellers, direct marketing is a powerful tool for building customer relationships. Today's direct marketers can target small groups or individual customers. Because of the one-to-one nature of direct marketing, companies can interact with customers by phone or online, learn more about their needs, and personalize products and services to specific customer tastes. In turn, customers can ask questions and volunteer feedback.

Direct marketing also offers sellers a low-cost, efficient, speedy alternative for reaching their markets. Direct marketing has grown rapidly in business-to-business marketing, partly in response to the ever-increasing costs of marketing through the sales force. When personal sales calls cost an average of \$350 or more per contact, they should be made only when necessary and to high-potential customers and prospects.⁴ Lower-cost-per-contact media—such as B-to-B telemarketing, direct mail, and company Web sites—often prove more cost effective.

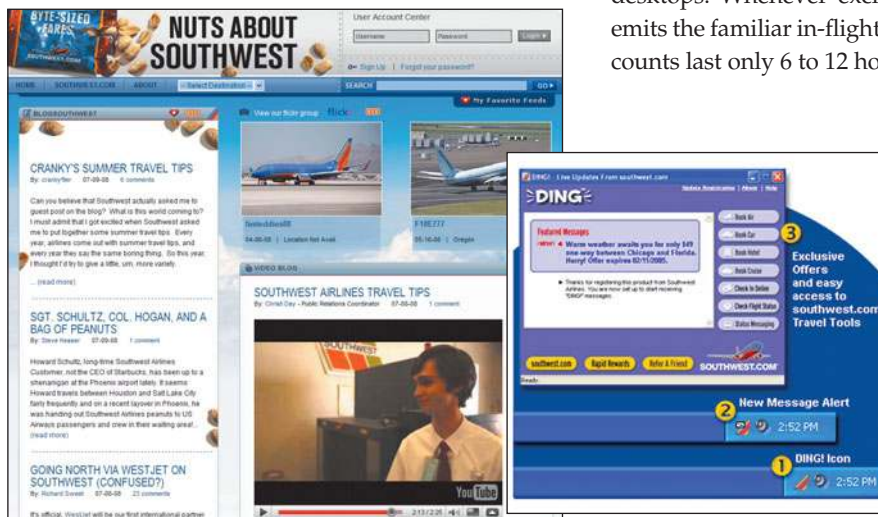
Similarly, online direct marketing results in lower costs, improved efficiencies, and speedier handling of channel and logistics functions, such as order processing, inventory handling, and delivery. Direct marketers such as Amazon or Netflix also avoid the expense of maintaining a store and the related costs of rent, insurance, and utilities, passing the savings along to customers.

Direct marketing can also offer greater flexibility. It allows marketers to make ongoing adjustments to prices and programs or make immediate, timely, and personal announcements and offers. For example, in its signature folksy manner, Southwest Airlines uses techie direct marketing tools—including a widget (DING!) and a blog (Nuts about Southwest)—to inject itself directly into customers' everyday lives, at their invitation:⁵

DING! is an application that consumers can download to their computer desktops. Whenever exclusive discount fares are offered, the program emits the familiar in-flight seatbelt-light bell dinging sound. The deep discounts last only 6 to 12 hours and can be accessed only online by clicking

on the application. Also available as a phone app, DING! lets Southwest Airlines bypass the reservations system and pass bargain fares directly to interested customers. Eventually, DING! may even allow Southwest Airlines to customize fare offers based on each customer's unique characteristics and travel preferences. In its first two years, the DING! application was downloaded by about two million consumers and generated more than \$150 million in ticket sales.

Finally, direct marketing gives sellers access to buyers that they could not reach through other channels. Smaller firms can



Southwest Airlines uses techie direct marketing tools—including a widget and a blog—to inject itself directly into customers' everyday lives.

mail catalogs to customers outside their local markets and post toll-free telephone numbers to handle orders and inquiries. Internet marketing is a truly global medium that allows buyers and sellers to click from one country to another in seconds. A Web user from Paris or Istanbul can access an online L.L.Bean catalog as easily as someone living in Freeport, Maine, the direct retailer's hometown. Even small marketers find that they have ready access to global markets.

Author Comment Direct marketing begins with a good customer database. A company is no better than what it knows about its customers.

Customer Databases and Direct Marketing (pp 499–500)

Effective direct marketing begins with a good customer database. A **customer database** is an organized collection of comprehensive data about individual customers or prospects. A good customer database can be a potent relationship-building tool. The database gives companies a 360-degree view of their customers and how they behave. A company is no better than what it knows about its customers.

In consumer marketing, the customer database might contain a customer's geographic data (address, region), demographic data (e.g., age, income, family members, birthdays), psychographic data (activities, interests, and opinions), and buying behavior (buying preferences and the recency, frequency, and monetary value [RFM] of past purchases). In B-to-B marketing, the customer profile might contain the products and services the customer has bought, past volumes and prices, key contacts, competing suppliers, the status of current contracts, estimated future spending, and competitive strengths and weaknesses in selling and servicing the account.

Some of these databases are huge. For example, casino operator Harrah's Entertainment has built a customer database containing 700 terabytes worth of customer information, roughly 70 times the amount of the printed collection in the Library of Congress. It uses these data to create special customer experiences. Similarly, Walmart captures data on every item, for every customer, for every store, every day. Its database contains more than 2.5 petabytes of data—that's equivalent to two billion copies of *Moby Dick*. Google processes an astonishing 20 petabytes of data every day.⁶

Companies use their databases in many ways. They use databases to locate good potential customers and generate sales leads. They mine their databases to learn about customers in detail and then fine-tune their market offerings and communications to the special preferences and behaviors of target segments or individuals. In all, a company's database can be an important tool for building stronger long-term customer relationships.

For example, ● financial services provider USAA uses its database to find ways to serve the long-term needs of customers, regardless of immediate sales impact, creating an incredibly loyal customer base:



● Customer databases: Financial services provider USAA uses its extensive database to tailor its services to the specific needs of individual customers, creating incredible customer loyalty.

USAA provides financial services to U.S. military personnel and their families, largely through direct marketing via the telephone and the Internet. It maintains a customer database built from customer purchasing histories and information collected directly through customer surveys, transaction data, and browsing behavior at its Web site. USAA uses the database to tailor direct marketing offers to the specific needs of individual customers. For example, for customers looking toward retirement, it sends information on estate planning. If the family has college-age children, USAA sends those children information on how to manage their credit cards. If the family has younger children, it sends booklets on things such as financing a child's education.

One delighted reporter, a USAA customer, recounted how USAA even helped him teach his 16-year-old daughter to drive. Just before her birthday, but before she received her driver’s license, USAA mailed a “package of materials, backed by research, to help me teach my daughter how to drive, help her practice, and help us find ways to agree on what constitutes safe driving later on, when she gets her license.” What’s more, marvels the reporter, “USAA didn’t try to sell me a thing. My take-away: that USAA is investing in me for the long term, that it defines profitability not just by what it sells today.” Through such skillful use of its database, USAA serves each customer uniquely, resulting in high customer loyalty. The \$18 billion company retains 98 percent of its customers. For the past four years, *Bloomberg BusinessWeek* magazine has ranked USAA among its top two “Customer Service Champs,” highlighting its legendary customer service. And last year, MSN Money ranked USAA number one on its Customer Service Hall of Fame list.⁷

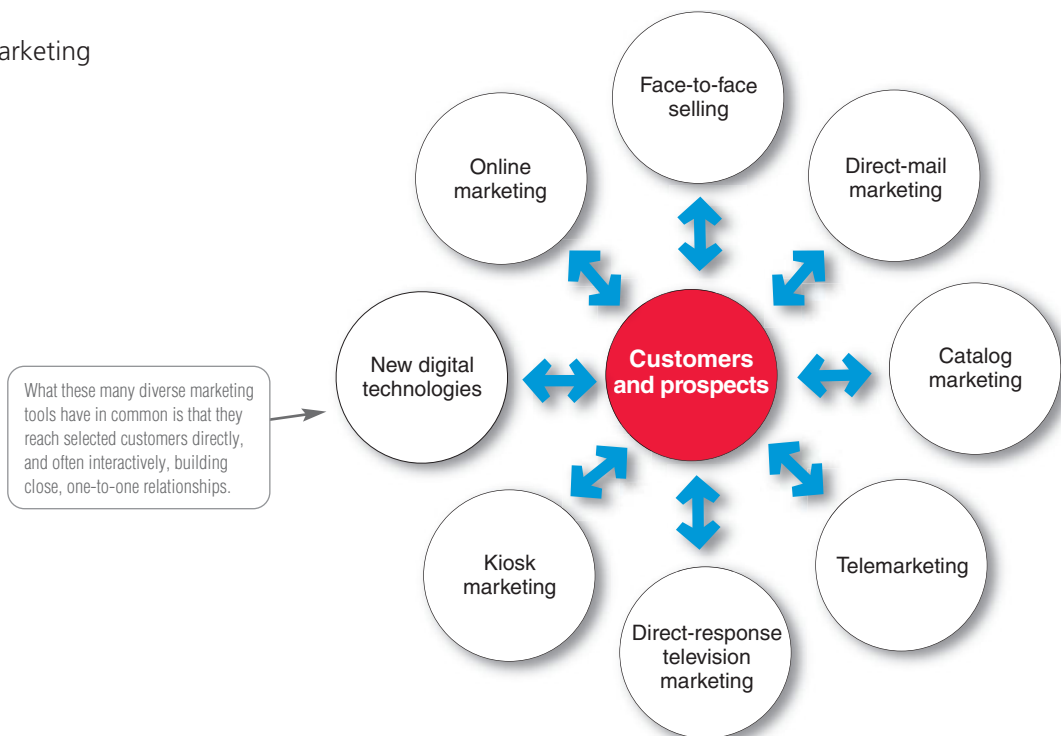
Like many other marketing tools, database marketing requires a special investment. Companies must invest in computer hardware, database software, analytical programs, communication links, and skilled personnel. The database system must be user-friendly and available to various marketing groups, including those in product and brand management, new-product development, advertising and promotion, direct mail, telemarketing, Web marketing, field sales, order fulfillment, and customer service. However, a well-managed database usually results in sales and customer-relationship gains that more than cover these costs.

Author Comment | Direct marketing is rich in tools, from traditional old favorites such as direct mail, catalogs, and telemarketing to the Internet and other new digital approaches.

Forms of Direct Marketing (pp 500–508)

The major forms of direct marketing—as shown in **Figure 17.1**—include personal selling, direct-mail marketing, catalog marketing, telephone marketing, direct-response television (DRTV) marketing, kiosk marketing, new digital direct marketing technologies, and online marketing. We examined personal selling in depth in Chapter 16. Here, we examine the other forms of direct marketing.

FIGURE | 17.1
Forms of Direct Marketing



Direct-Mail Marketing

Direct-mail marketing

Direct marketing by sending an offer, announcement, reminder, or other item to a person at a particular physical or virtual address.

Direct-mail marketing involves sending an offer, announcement, reminder, or other item to a person at a particular physical or virtual address. Using highly selective mailing lists, direct marketers send out millions of mail pieces each year—letters, catalogs, ads, brochures, samples, DVDs, and other “salespeople with wings.” Direct mail is by far the largest direct marketing medium. The DMA reports that U.S. marketers spent \$44.4 billion on direct mail last year (including both catalog and noncatalog mail), which accounted for 32 percent of all direct marketing spending.⁸

Direct mail is well suited to direct, one-to-one communication. It permits high target-market selectivity, can be personalized, is flexible, and allows the easy measurement of results. Although direct mail costs more per thousand people reached than mass media such as television or magazines, the people it reaches are much better prospects. Direct mail has proved successful in promoting all kinds of products, from books, DVDs, insurance, gift items, gourmet foods, clothing, and other consumer goods to industrial products of all kinds. Charities also use direct mail heavily to raise billions of dollars each year.

Some analysts predict a decline in the use of traditional forms of direct mail in coming years, as marketers switch to newer digital forms, such as e-mail and mobile (cell phone) marketing. E-mail, mobile, and other newer forms of direct mail deliver direct messages at incredible speeds and lower costs compared to the post office’s “snail mail” pace. We will discuss e-mail and mobile marketing in more detail later in the chapter.

However, even though the new digital forms of direct mail are gaining popularity, the traditional form is still by far the most widely used. Mail marketing offers some distinct advantages over digital forms. It provides something tangible for people to hold and keep. E-mail is easily screened or trashed. “[With] spam filters and spam folders to keep our messaging away from consumers’ inboxes,” says one direct marketer, “sometimes you have to lick a few stamps.”⁹

Traditional direct mail can be used effectively in combination with other media, such as company Web sites. For example, some marketers now send out direct mail featuring personalized URLs (PURLs)—Web addresses such as www.intel.com/JohnDoe—that invite intrigued prospects to individualized Web sites. ● Consider this example.¹⁰

For companies that had their heads in the clouds when it came time to upgrade their computers, JDA Software Group decided it was time for some skywriting. It teamed with HP and Intel to send out personalized direct mail pieces that featured a man with his arms spread upward, experiencing an epiphany in the form of fluffy words forming above his head: “Bruce Schwartz, The Moment Has Arrived.” In reality, the

direct mail piece didn’t come from out of the blue. Based on customers’ upgrade schedules, JDA targeted carefully selected decision makers who were considering buying \$500,000 to \$1.5 million software suites. These high-value prospects received personalized direct mailings and e-mails with PURLs that led them to individualized Web pages. Once there, prospects learned all about how hardware from HP and Intel would support software from JDA. Customers revealed more information about themselves each time they visited the PURL, which allowed JDA, HP, and Intel to work with them throughout the buying process. The result? The \$50,000 campaign yielded a 9.2 percent response rate and \$13 million in sales. “Sending specific [information] to specific people does make a huge difference,” says Intel’s strategic relationships manager.



● Combining direct mail with PURLs cost JDA only \$50,000 but yielded a high response rate and \$13 million in sales.

Direct mail, whether traditional or digital, may be resented as “junk mail” or spam if sent to people who have no interest in it. For this reason, smart marketers are targeting their direct mail carefully so as not to waste their money and recipients’ time. They are designing permission-based programs, sending mail, e-mail, and mobile ads only to those who want to receive them.

Catalog marketing

Direct marketing through print, video, or digital catalogs that are mailed to select customers, made available in stores, or presented online.

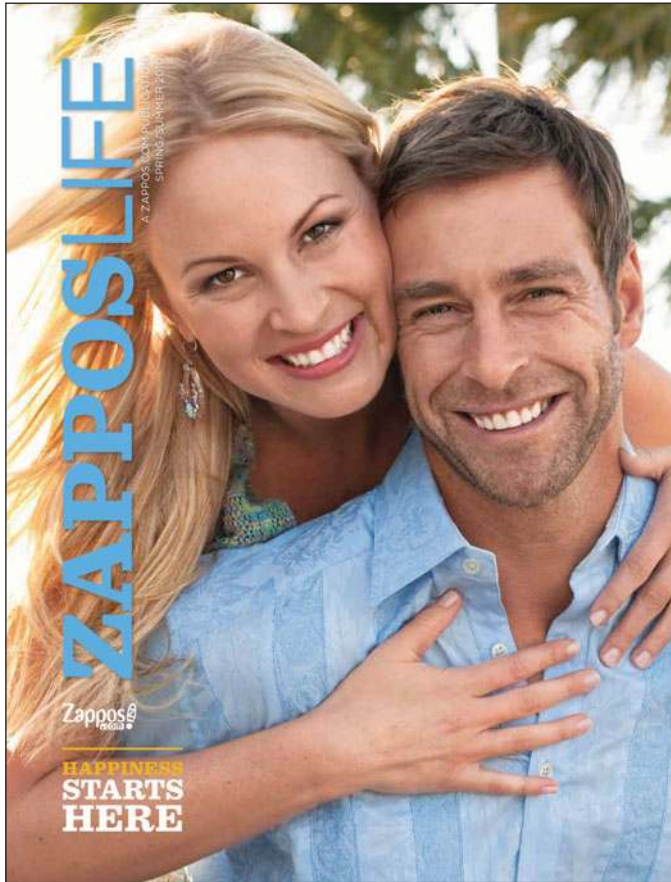
Catalog Marketing

Advances in technology, along with the move toward personalized, one-to-one marketing, have resulted in exciting changes in **catalog marketing**. *Catalog Age* magazine used to define a *catalog* as “a printed, bound piece of at least eight pages, selling multiple products, and offering a direct ordering mechanism.” Today this definition is sadly out of date.

With the stampede to the Internet, more and more catalogs are going digital. A variety of Web-only catalogers have emerged, and most print catalogers have added Web-based catalogs to their marketing mixes. Web-based catalogs eliminate printing and mailing costs. And whereas space is limited in a print catalog, online catalogs can offer an almost unlimited amount of merchandise. Finally, online catalogs allow real-time merchandising; products and features can be added or removed as needed, and prices can be adjusted instantly to match demand.

However, despite the advantages of Web-based catalogs, as your overstuffed mailbox may suggest, printed catalogs are still thriving. U.S. direct marketers mailed out more than 17 billion catalogs past year—about 56 per American. Why aren’t companies ditching their old-fashioned paper catalogs in this new digital era? For one thing, paper catalogs create emotional connections with customers that Web-based sales spaces simply can’t. “Glossy catalog pages still entice buyers in a way that computer images don’t,” says an analyst. “Among retailers who rely mainly on direct sales, 62 percent say their biggest revenue generator is a paper catalog.”¹¹

In addition, printed catalogs are one of the best ways to drive online sales, making them more important than ever in the digital era. According to a recent study, 70 percent of Web purchases are driven by catalogs. Another study found that consumers who received catalogs from the retailer spent 28 percent more on that retailer’s Web site than those who didn’t get a catalog. ● Thus, even dedicated online-only retailers, such as Zappos.com, have started producing catalogs with the hopes of driving online sales.¹²



● Printed catalogs are one of the best ways to drive online sales. Thus, even dedicated online-only retailer Zappos.com now produces a printed catalog called Zappos Life.

Telephone marketing

Using the telephone to sell directly to customers.

Telephone Marketing

Telephone marketing involves using the telephone to sell directly to consumers and business customers. Last year, telephone marketing accounted for more than 19 percent of all direct marketing-driven sales. We’re all familiar with telephone marketing directed toward consumers, but B-to-B marketers also use telephone marketing extensively, accounting for more than 55 percent of all telephone marketing sales.¹³ Marketers use *outbound* telephone marketing to sell directly to consumers and businesses. ● They use *inbound* toll-free numbers to receive orders from television and print ads, direct mail, or catalogs.

Properly designed and targeted telemarketing provides many benefits, including purchasing convenience and increased product and service information. However, the explosion in unsolicited outbound telephone marketing over the years has annoyed many consumers, who object to the almost daily “junk phone calls.”

Careful...you might sprain a taste bud.



Don't wait another day! Call now to place an order or request a catalog. Also, go on line at www.carolinacookie.com to place an order, request a catalog or view our entire selection of products.

1-800-447-5797



● Marketers use inbound toll-free 800 numbers to receive orders from television and print ads, direct mail, or catalogs. Here, the Carolina Cookie Company urges, “Don’t wait another day. Call now to place an order or request a catalog.”

Direct-response television (DRTV) marketing

Direct marketing via television, including direct-response television advertising (or infomercials) and home shopping channels.

In 2003, U.S. lawmakers responded with the National Do Not Call Registry, which is managed by the FTC. The legislation bans most telemarketing calls to registered phone numbers (although people can still receive calls from nonprofit groups, politicians, and companies with which they have recently done business). Consumers responded enthusiastically. To date, more than 191 million phone numbers have been registered at www.donotcall.gov or by calling 888-382-1222. Businesses that break do-not-call laws can be fined up to \$11,000 per violation. As a result, reports an FTC spokesperson, the program “has been exceptionally successful.”¹⁴

Do-not-call legislation has hurt the telemarketing industry—but not all that much. Two major forms of telemarketing—inbound consumer telemarketing and outbound B-to-B telemarketing—remain strong and growing. Telemarketing also remains a major fund-raising tool for nonprofit and political groups. In fact, do-not-call regulations appear to be helping most direct marketers more than it’s hurting them. Rather than making unwanted calls, many of these marketers are developing “opt-in” calling systems, in which they provide useful information and offers to customers who have invited the company to contact them by phone or e-mail. The opt-in model provides better returns for marketers than the formerly invasive one.

Meanwhile, marketers who violate do-not-call regulations have themselves increasingly become the targets of crusading consumer activist groups, who return the favor by flooding the violating company’s phone system with return calls and messages.¹⁵

Direct-Response Television Marketing

Direct-response television (DRTV) marketing takes one of two major forms. The first is *direct-response television advertising*. Direct marketers air television spots, often 60 or 120 seconds in length, which persuasively describe a product and give customers a toll-free number or a Web site for ordering. Television viewers also often encounter full 30-minute or longer advertising programs, called *infomercials*, for a single product.

Successful DRTV campaigns can ring up big sales. For example, Bowflex has grossed more than \$1.3 billion in infomercial sales. And little-known infomercial maker Guthy-Renker has helped propel Proactiv Solution acne treatment into a power brand that pulls in \$830 million in sales annually to five million active customers (compare that to only about \$150 million in annual drugstore sales of acne products in the United States).¹⁶

DRTV ads are often associated with somewhat loud or questionable pitches for cleaners, stain removers, kitchen gadgets, and nifty ways to stay in shape without working very hard at it. For example, over the past few years yell-and-sell TV pitchmen like Anthony Sullivan (Swivel Sweeper, Awesome Auger) and Vince Offer (ShamWow, SlapChop) have racked up billions of dollars sales of “As Seen on TV” products. Brands like OxiClean, ShamWow, and the Snuggie (a blanket with sleeves) have become DRTV cult classics.¹⁷

In recent years, however, a number of large companies—from P&G, Disney, Revlon, Apple, and Kodak to Coca-Cola, Anheuser-Busch, and even the U.S. Navy—have begun using infomercials to sell their wares, refer customers to retailers, recruit members, or attract buyers to their Web sites. For example, Kodak uses direct-response TV to get its message out directly to customers.¹⁸

The phrase “As Seen on TV” might bring to mind Snuggie, ShamWow, and PedEgg but probably not a venerable American brand that invites you to share the most important moments of your life. Yet for Kodak, DRTV has become an effective and preferred way to reach consumers. ● Short and long infomercials for Kodak printers and low-priced ink, which last two minutes and nearly a half-hour, respectively, focus on the value message Kodak uses in its traditional brand advertising. However, the ads also spell out specific savings, provide testimonials and examples, and even include the tone of a more typical infomercial. One short spot opens with the line “Are you sick of paying ridiculous prices for printer ink?” The Kodak infomercials have produced



● Large, well-known companies—such as Kodak—are now using direct-response TV to get the message out directly to customers. The infomercials have produced outstanding results, especially in uncertain economic times.

outstanding results, especially in uncertain economic times—printer and ink sales increased 20 percent after the first airing. “Everybody else in the market [was] down 20 percent, [we were] up 44 percent . . . on both equipment and ink,” says Kodak’s chief marketing officer. “With 30 printers on a shelf, . . . six different brands, . . . it’s hard to stand out,” adds an industry analyst. “Talking directly to consumers like that is not a bad idea.”

Home shopping channels, another form of DRTV marketing, are television programs or entire channels dedicated to selling goods and services. Some home shopping channels, such as the Quality Value Channel (QVC), Home Shopping Network (HSN), and ShopNBC, broadcast 24 hours a day. Program hosts chat with viewers by phone and offer products ranging from jewelry, lamps, collectible dolls, and clothing to power tools and consumer electronics. Viewers call a toll-free number or go online to order goods. With widespread distribution on cable and satellite television, the top three shopping networks combined now reach 248 million homes worldwide.

Despite their lowbrow images, home shopping channels have evolved into highly sophisticated, very successful marketing operations. For example, HSN has upgraded both its products and its pitches, and its TV operations now work hand in hand with sophisticated Web marketing to build close customer relationships.

HSN now has hosts not so pushy and goods not so schlocky.

It has replaced the cheesy baubles and generic electronics once featured with mainstream brands like Sephora cosmetics and 7 for All Mankind jeans. Celebrities and entrepreneurs, including Wolfgang Puck, Tori Spelling, and Joy Mangano, inventor of HSN’s curiously popular Huggable Hangers, often get as much airtime as HSN’s TV and Web hosts. They chitchat with shoppers who call in to rave about products more often than they push merchandise. HSN wants to be its female audience’s “best girlfriend,” says HSN’s CEO: “It’s not just a transactional relationship. It becomes an emotional relationship.”¹⁹

Kiosk Marketing

As consumers become more and more comfortable with digital and touch-screen technologies, many companies are placing information and ordering machines—called *kiosks* (good old-fashioned vending machines but so much more)—in stores, airports, hotels, college campuses, and other locations. Kiosks are everywhere these days, from self-service hotel and airline check-in devices to in-store ordering devices that let you order merchandise not carried in the store. “Flashy and futuristic, souped-up machines are popping up everywhere,” says one analyst. “They have touch screens instead of buttons, facades that glow and pulse . . . [they] bridge the gap between old-fashioned stores and online shopping.”²⁰

In-store Kodak, Fuji, and HP kiosks let customers transfer pictures from memory sticks, mobile phones, and other digital storage devices, edit them, and make high-quality color prints. Kiosks in Hilton hotel lobbies let guests view their reservations, get room keys, view prearrival messages, check in and out, and even change seat assignments and print boarding passes for flights on any of 18 airlines. At JetBlue’s Terminal Five at New York’s John F. Kennedy airport, more than 200 screens throughout the terminal allow travelers to order food and beverages to be delivered to their respective gate. ● And Redbox operates more than 24,000 DVD rental kiosks in McDonald’s, Walmart, Walgreens, and other retail outlets. Customers make their selections on a touch screen, then swipe a credit or debit card to rent



● Kiosk marketing: Redbox operates more than 24,000 DVD rental kiosks in supermarkets and fast-food outlets nationwide.

DVDs at \$1 a day. Customers can even prereserve DVDs online to ensure that their trip to the kiosk will not be a wasted one. Thanks to an ailing economy, even as DVD sales slid last year, wallet-friendly Redbox's sales doubled.²¹

New Digital Direct Marketing Technologies

Today, thanks to a wealth of new digital technologies, direct marketers can reach and interact with consumers just about anywhere, at anytime, about almost anything. Here, we look into several exciting new digital direct marketing technologies: mobile phone marketing, podcasts and vodcasts, and interactive TV (iTV).

Mobile Phone Marketing

With more than 285 million Americans (91 percent) now subscribing to wireless services, many marketers view mobile phones as the next big direct marketing medium. Currently, 21 percent of cell phone subscribers use their phones to access the Web. Some 23 percent of cell phone users have seen advertising on their phones in the last 30 days, and about half of them responded to the ads.²²

A recent study estimates that worldwide mobile ad spending will grow from the current \$3.1 billion annually to \$28.8 billion by 2013. About 30 percent of marketers of all kinds—from Pepsi and Nordstrom to non-profits such as the ASPCA to the local bank or supermarket—are now integrating mobile phones into their direct marketing. Many marketers have created mobile Web sites, optimized for specific phones and mobile service providers. Others have created useful or entertaining apps to engage customers with their brands and help them shop (see Real Marketing 17.1). A mobile marketing effort might be as simple as inviting people to text a number, such as when the Red Cross asked for Haitian relief donations (Text "HAITI" to 90999 to donate \$10). Or it might involve texting promotions to consumers—anything from ring-tone giveaways, mobile games and contests, and ad-supported content to retailer announcements of discounts, brand coupons, and gift suggestions.

For example, as noted in Chapter 16, Fresh Encounter Community Market, a Findlay, Ohio, grocery store, uses text messaging to help customers plan their meals:²³

Like many food retailers, Fresh Encounter Community Markets stores try to help shoppers resolve their daily dilemma: What to have for dinner? But this 32-store chain has come up with a unique strategy: texting suggestions to the cell phones of shoppers who have opted into its Text-N-Save mobile advertising program. Last month, for example, Fresh Encounter sent text messages at 2 p.m. on a Thursday and Friday offering a deal on a whole rotisserie chickens to shoppers who came in after 5 p.m. on those days. "We asked them, 'What's for dinner?' and if they don't know, then how about this for \$3.99?" says Fresh Encounter executive Eric Anderson.

Shoppers in the program receive new text offers each Sunday, ranging from free items (such as milk and soft drinks) to 5 percent off a total purchase of \$50 or more. The offers can be customized by store. To cash in, shoppers present their cell phone to the cashier, showing a PLU (price look-up) number in the text message. The redemption rates are "unbelievable," Anderson says—20 percent or more. Takers inevitably buy complementary items as well. When Fresh Encounter sends out a more urgent same-day offer, as in the chicken promotion, redemptions can exceed 30 percent.

As with other forms of direct marketing, however, companies must use mobile marketing responsibly or risk angering already ad-weary consumers. "If you were interrupted every two minutes by advertising, not many people want that," says a mobile marketing

Real Marketing **WAL**

Mobile Marketing: Do Call Me, Please—or I Will Call You!

You're at the local Best Buy checking out portable GPS navigation systems. You've narrowed it down to a Garmin nüvi 1200 versus a less-expensive competing model, but you're not certain that Best Buy has the best prices. Also, you'd love to know how other consumers rate the two brands. No problem. Just pull out your iPhone and launch Amazon.com's iPhone app, which lets you browse the brands you're considering, read consumer reviews, and compare prices of portable GPS systems sold by Amazon.com and its retail partners. The application even lets you snap a photo of an item with your phone's camera, and Amazon.com employees will try to find similar items for sale on the Web site. If Amazon.com offers a better deal, you can make the purchase directly from the application.

Welcome to the new world of mobile marketing. Today's new smartphones are changing the way we live—including the way we shop. And as they change how we shop, they also change how marketers sell to us.

A growing number of consumers—especially younger ones—are using their cell phones as a “third screen” for text messaging, surfing the Web, watching downloaded videos and shows, and checking e-mail. According to one expert, “the cell phone . . . is morphing into a content device, a kind of digital Swiss army knife with the capability of filling its owner's every spare minute with games, music, live and on-demand TV, Web browsing, and, oh yes, advertising.” Says the president of the Mobile Marketing Association, “It's only a matter of time before mobile is the ‘first screen.’” According to another industry insider:

Mobile phones and wireless devices have quietly become the hottest new frontier for marketers, especially those targeting the coveted 18- to 34-year-old set. TV networks are prodding viewers to send text messages to vote for their favorite reality TV character. Wireless Web sites are lacing sports scores and news digests with banner ads for Lexus, Burger King, and Sheraton. A few companies are even customizing 10-second video ads for short, TV-style episodes that are edging their way onto

mobile phones. For advertisers, the young audience is just one selling point. Wireless gadgets are always-on, ever-present accessories. The fact that a phone is tethered to an individual means that ads can be targeted. And users can respond instantly to time-sensitive offers. The mobile phone is very personal, and it's always with you.

Marketers large and small are weaving mobile marketing into their direct marketing mixes. Walmart uses text message alerts to spread the news about sales; you can click on links within the messages to go to the retailer's mobile Web site and check on details. Unilever phones out mobile coupons for Ragu pasta sauce, Dove body wash, Breyers ice cream, and its other brands: Just hold up your cell phone at the checkout, and the cashier will scan the bar-

code off the screen. Tide's Stain Brain app helps customers find ways to remove stains. A Sit or Squat app directs people to nearby public restrooms—it opens with a splash page for Charmin bathroom tissue. Target's “Gift Globe” iPhone app gives you gift recommendations based on the age and gender of recipients—enter the data, shake your phone, and recommended gift items pop up on the screen. You can also use the app to link to Target's Web site to buy the item or find the nearest store.

Beyond helping you buy, other mobile marketing applications provide helpful services, useful information, and entertainment. USAA's iPhone banking app lets you check your balance, transfer funds, and even deposit a check via phone by taking a photo of the front and back of the check and hitting “send.” Zipcar's app lets members find and reserve a Zipcar, honk the horn (so you can find it in a crowd), and even lock and unlock the doors—all from your iPhone. REI's The Snow and Ski Report app gives ski slope information for locations throughout the United States and Canada, such as snow depth, snow conditions, and the number of open lifts. The app also links you to “Shop REI,” for times “when

zipcar wheels when you want them

for everybody for business for universities

ladies and gentlemen, start your iPhone.

cool things to do with the app

for everybody

- Find available Zipcars on a map using current, favorite or any location
- Browse car types and models
- Make your iPhone go beep beep

for members

- Reserve Zipcars around the corner or across the globe
- Find cars by time available, car type and model
- View, extend or cancel reservations on the go
- Honk your Zipcar's horn with your iPhone to find it in a crowd
- Unlock and lock your Zipcar with your iPhone after scanning your Zipcard at the start of each reservation

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The Zipcar App for the iPhone™ and iPod touch® is here.
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Mobile marketing: Zipcar's iPhone app lets members find and book a Zipcar, honk the horn (so you can find it in a crowd), and even lock and unlock the doors—all from your iPhone.

you decide you can't live without a new set of K2 skis or a two-man Hoo-Doo tent."

For entertainment, carmaker Audi offers the Audi A4 Driving Challenge game, which features a tiny A4 that maneuvers its way through different driving courses—to steer, you tilt your phone right or left. Audi claims that the app has been downloaded nearly three million times since it was introduced, resulting in 400,000 visitors to the Audi A4 iPhone Web site.

One of the most effective mobile marketing applications is Kraft's iFood Assistant, which provides easy-to-prepare recipes for food shoppers on the go. It supplies advice on how to prepare some 7,000 simple but satisfying meals—at three meals a day, that's almost 20 years worth of recipes. The iFood Assistant will even give you directions to local stores. Of course, most of the meals call for ingredients that just happened to be Kraft brands. The iFood Assistant app cost Kraft less than \$100,000 to create but has engaged millions of shoppers, providing great marketing opportunities for Kraft and its brands.

Increasingly, consumers are using their phones as in-store shopping aids, and retailers are responding accordingly. For example, while strolling among the bookshelves at the local Barnes & Noble store, you can now snap a photo of any book cover that strikes your interest and use a Barnes & Noble app to learn more about it. The app uses image-recognition software to recognize the book and then almost instantly pulls up user reviews from Barnesandnoble.com to help shoppers decide whether to buy. "We've seen a huge uplift in reservations of books for purchase in physical stores, as well as buying, from the . . . app since we launched it," says the chain's vice president for digital devices.

Most consumers are initially skeptical about receiving mobile ad messages. Their first reaction is likely to be "Don't call me. I'll call you (yeah, right)." But they often change their minds if the ads deliver value in the form of useful brand and shopping information, entertaining content, or discounted prices and coupons for their favorite products and services. Most mobile marketing efforts target only consumers who voluntarily opt in or who download applications. In the increasingly cluttered mobile marketing space, customers just won't do that unless they see real value in it. The challenge for marketers: Develop useful and engaging mobile marketing applications that make customers say "Do call me, please. Or, I will call you."

Sources: Adapted extract, quotes, and other information from Richard Westlund, "Mobile on Fast Forward," *Brandweek*, March 15, 2010, pp. M1–M5; Joseph De Avila, "Please Hold, My Cell Phone Is Buying a Gift," *Wall Street Journal*, December 9, 2008, p. D1; Todd Wasserman, "I'm on the Phone!" *Adweek*, February 23, 2009, pp. 6–7; Alice Z. Cuneo, "Scramble for Content Drives Mobile," *Advertising Age*, October 24, 2005, p. S6; Jen Arnoff, "Wising Up to Smart Phones," *News & Observer* (Raleigh), April 22, 2009, p. 5B; Carol Angrisani, "Priced to Cell," *Supermarket News*, June 1, 2009, p. 28; Reena Jana, "Retailers Are Learning to Love Smartphones," *Businessweek*, October 26, 2009, p. 49; and www.usaa.com/inet/ent_utils/McStaticPages?key=deposit_at_mobile_main, accessed November 2010.

expert. "The industry needs to work out smart and clever ways to engage people on mobiles." The key is to provide genuinely useful information and offers that will make consumers want to opt in or call in. One study found that 42 percent of cell phone users are open to mobile advertising if it's relevant.²⁴

Podcasts and Vodcasts

Podcasting and vodcasting are on-the-go, on-demand technologies. The name *podcast* derives from Apple's now-everywhere iPod. With podcasting, consumers can download audio files (podcasts) or video files (vodcasts) via the Internet to a handheld device and then listen to or view them whenever and wherever they wish. These days, you can download podcasts or vodcasts on an exploding array of topics, everything from your favorite NPR show, a recent sitcom episode, or current sports features to the latest music video or Snickers commercial.

An estimated 25 percent of the U.S. population has listened to or viewed at least one podcast. A recent study predicts that the U.S. podcast audience will reach 38 million by 2013, up from six million in 2005.²⁵ As a result, this medium is drawing much attention from marketers. Many are now integrating podcasts and vodcasts into their direct marketing programs in the form of ad-supported podcasts, downloadable ads and informational features, and other promotions.

For example, the Walt Disney World Resort offers weekly podcasts on a mix of topics, including behind-the-scenes tours, interviews, upcoming events, and news about new attractions. Nestlé Purina publishes "petcasts" on animal training and behavioral issues. It invites customers to "Take these shows on the road—from



Podcasts: The Walt Disney World Resort offers weekly podcasts on topics ranging from behind-the-scenes tours to upcoming events and news about new attractions.

serious discussions with veterinarians about pet health to wacky animal videos featuring dogs and cats, Purina has a podcast (or two) for you.” And HP publishes vodcasts that highlight new business technologies as well as pertinent information for investors.²⁶

Interactive TV (iTV)

Interactive TV (iTV) lets viewers interact with television programming and advertising using their remote controls. In the past, iTV has been slow to catch on. However, the technology now appears poised to take off as a direct marketing medium. Research shows that the level of viewer engagement with iTV is much higher than with 30-second spots. A recent poll indicated that 66 percent of viewers would be “very interested” in interacting with commercials that piqued their interest. And broadcasting systems such as DIRECTV, EchoStar, and Time Warner are now offering iTV capabilities.²⁷

Interactive TV gives marketers an opportunity to reach targeted audiences in an interactive, more involving way. For example, HSN has launched a “Shop by Remote” iTV service that allows viewers to instantly purchase any item on HSN with their remotes. Viewers who are registered with HSN can complete a purchase in less than 30 seconds.²⁸

New York area cable provider Cablevision offers an iTV service by which advertisers can run interactive 30-second spots.²⁹

During the ads, a bar at the bottom of the screen lets viewers use their remotes to choose additional content and offers, such as on-demand free product samples, brand channels, or video showcases. For example, a Gillette ad offered to send free samples of its body wash product, Benjamin Moore offered coupons for paint color samples, and Century 21 offered \$10 gift cards. Advertisers such as Mattel Barbie and the U.S. Navy invited viewers to select their branded Cablevision channels for optional information and entertainment. So far, response rates for the interactive content have been impressive. For example, in an early test last year, the Disney Travel Channel allowed subscribers to browse information about Disney theme parks and then request a call from an agent. The booking rate for people requesting a call was 25 percent. More broadly, iTV ads slated to run for two weeks apiece had to be shortened, on average, by a week because marketers ran out of materials. For instance, Gillette pulled its on-demand samples offer a week early after maxing out the promotion at 30,000 samples.

Mobile phone marketing, podcasts and vodcasts, and iTV offer exciting direct marketing opportunities. But marketers must be careful to use these new direct marketing approaches wisely. As with other direct marketing forms, marketers who use them risk backlash from consumers who may resent such marketing as an invasion of their privacy. Marketers must target their direct marketing offers carefully, bringing real value to customers rather than making unwanted intrusions into their lives.

Author Comment | Online direct marketing is growing at a blistering pace. By one estimate, the Internet now influences a staggering 50 percent of total retail sales.

Online Marketing (pp 508–513)

As noted earlier, **online marketing** is the fastest-growing form of direct marketing. Widespread use of the Internet is having a dramatic impact on both buyers and the marketers who serve them. In this section, we examine how marketing strategy and practice are changing to take advantage of today’s Internet technologies.

Online marketing

Efforts to market products and services and build customer relationships over the Internet.

Internet

A vast public web of computer networks that connects users of all types around the world to each other and an amazingly large information repository.

Marketing and the Internet

Much of the world’s business today is carried out over digital networks that connect people and companies. The **Internet**, a vast public web of computer networks, connects users of all types all around the world to each other and an amazingly large information repository. The Internet has fundamentally changed customers’ notions of convenience, speed, price, product information, and service. As a result, it has given marketers a whole new way to create value for customers and build relationships with them.

Internet usage and impact continues to grow steadily. Last year, 74 percent of the U.S. population had access to the Internet. The average U.S. Internet user spends some 60 hours

a month surfing the Web. Worldwide, more than 1.8 billion people now have Internet access.³⁰ Moreover, a recent survey found that the Internet has surpassed TV as the medium perceived as most essential in people's lives. When presented with a choice of removing the Internet or television from their lives, 49 percent of respondents chose to drop television, whereas 48 percent chose the Internet. "When we first asked . . . in 2001, the spread was 72 percent for eliminating Internet and 26 percent for eliminating television," says a researcher. "The shift over these nine years has been steady and profound."³¹

All kinds of companies now market online. **Click-only companies** operate on the Internet only. They include a wide array of firms, from *e-tailers* such as Amazon.com and Expedia.com that sell products and services directly to final buyers via the Internet to *search engines and portals* (such as Yahoo!, Google, and MSN), *transaction sites* (eBay, Craigslist), and *content sites* (the *New York Times* on the Web, ESPN.com, and *Encyclopædia Britannica*). Many click-only dot-coms are now prospering in today's online marketplace.

The success of the dot-coms has caused existing *brick-and-mortar* manufacturers and retailers to reexamine how they serve their markets. Now, almost all of these traditional companies have created their own online sales and communications channels, becoming **click-and-mortar companies**. It's hard to find a company today that doesn't have a substantial Web presence.

In fact, many click-and-mortar companies are now having more online success than their click-only competitors. A recent ranking of the world's 10 largest online retail sites contained only one click-only retailer (Amazon.com, which was ranked number one). All the others were multichannel retailers.³² For example, number two on the list is Staples, the \$24 billion office supply retailer. ● Staples operates more than 2,240 superstores worldwide. But you might be surprised to learn that more than half of Staples' North American sales and profits come from its online and direct marketing operations. In fact, whereas Staples' brick-and-mortar store sales in North America have been flat or declining over the past two years, online and direct sales have soared 46 percent.³³

Selling on the Web lets Staples build deeper, more personalized relationships with customers large and small. A large customer, such as GE or P&G, can create lists of approved office products at discount prices and then let company departments or even individuals do their own online purchasing. This reduces ordering costs, cuts through the red tape, and speeds up the ordering process for customers. At the same time, it encourages companies to use Staples as a sole source for office supplies. Even the smallest companies find 24-hour-a-day online ordering easier and more efficient. In addition, Staples' Web operations complement store sales. The Staples.com site builds store traffic by helping customers find a local store and check stock and prices. In return, the local store promotes the Web site through in-store kiosks. If customers don't find what they need on the shelves, they can quickly order it via the kiosk. Thus, Staples backs its "that was easy" positioning by offering a full range of contact points and delivery modes—online, catalogs, phone or fax, and in the store. No click-only or brick-only seller can match that kind of call, click, or visit convenience and support.

Click-only companies

The so-called dot-coms, which operate online only and have no brick-and-mortar market presence.

Click-and-mortar companies

Traditional brick-and-mortar companies that have added online marketing to their operations.



● **Click-and-mortar marketing:** Staples backs its "that was easy" positioning by offering a full range of contact points and delivery modes.

Business-to-consumer (B-to-C) online marketing

Businesses selling goods and services online to final consumers.

Online Marketing Domains

The four major online marketing domains are shown in ● **Figure 17.2**. They include business-to-consumer (B-to-C), business-to-business (B-to-B), consumer-to-consumer (C-to-C), and consumer-to-business (C-to-B).

Business-to-Consumer

The popular press has paid the most attention to **business-to-consumer (B-to-C) online marketing**—businesses selling goods and services online to final consumers. Today's consumers can buy almost anything online—from clothing, kitchen gadgets, and airline tickets to computers and cars. Even following the recent recession, online consumer buying continues to grow at a healthy double-digit rate. More than half of all U.S. households now regularly shop online. Current U.S. online retail sales of an estimated \$279 billion are expected

FIGURE | 17.2
Online Marketing Domains

Online marketing can be classified by who initiates it and to whom it is targeted. As consumers, we're most familiar with B-to-C and C-to-C, but B-to-B is also flourishing.

	Targeted to consumers	Targeted to businesses
Initiated by business	B-to-C (business-to-consumer)	B-to-B (business-to-business)
Initiated by consumer	C-to-C (consumer-to-consumer)	C-to-B (consumer-to-business)

to grow at better than 11 percent a year over the next five years, compared with a growth rate of 2.5 percent in total retail sales.³⁴

Perhaps even more important, the Internet now influences an estimated 42 percent of total retail sales—sales transacted online plus those carried out offline but encouraged by online research. Some 97 percent of Web-goers now use the Internet to research products before making purchases. By one estimate, the Internet influences a staggering 50 percent of total retail sales.³⁵ Thus, smart marketers are employing integrated multichannel strategies that use the Web to drive sales to other marketing channels.

Internet buyers differ from traditional offline consumers in their approaches to buying and their responses to marketing. In the Internet exchange process, customers initiate and control the contact. Traditional marketing targets a somewhat passive audience. In contrast, online marketing targets people who actively select which Web sites they will visit and what marketing information they will receive about which products and under what conditions. Thus, online marketing requires new marketing approaches.

People now go online to order a wide range of goods—clothing from Gap or L.L.Bean, books or electronics or just about anything else from Amazon.com, major appliances from Sears, home mortgages from Quicken Loans, or even a will or divorce from LegalZoom. Where else but the Web could you find a place that specializes in anything and everything bacon?³⁶

Americans have a guilty relationship with food, and perhaps no food is more guilt-inducing than bacon—forbidden by religions, disdained by dietitians and doctors. Loving

bacon is like shoving a middle finger in the face of all that is healthy and holy. There is something comfortingly unambiguous about a thick slab of bacon. It's bad for you. It tastes fantastic. Any questions?

As Dan Philips says, "Bacon is the ultimate expression of freedom." Philips is the founder of the Grateful Palate, a company whose products have probably done more for the bacon chic movement than anything else. At the Grateful Palate, bacon enthusiasts can find everything bacon. It offers a bacon of the month club—Iron Chef Bobby Flay is a member—that includes artisanal bacon from farms across North America cured in a variety of delicious ways—from applewood smoked to hickory smoked with cinnamon sugar. The Grateful Palate also sells bacon-related gifts for people who can't get enough bacon in their day, such as bacon soap, bacon Christmas tree ornaments, bacon toilet paper, bacon air freshener, and even BLT candles—a set of bacon, lettuce, and tomato votives. Says one fan, "You can light them individually, maybe just tomato and lettuce if your vegetarian friends are visiting."



B-to-C Web sites: People now go online to buy just about anything. Where else but the Web could you find a place that specializes in anything and everything bacon?

Business-to-Business

Although the popular press has given the most attention to B-to-C Web sites, **business-to-business (B-to-B) online marketing** is also flourishing. B-to-B marketers use Web sites, e-mail, online product catalogs, online trading networks, and other online resources to reach

Business-to-business (B-to-B) online marketing

Businesses using online marketing to reach new business customers, serve current customers more effectively, and obtain buying efficiencies and better prices.

new business customers, serve current customers more effectively, and obtain buying efficiencies and better prices.

Most major B-to-B marketers now offer product information, customer purchasing, and customer-support services online. For example, corporate buyers can visit networking equipment and software maker Cisco Systems' Web site (www.cisco.com), select detailed descriptions of Cisco's products and service solutions, request sales and service information, attend events and training seminars, view videos on a wide range of topics, have live chats with Cisco staff, and place orders. Some major companies conduct almost all of their business on the Web. For example, Cisco Systems takes more than 80 percent of its orders over the Internet.

Beyond simply selling their products and services online, companies can use the Internet to build stronger relationships with important business customers. For example, Dell has created customized Web sites for more than 100,000 business and institutional customers worldwide. These individualized Premier.Dell.com sites help business customers more efficiently manage all phases of their Dell computer buying and ownership. Each customer's Premier.Dell.com Web site includes a customized online computer store, purchasing and asset management reports and tools, system-specific technical information, links to useful information throughout Dell's extensive Web site, and more. The site makes all the information a customer needs to do business with Dell available in one place, 24/7.³⁷

Consumer-to-Consumer

Consumer-to-consumer (C-to-C) online marketing

Online exchanges of goods and information between final consumers.

Much **consumer-to-consumer (C-to-C) online marketing** and communication occurs on the Web between interested parties over a wide range of products and subjects. In some cases, the Internet provides an excellent means by which consumers can buy or exchange goods or information directly with one another. For example, eBay, Overstock.com Auctions, and other auction sites offer popular market spaces for displaying and selling almost anything, from art and antiques, coins and stamps, and jewelry to computers and consumer electronics.

eBay's C-to-C online trading community of more than 90 million active users worldwide (that's more than the total populations of Britain, Egypt, or Turkey) transacted some \$60 billion in trades last year. At any given time, the company's Web site lists more than 113 million items up for auction in more than 50,000 categories. Such C-to-C sites give people access to much larger audiences than the local flea market or newspaper classifieds (which, by the way, have also gone online at Web sites such as Craigslist.com and eBay Classifieds). Interestingly, based on its huge success in the C-to-C market, eBay has now attracted more than 500,000 B-to-C sellers, ranging from small businesses peddling their regular wares to large businesses liquidating excess inventory at auction.³⁸

In other cases, C-to-C involves interchanges of information through Internet forums that appeal to specific special-interest groups. Such activities may be organized for commercial or noncommercial purposes. Web logs, or **blogs**,

are online journals where people post their thoughts, usually on a narrowly defined topic. Blogs can be about anything, from politics or baseball to haiku, car repair, or the latest television series. Since 2002, Twitter accounts aside, more than 133 million blogs have been "keyed" in 81 different languages. Currently, 77 percent of online consumers actively read them. Such numbers give blogs—especially those with large and devoted followings—substantial influence.³⁹

Many marketers are now tapping into the blogosphere as a medium for reaching carefully targeted consumers. For example, some companies have set up their own blogs. Sports footwear maker Vans has created several blogs—from "Off the Wall" to "Vans Girls"—at which customers can read up on Van's-related news and views about fashion, art, sports, and music. Similarly, at Walmart's Check Out blog (www.checkoutblog.com), with the company's blessing, Walmart buyers and

Blogs

Online journals where people post their thoughts, usually on a narrowly defined topic.



Many companies create their own blogs, such as Walmart's Check Out blog, on which Walmart buyers and merchandise managers like Alex Cook above speak candidly, even critically, about the products the chain carries.

merchandise managers speak candidly, even critically, about the products the chain carries. Says one analyst, the employee-fed blog “has become a forum for [everything from] unfurnished rants about gadgets [and] raves about new video games [to] advice on selecting environmentally sustainable food.” The blog also provides a glimpse into the personal lives of the posters. According to Walmart, Check Out helps buyers obtain quick feedback on merchandise from consumers, and it shows a softer side of the giant company.⁴⁰

Companies can also advertise on existing blogs or influence content there. For example, they might encourage “sponsored conversations” by influential bloggers:⁴¹

As part of its “Living in High Definition” push, Panasonic wanted to build buzz about its brand at the recent Consumer Electronics Show (CES) in Las Vegas. But rather than relying on the usual tech journalists attending the show, Panasonic recruited five influential bloggers—including popular Internet figures Chris Brogan and Steve Garfield—to travel to the CES at its expense. It footed the bill for their travel and passes to the event while also loaning them digital video and still cameras. In return, the bloggers agreed to share their impressions of the show, including Panasonic product previews, with their own powerful distribution networks, in the form of blog posts, Twitter updates, and YouTube videos. The catch: Panasonic had no say on what their guests posted. To maintain credibility, Panasonic kept its distance, and the bloggers fully disclosed the brand’s sponsorship. Still, even though Panasonic didn’t dictate content—and didn’t want to—the “sponsored conversations” allowed the brand to tap into the groundswell of Internet buzz. “When you give [bloggers] equipment and they love it, just like any other consumer they’ll evangelize it,” says a Panasonic spokesperson. “We’re not looking for them to hit message points and in effect shill.” Panasonic just wants to be a catalyst for conversations about its brand.

As a marketing tool, blogs offer some advantages. They can offer a fresh, original, personal, and cheap way to enter into consumer Web conversations. However, the blogosphere is cluttered and difficult to control. Blogs remain largely a C-to-C medium. Although companies can sometimes leverage blogs to engage in meaningful customer relationships, consumers remain largely in control.

Whether or not they actively participate in the blogosphere, companies should show up, monitor, and listen to them. For example, Starbucks sponsors its own blog (www.MyStarbucksIdea.com) but also closely follows consumer dialogue on the 30 or more other third-party online sites devoted to the brand. It then uses the customer insights it gains from all these proprietary and third party blogs to adjust its marketing programs.⁴²

In all, C-to-C means that online buyers don’t just consume product information—increasingly, they create it. As a result, “word of Web” is joining “word of mouth” as an important buying influence.

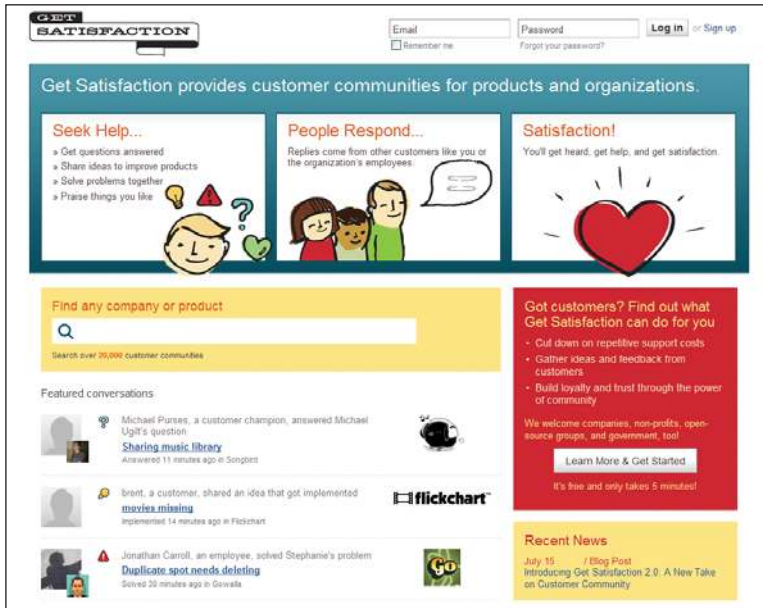
Consumer to Business

The final online marketing domain is **consumer-to-business (C-to-B) online marketing**. Thanks to the Internet, today’s consumers are finding it easier to communicate with companies. Most companies now invite prospects and customers to send in suggestions and questions via company Web sites. Beyond this, rather than waiting for an invitation, consumers can search out sellers on the Web, learn about their offers, initiate purchases, and give feedback. Using the Web, consumers can even drive transactions with businesses, rather than the other way around. For example, using Priceline.com, would-be buyers can bid for airline tickets, hotel rooms, rental cars, cruises, and vacation packages, leaving the sellers to decide whether to accept their offers.

Consumers can also use Web sites such as GetSatisfaction.com, Complaints.com, and PlanetFeedback.com to ask questions, offer suggestions, lodge complaints, or deliver compliments to companies. ● GetSatisfaction.com provides “people-powered customer service” by creating a user-driven customer service community. The site provides forums where customers discuss problems they’re having with the products and services of 35,000 companies—from Microsoft and P&G to Google and Zappos.com—whether the company participates or not. GetSatisfaction.com also provides tools by which companies

Consumer-to-business (C-to-B) online marketing

Online exchanges in which consumers search out sellers, learn about their offers, and initiate purchases, sometimes even driving transaction terms.



● **C-to-B marketing: GetSatisfaction.com provides “people-powered customer service” by creating a user-driven customer service community where customers discuss product and service problems.**

Corporate (or brand) Web site

A Web site designed to build customer goodwill, collect customer feedback, and supplement other sales channels rather than sell the company’s products directly.

Marketing Web site

A Web site that engages consumers in interactions that will move them closer to a direct purchase or other marketing outcome.

can adopt GetSatisfaction.com as an official customer service resource.⁴³

Setting Up an Online Marketing Presence

In one way or another, most companies have now moved online. Companies conduct online marketing in any of the four ways shown in ● **Figure 17.3:** creating a Web site, placing ads and promotions online, setting up or participating in online social networks, or using e-mail.

Creating a Web Site

For most companies, the first step in conducting online marketing is to create a Web site. However, beyond simply creating a Web site, marketers must design an attractive site and find ways to get consumers to visit the site, stay around, and come back often.

Web sites vary greatly in purpose and content. The most basic type is a **corporate (or brand) Web site**. These sites are designed to build customer goodwill, collect customer feedback, and supplement other sales

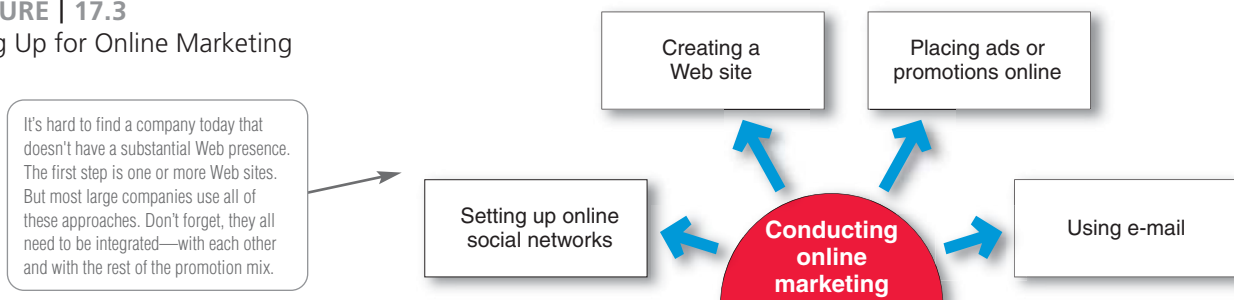
channels rather than sell the company’s products directly. They typically offer a rich variety of information and other features in an effort to answer customer questions, build closer customer relationships, and generate excitement about the company or brand.

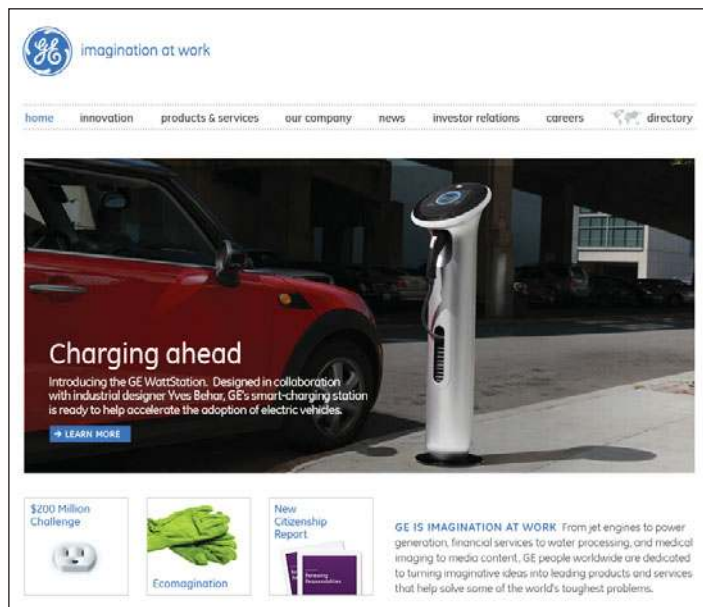
For example, you can’t buy anything at P&G’s Old Spice brand site, but you can learn about the different Old Spice products, watch recent ads, enter the latest contest, and post comments on the Old Spice blog. ● Similarly, GE’s corporate Web site serves as a global public face for the huge company. It presents a massive amount of product, service, and company information to a diverse audience of customers, investors, journalists, and employees. It’s both a B-to-B site and a portal for consumers, whether it’s a U.S. consumer researching a microwave, an Indonesian business buyer checking into eco-friendly locomotives, or a German investor looking for shareholder information.

Other companies create a **marketing Web site**. These sites engage consumers in an interaction that will move them closer to a direct purchase or other marketing outcome. For example, MINI USA operates a marketing Web site at www.miniusa.com. Once a potential customer clicks in, the carmaker wastes no time trying to turn the inquiry into a sale and then into a long-term relationship. The site offers a garage full of useful information and interactive selling features, including detailed and fun descriptions of current MINI models, tools for designing your very own MINI, information on dealer locations and services, and even tools for tracking your new MINI from factory to delivery.

Creating a Web site is one thing; getting people to *visit* the site is another. To attract visitors, companies aggressively promote their Web sites in offline print and broadcast advertising and through ads and links on other sites. But today’s Web users are quick to abandon

● **FIGURE | 17.3**
Setting Up for Online Marketing





● **Corporate Web sites:** You can't buy anything at GE's corporate site. Instead, it serves as a public face for the huge company, presenting a massive amount of information to a diverse global audience.

Online advertising

Advertising that appears while consumers are browsing the Web, including display ads, search-related ads, online classifieds, and other forms.

Viral marketing

The Internet version of word-of-mouth marketing: Web sites, videos, e-mail messages, or other marketing events that are so infectious that customers will want to pass them along to friends.

any Web site that doesn't measure up. The key is to create enough value and excitement to get consumers who come to the site to stick around and come back again. At the very least, a Web site should be easy to use, professional looking, and physically attractive. Ultimately, however, Web sites must also be *useful*. When it comes to Web browsing and shopping, most people prefer substance over style and function over flash. Thus, effective Web sites contain deep and useful information, interactive tools that help buyers find and evaluate products of interest, links to other related sites, changing promotional offers, and entertaining features that lend relevant excitement.

Placing Ads and Promotions Online

As consumers spend more and more time on the Internet, companies are shifting more of their marketing dollars to **online advertising** to build their brands or attract visitors to their Web sites. Online advertising has become a major medium. Total U.S. Internet advertising spending reached an estimated \$24.6 billion last year and is expected to top \$34 billion by 2014, making it the second largest medium behind only TV but ahead of newspapers and magazines.⁴⁴ Here, we discuss forms of online advertising and promotion and their future.

The major forms of online advertising include search-related ads, display ads, and online classifieds. Online display ads might appear anywhere on an Internet user's screen and are often related to the information being viewed. For instance, while browsing vacation packages on Travelocity.com, you might encounter a display ad offering a free upgrade on a rental car from Enterprise Rent-A-Car. Or while visiting the Yahoo! Finance site, a flashing E*TRADE ad might promise a free BlackBerry smartphone when you open a new account. Internet display ads have come a long way in recent years in terms of attracting and holding consumer attention. New *rich media* ads now incorporate animation, video, sound, and interactivity.

The largest form of online advertising is *search-related ads* (or *contextual advertising*), which accounts for more than 48 percent of all online advertising spending.⁴⁵ In search advertising, text-based ads and links appear alongside search engine results on sites such as Google and Yahoo!. For example, search Google for "LCD TVs." At the top and side of the resulting search list, you'll see inconspicuous ads for 10 or more advertisers, ranging from Samsung and Dell to Best Buy, Sears, Amazon.com, Walmart.com, and Nextag.com. Nearly all of Google's \$23.6 billion in revenues come from ad sales. Search is an always-on kind of medium. And in today's tight economy, the results are easily measured.

A search advertiser buys search terms from the search site and pays only if consumers click through to its site. For instance, type "Coke" or "Coca-Cola" or even just "soft drinks" or "rewards" into your Google or Yahoo! search engine and almost without fail "My Coke Rewards" comes up as one of the top options. This is no coincidence. Coca-Cola supports its popular online loyalty program largely through search buys. The soft drink giant started first with traditional TV and print advertising but quickly learned that search was the most effective way to bring consumers to www.mycokerewards.com Web site to register. Now, any of dozens of purchased search terms will return MyCokeRewards.com at or near the top of the search list.⁴⁶

Other forms of online promotions include content sponsorships and viral advertising. Using *content sponsorships*, companies gain name exposure on the Internet by sponsoring special content on various Web sites, such as news or financial information or special interest topics. For example, Toyota Tundra sponsors truck-related pages on HowStuffWorks.com. And Marriott sponsors a "Summer to the Rescue!" microsite at Travelocity.com. Sponsorships are best placed in carefully targeted sites where they can offer relevant information or service to the audience.

Finally, online marketers use **viral marketing**, the Internet version of word-of-mouth marketing. Viral marketing involves creating a Web site, video, e-mail, cell phone message,

advertisement, or other marketing event that is so infectious that customers will want to pass it along to their friends. Because customers pass the message or promotion along to others, viral marketing can be very inexpensive. And when the information comes from a friend, the recipient is much more likely to view or read it.

Sometimes a well-made regular ad can go viral with little help from the company. For example, the clever “Gimme back the Filet-O-Fish” ad from McDonald’s, featuring a mechanized singing fish mounted on a wall, grabbed 780,000 YouTube views and a five-star rating in little more than three months. It also inspired a rash of consumer-generated spots posted on YouTube featuring people singing the song while ordering. However, leaving viral efforts to chance rarely works. “It’s one of those things you never really know until it’s out there,” says a McDonald’s marketer.⁴⁷

Although marketers usually have little control over where their viral messages end up, a well-concocted viral campaign can gain vast exposure. Consider T-Mobile’s “Life’s for Sharing” flash mob viral video “Dance.” The nearly three-minute video features a seemingly “spontaneous” outburst of dancing among hundreds of passengers at London’s crowded Liverpool Street railway station. It took months of logistical planning but landed more than 21 million views on YouTube. T-Mobile credits the video for a 29 percent jump in sales in the United Kingdom.⁴⁸



● **Viral marketing:** A well-concocted viral campaign can gain vast exposure. T-Mobile’s “Life’s for Sharing” flash mob viral video “Dance” had more than 21 million views on YouTube.

Online social networks

Online social communities—blogs, social networking Web sites, or even virtual worlds—where people socialize or exchange information and opinions.

Creating or Participating in Online Social Networks

As we discussed in Chapters 1 and 5, the popularity of the Internet has resulted in a rash of **online social networks** or *Web communities*. Countless independent and commercial Web sites have arisen that give consumers online places to congregate, socialize, and exchange views and information. These days, it seems, almost everyone is buddying up on Facebook, checking in with Twitter, tuning into the day’s hottest videos at YouTube, or checking out photos on Flickr. And, of course, wherever consumers congregate, marketers will surely follow. More and more marketers are now riding the huge social networking wave.

Marketers can engage in online communities in two ways: They can participate in existing Web communities or they can set up their own. Joining existing networks seems the easiest. Thus, many major brands—from Dunkin’ Donuts and Harley-Davidson to Volkswagen and Victoria’s Secret—have created YouTube channels. GM and other companies have posted visual content on Flickr. Coca-Cola’s Facebook page has 5.4 million fans.

Some of the major social networks are huge. The largest social network—Facebook—by itself commands 70 percent of all social network traffic. Forty-seven percent of the online population visits Facebook every day. That rivals the 55 percent who watch any TV channel and trounces the percentage listening to radio (37 percent) and reading newspapers (22 percent) daily. In only a few years, Facebook has signed up more than 400 million members. That’s 30 percent greater than the entire U.S. population. And Facebook is adding new members at a rate of five million every week. The massive online network aims to reach one billion members by 2012.⁴⁹

Although large online social networks such as Facebook, YouTube, and Twitter have grabbed most of the headlines, a new breed of more focused niche networks has emerged. These more focused networks cater to the needs of smaller communities of like-minded people, making them ideal vehicles for marketers who want to target special interest groups (see Real Marketing 17.2).

But participating successfully in existing online social networks presents challenges. First, most companies are still experimenting with how to use them effectively, and results

Real Marketing 17.2

Online Social Networks: Targeting Niches of Like-Minded People

Marketers who think bigger is better may want to reconsider, at least when it comes to online social networks. Although giant networks such as Facebook and Twitter get all the attention these days, social networks focused on topics as remote as knitting or bird watching can present marketers with strong targeting opportunities:

When jet-setters began flocking to an exclusive social-networking Web site reserved for the rich, they got the attention of an online community's most valuable ally: advertisers. The invitation-only site, ASmallWorld.net, has 300,000 select members who have become a magnet for companies that make luxury goods and are trying to reach people who can afford them. The site's biggest advertisers include Burberry, Cartier, and Land Rover. Cognac maker Remy Martin last month threw a tasting party for the site's elite members, at which its top-shelf, \$1,800-a-bottle liquor flowed freely.

Thousands of social-networking sites have popped up to cater to specific interests, backgrounds, professions, and age groups. Night-club frequenters can converge at DontStayIn.com. Wine connoisseurs have formed Snooth.com, and people going through divorce can commiserate at Divorce360.com.

More and more, marketers are taking a chance on smaller sites that could be more relevant to their products. AT&T, for example, recently promoted one of its global cell phones on WAYN.com (short for "Where are you now?"), a social network for international travelers. Although AT&T advertises on the bigger sites like Facebook to reach a large audience quickly, the wireless carrier is also turning to niche networks, "where your ads are more meaningful—those are the real gems," says a social networking expert.

There's at least one social network for just about every interest or hobby. Yub.com and Kaboodle.com are for shopaholics, Fuzzster.com is for pet lovers, moms advise and commiserate at CafeMom.com, Jango.com lets music fans find others with similar tastes, and

PassportStamp.com is one of several sites for avid travelers. Some cater to the obscure. Passions Network is an "online dating niche social network" with 600,000 members and 135 groups for specific interests, including Star Trek fans, truckers, atheists, and people who are shy. The most popular group is a dating site for the overweight. Membership on niche networking sites varies greatly, ranging from a few hundred to a few million. LinkExpats.com, which provides an online haven for U.S. expatriates, has about 200 members. On Ravelry.com, 870,000 registered knitters, crocheters, designers, spinners, and dyers share information about yarn, patterns, methods, and tools.

According to Pew Research Center, 73 percent of teens, 72 percent of young adults, and 40 percent of adults over 30 have an account on at least one social network. A running tally of emerging social networks, now beyond 7,000 by one estimate, suggests an explosive market. That's both a golden opportunity and a colossal headache for brands trying to nail

down the best new network for their campaigns.

Although the niche sites have many fewer members than huge sites such as Facebook, they contain dedicated communities of like-minded people. As on the bigger networks, members can build personalized pages and use them to share information, photos, and news with friends. That makes the niche sites ideal vehicles for marketers who want to target special interest groups.

The niche sites often provide a better marketing message environment. Members of niche social networks share common interests and experiences, so they tend to spend more time on the site and contribute more. On bigger sites, members tend to be less involved and therefore are less attractive to advertisers. Also, notes an online consultant, "the bigger sites have become so cluttered and overrun with advertisers that members are used to tuning stuff out, even personalized ads. . . . But on networking sites that have a self-selecting demographic, people tend to trust the content, including ads."

Not all niche networks welcome marketers. Sermo.com—a social-networking site at which some 112,000 licensed physicians consult with colleagues specializing in areas ranging from dermatology to psychiatry—allows no marketing. However, for a fee, companies can gain access to Sermo.com data and mem-



Thousands of social-networking sites have popped up to cater to specific interests, backgrounds, professions, and age groups. For example, on Ravelry.com, 870,000 registered knitters and crocheters share information about yarn, patterns, methods, and tools.

ber discussions. “They can monitor online discussions, with the doctors’ names omitted, or see a tally of topics being discussed at the site to determine what’s rising or falling in popularity,” notes a health-care industry analyst.

The more focused audiences offered by niche networks are increasingly popular with brands because “relevance,” says the consultant, “trumps size.” But how brands execute social-networking campaigns is as important as where they do it. Marketers must be careful not to become too commercial or too intru-

sive. Keeping sites hip and unencumbered by advertising is a balancing act for both brands and social networks. The best approach is not to *market* to network members but *interact*

with them on topics of mutual interest. Says one online marketer, “The real way of getting into social media is you don’t advertise, you participate in the community.”

Sources: Portions adapted from Betsey Cummings, “Why Marketers Love Small Social Networks,” *Brandweek*, April 27, 2008, accessed at www.brandweek.com; with adapted extracts, quotes, and other information from Kim Hart, “Online Networking Goes Small, and Sponsors Follow,” *Washington Post*, December 29, 2007, p. D1; Brian Morrissey, “Social Media Use Becomes Pervasive,” *Adweek*, April 15, 2010, accessed at www.adweek.com; Amanda Lenhardt and others, “Social Media and Young Adults,” Pew Research Center, February 3, 2010, www.pewinternet.org/Reports/2010/Social-Media-and-Young-Adults.aspx; and www.sermon.com, accessed October 2010.

are hard to measure. Second, such online networks are largely user controlled. The company’s goal is to make the brand a part of consumers’ conversations and their lives. However, marketers can’t simply muscle their way into consumers’ online interactions—they need to earn the right to be there. “You’re talking about conversations between groups of friends,” says one analyst. “And in those conversations a brand has no right to be there, unless the conversation is already about that brand.” Rather than intruding, marketers must learn to become a valued part of the online experience.⁵⁰

To avoid the mysteries and challenges of building a presence on existing online social networks, many companies are now launching their own targeted Web communities. For example, scrapbooking and crafting tools and supplies maker Fiskars created Fiskateers, an exclusive online network of crafters. More than creating sales, the Fiskateers community creates a relationship between the brand and important customers. Similarly, on Nike’s Nike Plus Web site, more than 500,000 runners upload, track, and compare their performances. More than half visit the site at least four times a week, and Nike plans eventually to have 15 percent or more of the world’s 100 million runners actively participating in the Nike Plus online community.

Using E-Mail

E-mail is an important and growing online marketing tool. A recent study by the DMA found that 79 percent of all direct marketing campaigns employ e-mail. U.S. companies now spend about \$600 million a year on e-mail marketing, and spending will reach an estimated \$2 billion by 2014.⁵¹

When used properly, e-mail can be the ultimate direct marketing medium. Most blue-chip marketers use it regularly and with great success. E-mail lets these marketers send highly targeted, tightly personalized, relationship-building messages. For example, the National Hockey League (NHL) sends hypertargeted e-newsletters to fans based on their team affiliations and locations. It sends 62 versions of the e-newsletter weekly—two for each of the 30 teams tailored to fans in both the United States and Canada, and two generic league e-newsletters for the two countries. Another NHL e-mail campaign promoting the start of single-game ticket sales had 930 versions.⁵²

But there’s a dark side to the growing use of e-mail marketing. ● The explosion of **spam**—unsolicited, unwanted commercial e-mail messages that clog up our e-mailboxes—has produced consumer irritation and frustration. According to one research company, spam now accounts for almost 90 percent of all e-mail sent.⁵³ E-mail marketers walk a fine line between adding value for consumers and being intrusive.

To address these concerns, most legitimate marketers now practice *permission-based e-mail marketing*, sending e-mail pitches only to customers who “opt in.” Many companies use configurable e-mail systems that let customers choose what they want to get. Amazon.com targets opt-in customers with a limited number of helpful “we thought you’d like to know” messages based on their expressed preferences and previous purchases. Few customers object

Spam

Unsolicited, unwanted commercial e-mail messages.



● E-mail can be an effective marketing tool. But there's a dark side—spam, unwanted commercial e-mail that clogs up our inboxes and causes frustration.

and many actually welcome such promotional messages. Similarly, StubHub redesigned its e-mail system to make certain that its e-mails go only to consumers who actually *want* to receive them:

As a start-up almost a decade ago, online ticket merchant StubHub ran “batch-and-blast” e-mail campaigns focused on building awareness. For years, sheer volume far outweighed e-mail relevance.

But StubHub has now learned the value of carefully targeted, relevant e-mail messages. It now lets customers opt in for e-mail at registration, during purchases, and at sign-up modules throughout the StubHub site. Using opt-in customer data, StubHub targets designated consumer segments with ticket and event information closely aligned with their interests. Incorporating customer data produced immediate and stunning results. E-mail click-through rates quickly jumped 30 percent, and the company saw a 79 percent year-over-year increase in ticket sales despite having sent fewer e-mails. “The results speak for themselves,” says a StubHub marketer. “These [new targeted campaigns] are driving 2,500 percent more revenue per e-mail than [our] average marketing campaigns.”⁵⁴

Given its targeting effectiveness and low costs, e-mail can be an outstanding marketing investment. According to the DMA, e-mail marketing produces the greatest return on investment of all direct-marketing media.⁵⁵

In all, online marketing continues to offer both great promise and many challenges for the future. Its most ardent apostles still envision a time when the Internet and online marketing will replace magazines, newspapers, and even stores as sources for information and buying. Most marketers, however, hold a more realistic view. To be sure, online marketing has become a successful business model for some companies—Internet firms such as Amazon.com and Google and direct marketing companies such as GEICO. However, for most companies, online marketing will remain just one important approach to the marketplace that works alongside other approaches in a fully integrated marketing mix.

Author Comment | Although we mostly benefit from direct marketing, like most other things in life, it has its dark side as well. Marketers and customers alike must guard against irritating or harmful direct marketing practices.

Public Policy Issues in Direct Marketing (pp 518–520)

Direct marketers and their customers usually enjoy mutually rewarding relationships. Occasionally, however, a darker side emerges. The aggressive and sometimes shady tactics of a few direct marketers can bother or harm consumers, giving the entire industry a black eye. Abuses range from simple excesses that irritate consumers to instances of unfair practices or even outright deception and fraud. The direct marketing industry has also faced growing invasion-of-privacy concerns, and online marketers must deal with Internet security issues.

Irritation, Unfairness, Deception, and Fraud

Direct marketing excesses sometimes annoy or offend consumers. Most of us dislike direct-response TV commercials that are too loud, long, and insistent. Our mailboxes fill up with unwanted junk mail, our e-mailboxes bulge with unwanted spam, and our computer screens flash with unwanted display or pop-under ads.

Beyond irritating consumers, some direct marketers have been accused of taking unfair advantage of impulsive or less-sophisticated buyers. Television shopping channels and program-long infomercials targeting television-addicted shoppers seem to be the worst culprits. They feature smooth-talking hosts, elaborately staged demonstrations, claims of drastic price reductions, “while they last” time limitations, and unequal ease of purchase to inflame buyers who have low sales resistance. Worse yet, so-called heat merchants design mailers and write copy intended to mislead buyers.



● Internet fraud has multiplied in recent years. The FBI's IC3 provides consumers with a convenient way to alert authorities of suspected violations.

Fraudulent schemes, such as investment scams or phony collections for charity, have also multiplied in recent years. *Internet fraud*, including identity theft and financial scams, has become a serious problem. ● Last year alone, the FBI's Internet Crime Complaint Center (IC3) received more than 336,650 complaints related to Internet fraud involving monetary loss, with a total dollar loss of \$560 million.⁵⁶

One common form of Internet fraud is *phishing*, a type of identity theft that uses deceptive e-mails and fraudulent Web sites to fool users into divulging their personal data. For example, consumers may receive an e-mail, supposedly from their bank or credit card company, saying that their account's security has been compromised. The sender asks them to log onto a provided Web address and confirm their account number, password, and perhaps even their social security number. If they follow the instructions, they are actually turning this sensitive information over to scam artists. Although many consumers are now aware of such schemes, phishing can be extremely costly to those caught in the net. It also damages the brand identities of legitimate online marketers who have worked to build user confidence in Web and e-mail transactions.

Many consumers also worry about *online security*. They fear that unscrupulous snoopers will eavesdrop on their online transactions, picking up personal information or intercepting credit and debit card numbers. Although online shopping has grown rapidly, in one survey, 75 percent of participants said they still do not like sending personal or credit card information over the Internet.⁵⁷ Internet shoppers are also concerned about contracting annoying or harmful viruses, spyware, and other malware (malicious software).

Another Internet marketing concern is that of *access by vulnerable or unauthorized groups*. For example, marketers of adult-oriented materials and sites have found it difficult to restrict access by minors. In a recent survey, for instance, one in four children ages 8 to 12 admitted to having an account on a social network site such as Facebook or MySpace, which supposedly do not allow children under 13 to have a profile. The survey also found that 17 percent of their parents did not know they had a social network account.⁵⁸

Invasion of Privacy

Invasion of privacy is perhaps the toughest public policy issue now confronting the direct marketing industry. Consumers often benefit from database marketing; they receive more offers that are closely matched to their interests. However, many critics worry that marketers may know *too* much about consumers' lives and that they may use this knowledge to take unfair advantage of consumers. At some point, they claim, the extensive use of databases intrudes on consumer privacy.

These days, it seems that almost every time consumers enter a sweepstakes; apply for a credit card; visit a Web site; or order products by mail, telephone, or the Internet, their names are entered into some company's already bulging database. Using sophisticated computer technologies, direct marketers can use these databases to "microtarget" their selling efforts. *Online privacy* causes special concerns. Most online marketers have become highly skilled at collecting and analyzing detailed consumer information. As Web tracking technology grows in sophistication, digital privacy experts worry that some marketers will use such information to take unfair advantage of unknowing customers.⁵⁹

The problem is what economists call "information asymmetry." In simple terms, on one side of your screen is grandma searching for arthritis treatments or a birthday gift for her granddaughter, and on the other side of the screen is a black-belt quant-jock working for a data-mining start-up. The consumer can't be expected to understand—and follow—all that happens with his or her data. In the realm of online data collection, the notion of "consumer empowerment" tends to ring hollow.

Some consumers and policy makers worry that the ready availability of information may leave consumers open to abuse. For example, they ask, should Web sellers be allowed to plant

cookies in the browsers of consumers who visit their sites and use tracking information to target ads and other marketing efforts? Should credit card companies be allowed to make data on their millions of cardholders worldwide available to merchants who accept their cards? Or is it right for states to sell the names and addresses of driver's license holders, along with height, weight, and gender information, allowing apparel retailers to target tall or overweight people with special clothing offers?

A Need for Action

To curb direct marketing excesses, various government agencies are investigating not only do-not-call lists but also "do-not-mail" lists, "do-not-track" lists, and "Can Spam" legislation. In response to online privacy and security concerns, the federal government has considered numerous legislative actions to regulate how Web operators obtain and use consumer information. For example, Congress is drafting legislation that would give consumers more control over how Web information is used. And the FTC is taking a more active role in policing online privacy.

All of this calls for strong actions by marketers to prevent privacy abuses before legislators step in to do it for them. For example, to head off increased government regulation, four advertiser groups—the American Association of Advertising Agencies, the Association of National Advertisers, the DMA, and the Interactive Advertising Bureau—recently issued new guidelines for Web sites. Among other measures, the guidelines call for Web marketers to alert consumers if their activities are being tracked. The ad industry has agreed on an "advertising option icon"—a little "i" inside a triangle—that it will add to most behaviorally targeted online ads to tell consumers why they are seeing a particular ad and allowing them to opt out.⁶⁰

Of special concern are the privacy rights of children. In 2000, Congress passed the Children's Online Privacy Protection Act (COPPA), which requires Web site operators targeting children to post privacy policies on their sites. They must also notify parents about any information they're gathering and obtain parental consent before collecting personal information from children under age 13. With the subsequent advent of online social networks, mobiles phones, and other new technologies, privacy groups are now urging the U.S. Senate to extend COPPA to include both the new technologies and teenagers. The main concern is the amount of data mined by third parties from social networks as well as the social networks' own hazy privacy policies.⁶¹

Many companies have responded to consumer privacy and security concerns with actions of their own. Still others are taking an industry-wide approach. For example, TRUSTe, a nonprofit self-regulatory organization, works with many large corporate sponsors, including Microsoft, Yahoo!, AT&T, Facebook, Disney, and Apple, to audit privacy and security measures and help consumers navigate the Web safely. According to the company's Web site, "TRUSTe believes that an environment of mutual trust and openness will help make and keep the Internet a free, comfortable, and richly diverse community for everyone." To reassure consumers, the company lends its TRUSTe privacy seal to Web sites that meet its privacy and security standards.⁶²

The direct marketing industry as a whole is also addressing public policy issues. For example, in an effort to build consumer confidence in shopping direct, the DMA—the largest association for businesses practicing direct, database, and interactive marketing, including nearly half of the Fortune 100 companies—launched a "Privacy Promise to American Consumers." The Privacy Promise requires that all DMA members adhere to a carefully developed set of consumer privacy rules. Members must agree to notify customers when any personal information is rented, sold, or exchanged with others. They must also honor consumer requests to "opt out" of receiving further solicitations or having their contact information transferred to other marketers. Finally, they must abide by the DMA's Preference Service by removing the names of consumers who do not wish to receive mail, telephone, or e-mail offers.⁶³

Direct marketers know that, left untended, such direct marketing abuses will lead to increasingly negative consumer attitudes, lower response rates, and calls for more restrictive state and federal legislation. Most direct marketers want the same things that consumers want: honest and well-designed marketing offers targeted only toward consumers who will appreciate and respond to them. Direct marketing is just too expensive to waste on consumers who don't want it.

REVIEWING Objectives AND KEY Terms

This chapter is the last of three chapters covering the final marketing mix element—promotion. The previous chapters dealt with advertising, public relations, personal selling, and sales promotion. This one investigated the burgeoning field of direct and online marketing.

Objective 1 Define direct marketing and discuss its benefits to customers and companies. (pp 496–500)

Direct marketing consists of direct connections with carefully targeted segments or individual consumers. Beyond brand and relationship building, direct marketers usually seek a direct, immediate, and measurable consumer response. Using detailed databases, direct marketers tailor their offers and communications to the needs of narrowly defined segments or even individual buyers.

For buyers, direct marketing is convenient, easy to use, and private. It gives buyers ready access to a wealth of products and information, at home and around the globe. Direct marketing is also immediate and interactive, allowing buyers to create exactly the configuration of information, products, or services they desire and then order them on the spot. For sellers, direct marketing is a powerful tool for building customer relationships. Using database marketing, today's marketers can target small groups or individual customers, tailor offers to individual needs, and promote these offers through personalized communications. It also offers them a low-cost, efficient alternative for reaching their markets. As a result of these advantages to both buyers and sellers, direct marketing has become the fastest-growing form of marketing.

Objective 2 Identify and discuss the major forms of direct marketing. (pp 500–508)

The main forms of direct marketing include personal selling, *direct-mail marketing*, *catalog marketing*, *telephone marketing*, *DRTV marketing*, kiosk marketing, and *online marketing*. We discussed personal selling in the previous chapter.

Direct-mail marketing, the largest form of direct marketing, consists of the company sending an offer, announcement, reminder, or other item to a person at a specific address. Recently, new forms of mail delivery have become popular, such as e-mail and mobile marketing. Some marketers rely on catalog marketing—selling through catalogs mailed to a select list of customers, made available in stores, or accessed on the Web. Telephone marketing consists of using the telephone to sell directly to consumers. DRTV marketing has two forms: direct-response advertising (or infomercials) and home shopping channels. Kiosks are information and ordering machines that direct marketers place in stores, airports, hotels, and other locations. In recent years, a number of new digital direct marketing technologies have emerged, including mobile marketing, podcasts and vodcasts, and interactive TV. Online marketing involves online channels that digitally link sellers with consumers.

Objective 3 Explain how companies have responded to the Internet and other powerful new technologies with online marketing strategies. (pp 508–513)

Online marketing is the fastest-growing form of direct marketing. The *Internet* enables consumers and companies to access and share

huge amounts of information with just a few mouse clicks. In turn, the Internet has given marketers a whole new way to create value for customers and build customer relationships. It's hard to find a company today that doesn't have a substantial Web marketing presence.

Online consumer buying continues to grow at a healthy rate. Most American online users now use the Internet to shop. Perhaps more importantly, the Internet influences offline shopping. Thus, smart marketers are employing integrated multichannel strategies that use the Web to drive sales to other marketing channels.

Objective 4 Discuss how companies go about conducting online marketing to profitably deliver more value to customers. (pp 513–518)

Companies of all types are now engaged in online marketing. The Internet gave birth to the *click-only companies* that operate online only. In addition, many traditional brick-and-mortar companies have added online marketing operations, transforming themselves into *click-and-mortar companies*. Many click-and-mortar companies are now having more online success than their click-only companies.

Companies can conduct online marketing in any of the four ways: creating a Web site, placing ads and promotions online, setting up or participating in Web communities and online social networks, or using e-mail. The first step typically is to create a Web site. Beyond simply creating a site, however, companies must make their sites engaging, easy to use, and useful to attract visitors, hold them, and bring them back again.

Online marketers can use various forms of online advertising and promotion to build their Internet brands or attract visitors to their Web sites. Forms of online promotion include online display advertising, search-related advertising, content sponsorships, and *viral marketing*, the Internet version of word-of-mouth marketing. Online marketers can also participate in online social networks and other Web communities, which take advantage of the C-to-C properties of the Web. Finally, e-mail marketing has become a fast-growing tool for both B-to-C and B-to-B marketers. Whatever direct marketing tools they use, marketers must work hard to integrate them into a cohesive marketing effort.

Objective 5 Overview the public policy and ethical issues presented by direct marketing. (pp 518–520)

Direct marketers and their customers usually enjoy mutually rewarding relationships. Sometimes, however, direct marketing presents a darker side. The aggressive and sometimes shady tactics of a few direct marketers can bother or harm consumers, giving the entire industry a black eye. Abuses range from simple excesses that irritate consumers to instances of unfair practices or even outright deception and fraud. The direct marketing industry has also faced growing concerns about invasion-of-privacy and Internet security issues. Such concerns call for strong action by marketers and public policy makers to curb direct marketing abuses. In the end, most direct marketers want the same things that consumers want: honest and well-designed marketing offers targeted only toward consumers who will appreciate and respond to them.

KEY Terms

OBJECTIVE 1

Direct marketing (p 496)
Customer database (p 499)

OBJECTIVE 2

Direct-mail marketing (p 501)
Catalog marketing (p 502)
Telephone marketing (p 502)
Direct-response television (DRTV) marketing (p 503)

OBJECTIVE 3

Online marketing (p 508)
Internet (p 508)
Click-only companies (p 509)
Click-and-mortar companies (p 509)
Business-to-consumer (B-to-C) online marketing (p 509)
Business-to-business (B-to-B) online marketing (p 510)
Consumer-to-consumer (C-to-C) online marketing (p 511)

Blogs (p 511)

Consumer-to-business (C-to-B) online marketing (p 512)

OBJECTIVE 4

Corporate (or brand) Web site (p 513)
Marketing Web site (p 513)
Online advertising (p 514)
Viral marketing (p 514)
Online social networks (p 515)
Spam (p 517)



- Check your understanding of the concepts and key terms using the mypearsonmarketinglab study plan for this chapter.
- Apply the concepts in a business context using the simulation entitled **Online Marketing**.

DISCUSSING & APPLYING THE Concepts

Discussing the Concepts

1. Discuss the importance of customer databases in direct marketing. (AACSB: Communication)
2. Describe the four major online marketing domains and give an example of each. (AACSB: Communication)
3. Name and describe the major forms of direct marketing. (AACSB: Communication)
4. Explain the ways in which companies can establish an online marketing presence. (AACSB: Communication)
5. Compare and contrast the different forms of online advertising. What factors should a company consider in deciding among these different forms? (AACSB: Communication)
6. What is *phishing*? How does it harm consumers and marketers? (AACSB: Communication; Reflective Thinking)

Applying the Concepts

1. In a small group, design a viral marketing campaign targeted to teens for a brand of soft drink. Discuss the challenges marketers might encounter when implementing this viral campaign. (AACSB: Communication; Use of IT; Reflective Thinking)
2. Visit Nike's Web site at <http://nikeid.nike.com/nikeid/index.jsp> and design your own shoe. Print out your shoe design and bring it to class. Do you think the price is appropriate for the value received from being able to customize your shoe? Identify and describe two other Web sites that allow buyers to customize products. (AACSB: Communication; Use of IT; Reflective Thinking)
3. Find news articles about two recent data security breaches. How did the breaches occur? Who was potentially affected by them? (AACSB: Communication; Reflective Thinking)

FOCUS ON Technology

The Internet opened the door for explosive growth in direct marketing, and much of that growth is through applications for mobile devices. For example, for \$12.99 per month, Schlage, a lock manufacturer, now offers a wireless, keyless door lock system integrated with cell phones. And Zipcar, a car-sharing service, launched an app for the iPhone enabling customers to not only reserve and locate a car but also unlock it and drive it away—all without contacting a customer service representative. Honking the virtual horn on an iPhone triggers the horn on the reserved car so the member can locate it in the Zipcar lot. The app even looks

like a key fob, prompting the user to push the button to unlock the door. Once in the car, swiping a membership card allows access to the keys in the car.

1. What key benefits do these forms of direct marketing offer for consumers and for marketers? (AACSB: Communication; Use of IT; Reflective Thinking)
2. Find or conceive of other applications in which the Internet and mobile devices create direct marketing opportunities. (AACSB: Communication; Reflective Thinking)

FOCUS ON Ethics

The World Wide Web is often referred to as the Wild West. Unlike advertising, which openly identifies the sponsor, much product and brand information seen on the Internet does not reveal sponsorship. You might read about a product in a blog, see it in a YouTube video, or follow it in Twitter, often unaware that the person was paid or provided free merchandise or goodies to say positive things. These undercover company shills are difficult to detect. Kmart, Sony Pictures, HP, and other marketers use companies like IZEA to develop sponsored conversations using its network of bloggers. Sponsored conversations generated by IZEA disclose sponsorships, but many others do not. However, that could be changing soon. The FTC recently updated its endorsement guidelines requiring bloggers to disclose sponsorships. Violators could be slapped with an \$11,000 fine per violation, but with almost 30 million bloggers out there—80 percent of whom occasionally or frequently post product or brand reviews—it will be difficult, if not impossible, to enforce this rule. Even with the

new rules, sponsored conversations grew almost 14 percent to \$46 million in 2009.

1. Find examples of product information posted in blogs. Did the blogger indicate in the post that he or she was paid or provided free products? Should the government enact laws to require bloggers and others on the Internet to disclose sponsorship from marketers? Explain. (AACSB: Communication; Ethical Reasoning)
2. Review the FTC's revised guidelines on endorsements and testimonials in advertising (www.ftc.gov/os/2009/10/091005revisedendorsementguides.pdf) and visit the Word of Mouth Marketing Association's Web site (<http://womma.org/main>) and the Web site of a social marketing company, such as (<http://izea.com>). Write a report on how marketers can effectively use sponsored conversations within the FTC's guidelines. (AACSB: Communication; Reflective Thinking)

MARKETING & THE Economy

Dell

Not long ago, Dell was the PC industry darling, turning the industry upside down with its direct marketing approach. At one point, it was the world's leading PC maker. But in recent years, Dell has been hit hard by a combination of factors. One is competition: HP took Dell's "top-seller" status away by providing a better one-stop shop for equipment and services to businesses, where Dell gets three-fourths of its sales. At the same time, Taiwanese competitor Acer took a bite out of Dell's low-cost advantage. By selling cheaper machines, Acer bumped Dell out of the number-two market share spot. The final blow came from the weak economic en-

vironment, which has made consumers and businesses more reluctant to upgrade to newer, faster models. Dell's PC sales fell by 13 percent in 2010, and its net profits fell by 44 percent. The company has cut costs and is also looking to its other businesses to shore up sagging PC sales. But for the most part, Dell appears to just be hanging on while waiting for an improved economy and a predicted powerful PC replacement cycle to reboot the industry.

1. What is wrong with Dell's strategy to increase PC sales?
2. How can Dell overcome this problem, particularly as consumer frugality persists? What would you recommend?

MARKETING BY THE Numbers

Many companies are realizing the efficiency of telemarketing in the face of soaring sales force costs. Whereas the average cost of a B-to-B sales call by an outside salesperson costs more than \$300, the cost of a telemarketing sales call can be as little as \$5 to \$20. In addition, telemarketers can make up to 33 decision maker contacts per day compared to a salesperson's four per day. This has gotten the attention of many B-to-B marketers, where telemarketing can be very effective.

1. Refer to Appendix 2 to determine the marketing return on sales (marketing ROS) and marketing ROI for each company in the chart below. Which company is performing better? Explain. (AACSB: Communication; Analytical Reasoning; Reflective Thinking)

	Company A (sales force only)	Company B (telemarketing only)
Net sales	\$2,000,000	\$1,000,000
Cost of goods sold	\$800,000	\$500,000
Sales expenses	\$700,000	\$200,000

2. Should all companies consider reducing their sales forces in favor of telemarketing? Discuss the pros and cons of this action. (AACSB: Communication; Reflective Thinking)

VIDEO Case

Zappos.com

Zappos.com spends almost no money on advertising—it doesn't have to. Customers are so enamored with the company, they keep coming back. And they keep telling their friends. Instead of mass media advertising, Zappos.com focuses on strengthening customer relationships through marketing directly to customers. Like its impeccable customer service, the company's unique promotional methods are valued by customers. When Zappos.com sends out an e-mail or Tweet, customers listen. Its strength in direct marketing, combined with user-friendly Web design, have made Zappos one of the strongest retailers anywhere.

After viewing the video featuring Zappos, answer the following questions:

1. What benefits has Zappos.com gained by marketing directly to customers rather than engaging heavily in mass-market advertising?
2. What role does database technology play in Zappos.com's ability to connect with its customers?
3. Discuss Zappos.com's Web site in terms of effective Web design. What are its strengths and weaknesses?

COMPANY Case

EBay: Fixing an Online Marketing Pioneer

Pop quiz: Name the high-tech company that got its start in someone's living room, grew from zero revenue to a multibillion dollar corporation in less than a decade, and pioneered the model for an entire industry to follow. If you're thinking that the companies that fit this description make a list that is a mile long, you're right. But in this case, we're talking about eBay.

eBay is one of the biggest Web success stories in the history of, well, the World Wide Web. But sooner or later, every high-growth company hits a speed bump and experiences growing pains. After amazing growth for its first 15 years, eBay has hit that speed bump. Current CEO John Donahoe is faced with the difficult challenge of putting eBay back on the superhighway to prosperity.

eBay started in 1995 as an auction house. Unlike most dot-coms, eBay was based on a model that produced profits, not just revenue. Whenever a user posted an item for auction, eBay collected a fee. The more products that went up for auction, the more money eBay made. eBay has tinkered with its fee structure over the years. But the basic idea has remained the same. The online auction formula took off like wildfire, and eBay dominated the industry. eBay's revenue, stock price, profits, and number of employees soared. By the year 2000, eBay was the number one e-commerce site in the world by sales revenue.

THE CHANGING FACE OF A GROWING COMPANY

With explosive growth, change was inevitable. According to many industry observers, the face of eBay slowly began to change based on two dynamics. The first was expansion. eBay's list of categories and subcategories grew into the hundreds. The e-commerce giant also added international sites for different countries. And it began to launch subsites (such as eBay Motors) and acquire other dot.coms relevant to its business. Such acquisitions ultimately included Half.com, PayPal, StubHub, Shopping.com, and Skype.

The second dynamic driving change in eBay was the addition of fixed-price selling options. During its early years, open auction was the only option buyers and sellers had. Sellers put up an item for sale with a designated starting price for a period of one to 10 days and sold to the highest bidder. In 1999, eBay augmented that core

method with a fixed-price, "Buy It Now" option. Two years later, it took that concept further with the introduction of eBay stores. With eBay stores, a seller could create an online "storefront" within eBay. The feature allowed sellers to post items more quickly, making it easier for high volume sellers to do business. It also gave fixed-price options with no bidding whatsoever and virtually eliminated the sales period for an item.

Both of these dynamics continued to fuel eBay's steady, strong growth for years. In 2006, \$52.5 billion worth of goods were sold on eBay. Those sales were generated by 222 million users posting 610 million new listings. eBay's take was \$5.97 billion in revenue and \$1.12 billion in net income. These numbers were tremendous for a company that had been doing business only for a single decade; they also marked a zenith for the company.

A NEW DIRECTION

In 2007, eBay began to show signs of slowing down. In early 2008, John Donahoe took over as CEO, replacing Meg Whitman, the mastermind behind the company's success for 10 of its 13 years. Donahoe acknowledged that eBay faced issues, including the fact that it had been resting on its laurels. "We were the biggest and the best. eBay has a storied past. But frankly, it's a past we've held onto too much." Consumer behavior was shifting. When eBay was new, many users were thrilled by the uncertainty of bidding against other buyers for a bargain. But as online shopping went mainstream, more people opted for the tried-and-true method of finding the best price on a new piece of merchandise and buying it from a reputable retailer.

The consumer shift to buying new products at fixed prices was evident in the growth experienced by online retailers such as Amazon.com, Buy.com, and Walmart.com, companies that eBay had previously refused to recognize as competitors. Amazon passed eBay as the largest online retailer a number of years earlier by continuing to expand its selection of fixed-price items, often with free shipping.

Shortly after taking over from Whitman, Donahoe said at a public event, "We need to redo our playbook, we need to redo it fast, and we need to take bold actions." He unveiled the details of a new strategy for eBay's turnaround. The strategy focused on changing the identity of the eBay marketplace. Donahoe specified that the new strategy would focus on building the site's business in the secondary market, the \$500-billion-a-year slice of retail that

includes out-of-season and overstock items as well as the used and antique items for which eBay had always been known. The new strategy included the following tactics:

- Fixed-price listings would be favored over auctions.
- A new fee structure would drop the cost of listing an item but increase eBay's cut when an item sold.
- A new search engine algorithm would give top billing to items based on price and customer satisfaction rating.
- Seller feedback to buyers would be eliminated.
- Fee reductions for highly rated sellers, fixed-price listings, and sellers offering free shipping would be implemented.

Donahoe claimed that all these tactics helped align eBay's interests with those of its best sellers. But the moves also created tension between two groups of sellers that had been growing apart for years. The traditional eBay seller sold typical flea market wares, including used, vintage, antique, and homemade items. These sellers typically included mom and pop operations that dealt in low to moderate volumes. These merchants gave eBay its start and continued to be a sizable portion of eBay's business. Such sellers were a sharp contrast to eBay's high volume Powersellers. These sellers were often major operations employing dozens if not hundreds of people. They most often sold new, refurbished, or overstock items in bulk. High volume sellers sold tens of thousands, hundreds of thousands, and even millions of items on eBay every year.

Traditional sellers complained that the new strategy favored the big merchants and made it harder for the little sellers to do business. Lower volume sellers could not afford to invest the time or money to raise their ratings. Because the items sold by traditional merchants were difficult to price accurately, open auctions were much more effective. And whereas the new fee structure decreased the selling costs for high-volume sellers, it increased the selling costs for most traditional vendors.

As a result, many sellers began to look for other venues to peddle their merchandise. Traditional sellers voiced their concerns to executives at shareholder meetings and seller conventions. Some sellers even organized a brief boycott. It became increasingly clear that eBay's turnaround strategy had generated an identity crisis, with its 25 million sellers caught between the images of the classic seller that had made eBay an e-commerce giant and the more corporate merchant that was thriving on the new eBay. "eBay used to have a very distinct community culture," said Skip McGrath, author of nine books on how to make money on eBay. "Now, it's like eBay doesn't know who it is."

Donahoe responded that the managers at eBay knew there would be fallout, but that the transformation was essential. "We have to create a marketplace where we're helping our sellers give our buyers what they want," he said. He added that he strongly believed that buyers wanted a fixed price, quick service, and free shipping.

FROM BAD TO WORSE

All that may have ended well had eBay's numbers turned around. But in 2008, eBay's financials slid badly. In the last quarter of that year, typically eBay's strongest with holiday shopping, eBay experienced its first ever quarterly decline. For its core marketplace, revenue was down 16 percent from the previous year, while net income dropped a whopping 31 percent. Even the increasing strength of its PayPal business couldn't offset the losses in its marketplace business.

It would have been very easy for Donahoe and his team to blame the company's woes on the economic downturn. After all, with consumers concerned about job losses and the economy, retail sales during the 2008 holiday season were the worst in

decades. But as eBay experienced a drop in traffic, Amazon.com and Walmart enjoyed increases. It was also no secret that eBay had shown signs of weakness even before the Great Recession reared its ugly head. And during the tech bust and economic slowdown of 2001, eBay's revenue had grown 74 percent and its stock more than doubled as consumers dumped used goods on the site. It was apparent that eBay's problems were deeper than a bad economy.

More than a year after Donahoe revealed his turnaround strategy, he made public statements about eBay's direction and performance. His statements did not indicate a shift in strategy but rather a refining of the strategy the company had been executing. He promised that the eBay site would be easier to use, offer even better deals, and provide a more satisfying experience. "The 'buyer beware' experience has run its course," he said. He reiterated eBay's plans to focus on the secondary market. "We're going to focus where we can win," Donahoe said, indicating that the shift away from new merchandise where its biggest competitors dominated would give eBay a strong point of differentiation. "We have begun significant change. The eBay you knew is not the eBay we are, or the eBay we will become."

Donahoe also asked that the eBay community and its investors be patient; the plan would take three or four years to produce fruit. In addition to the strategy laid out for marketplace business, Donahoe announced that eBay would also divest itself of businesses that did not perform well or that were not relevant to its core mission of connecting buyers and sellers. He also noted that PayPal would be a core component of eBay's growth and that it would produce an increasing proportion of the company's revenue and profits.

Although few doubted that the nonmarketplace aspects of eBay's strategy would likely strengthen the company, Donahoe gave few new details as to how the company would correct its marketplace issues. Acknowledging the discontent of many eBay sellers, he asserted that eBay's strategy wasn't based on a zero-sum game between big merchants and traditional eBay sellers. "We aren't dictating who's successful and not successful on eBay. All we're doing is ensuring that the sellers who provide the things that buyers want get exposure and positive reinforcement."

Things have improved somewhat since Donahoe's statements. But while its 2009 revenue increase of 2.2 percent was better than a decline, it paled in comparison to the 28 percent increase achieved by Amazon. And although eBay's profits shot up 34 percent, much of that was from the sale of Skype and came in lower than analysts had expected. None of this goes against the promises made by Donahoe. The question is, will investors have enough patience to wait for his plan to work?

Questions for Discussion

1. Analyze the marketing environment and the forces shaping eBay's business over the years.
2. How has the change in the nature of eBay sellers affected the creation of value for buyers?
3. Do you agree or disagree with Donahoe that eBay's current strategy doesn't mean that certain sellers will lose?
4. Is eBay doing the right thing by sticking to its current strategy? What changes, if any, would you recommend to Donahoe?

Sources: Geoffrey Fowler, "eBay Profit Rises, Outlook Disappoints," *Wall Street Journal*, April 22, 2010, accessed at www.wsj.com; Fowler, "Auctions Fade in eBay's Bid for Growth," *Wall Street Journal*, May 26, 2009, p. A1; Fowler, "eBay Retreats in Web Retailing," *Wall Street Journal*, March 12, 2009, accessed at www.wsj.com; Peter Burrows, "eBay Outlines Three-Year Revival Plan," *BusinessWeek*, March 12, 2009, accessed at www.businessweek.com.